

## **Special Tax Break for Purchasers of New Vehicles**

Congress wants you to purchase a new car or truck to help revive the U.S. economy. To encourage new vehicle sales, the American Recovery and Reinvestment Act of 2009 provides a deduction for state and local sales and use taxes. However, the deduction is temporary so you will need to purchase a new vehicle after February 16, 2009 and before January 1, 2010.

The temporary deduction can be claimed by taxpayers on their 2009 tax return regardless of whether they itemize their deductions or take the standard deduction. Taxpayers who itemize deductions and deduct state and local income taxes can also deduct the taxes on the new car purchase above-the-line.

Taxpayers can deduct state and local sales and use taxes paid on the first \$49,500 of the purchase price of the new vehicle. In addition to cars, SUVs, light trucks, motorcycles, and mobile homes qualify as new vehicles. Leased vehicles do not qualify for the deduction. Used vehicles also do not qualify for the deduction. New hybrid vehicles, on the other hand, may entitle you not only to the new vehicle sales tax deduction but also to an alternative motor vehicle tax credit.

There are also important income limitations. The deduction is phased out for single individuals whose modified adjusted gross income (AGI) is between \$125,000 and \$135,000 and for married couples filing jointly whose modified AGI is between \$250,000 and \$260,000.

If you have any questions about this new tax break, please give our office a call.