

In hopes of spurring the overall economy in general, and the automobile industry in particular, the recently enacted "American Recovery and Reinvestment Act of 2009" includes a new tax break for purchasers of new cars: a deduction for state and local sales and excise taxes paid on new vehicle purchases. Here are the details.

Sales tax is generally not a deductible item for individuals. A limited exception allows taxpayers who itemize their deductions to claim either state and local income taxes or state and local general sales taxes, which mainly benefits taxpayers with a state or local sales tax but no income tax. Under the new law, buyers can claim an income tax deduction for the sales or excise tax they pay on a vehicle purchase. Key details of this new tax incentive include:

- The tax break applies to purchases of passenger cars, minivans, light trucks, motorcycles, and motor homes, but it only applies on \$49,500 of the vehicle's price and it only applies to new vehicles.
- The tax break covers new vehicles purchased between Feb. 17, 2009 and the end of 2009.
- You do not have to itemize your deductions to be able to claim the deduction. However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales taxes in lieu of state and local income taxes.
- Only couples making less than \$250,000 a year, or individuals making less than \$125,000 annually, qualify for the full deduction.