

## Curves on the Road to a New-vehicle Deduction How to qualify for a tax bargain

Are you in the market for a new car or other vehicle? Good for you! And Uncle Sam might have just the deal for you.

Under the new economic stimulus law enacted earlier this year, you may be able to write off a sizable portion of the sales and excise taxes you pay as part of the purchase. But there are several “twists and turns” to this new deduction so make sure you understand the rules.

If you purchase a “qualified vehicle” after February 16, 2009 but before January 1, 2010, you may deduct the sales and excise taxes on the first \$49,500 of the vehicle’s price. For this purpose, “qualified vehicles” include passenger cars, light trucks, motorcycles and sport utility vehicles (SUVs) weighing no more than 8,500 gross pounds. Motor homes are also eligible.

This tax break can only be claimed by the initial purchaser of the vehicle. It is not available for used vehicles, only new ones.

Note that the new deduction is especially valuable because it is claimed “above the line” on your return (i.e., it is used to arrive at Adjusted Gross Income). Therefore, it can result in other tax return benefits.

But there is a major drawback to the deal because the deduction is phased out if your Modified AGI (MAGI) exceeds a specified threshold. The phase-out begins at \$125,000 of Modified AGI for single filers and \$250,000 for joint filers. Once your MAGI exceeds \$135,000 or \$260,000 respectively, you cannot claim any deduction.

Remember that the new deduction must be coordinated with the existing optional deduction for sales tax. Essentially, you can claim one of these tax breaks, but not the other.

How it works: Under current law, you may choose to deduct state and local sales taxes instead of deducting state income tax. The sales tax deduction may be based on actual expenditures (if you have kept proper records) or a state-by-state table provided by the IRS. The sales tax on certain “big-ticket items” like cars may be added to the table amount. If you elect this option, you cannot also deduct the same sales tax attributable to a qualified new-vehicle purchase.

Should you opt for the new-vehicle deduction or the sales tax deduction? It depends on your particular circumstances. For example, if you would not benefit from the new-vehicle deduction because of the phase-out rule, you might elect the optional sales tax deduction instead.

Finally, you should also be aware that the new-vehicle deduction is allowed in the computation of the alternative minimum tax, but the optional sales tax deduction is not so that could have an impact on your tax situation.

Why not make potential tax benefits part of your car-buying decision? But first, seek guidance from your tax professional.