Car Sales and Excise Tax Deduction: Questions and Answers

Q. What is this new car sales tax deduction?

A. The American Recovery and Reinvestment Act of 2009 provides a deduction for state and local sales and excise taxes paid on the purchase of qualified new vehicles through 2009.

Q. What are considered to be "qualified motor vehicles" for the purpose of this deduction?

A. A qualified motor vehicle is a passenger automobile, light truck or motorcycle which has a gross vehicle weight rating of 8,500 pounds or less. A motor home is also considered a qualified motor vehicle.

Q. If I purchase a really expensive car, can I deduct the entire amount of state and local sales taxes paid on the vehicle?

A. No**,** only state and local sales taxes paid on up to $49,500 of the purchase price of a qualifying vehicle are deductible.

Q. Does the purchase of a used car qualify for this deduction?

A. No. In order to take the deduction, you must be the first owner of the vehicle.

Q. When can the vehicle be purchased to qualify for this deduction?

A. This deduction applies to vehicles purchased after Feb. 16, 2009 and before Jan. 1, 2010.

Q. Do I have to itemize in order to take this deduction?

A. No. Anyone who qualifies can take this deduction. You will claim this deduction when filing your 2009 federal income tax return in 2010. There will be a line on the 2009 tax forms, just follow the instructions.

Q. What about those 2008 models still sitting on the lot — can I claim the deduction if I purchase one of last year's models?

A. Yes, you can take the deduction as long as you are the vehicle's first owner.

Q. Are there any restrictions on who can take the deduction?

A. Yes. This deduction is phased out for higher income taxpayers. Single taxpayers whose modified adjusted gross income is less than $125,000 and married taxpayers whose modified adjusted gross income is less than $250,000 will receive the full deduction.

Q. At what income does the deduction fully phase out?

A. The amount of the deduction is phased out for taxpayers whose modified adjusted gross income is between $125,000 and $135,000 for individual filers and between $250,000 and $260,000 for joint filers.

Q. If I purchased a qualified vehicle, may I amend my 2008 tax return to claim the deduction now?

A. No. You can only claim this deduction on your 2009 tax return.

Q. What if my state doesn't have a sales tax?

A. Purchases made in states without a sales tax — such as Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon — can also qualify for the deduction. Taxpayers in states without a sales tax are entitled to deduct other qualifying fees or taxes imposed by the state or local government. The fees or taxes that qualify must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per unit fee.

Q. Can I take the deduction for a second or third vehicle I purchase?

A. Yes. There is no limit on the number of cars for which you can claim the deduction, provided each car is a qualified vehicle under the law.

Q. Can I take this deduction for any qualified vehicle — even those made by foreign car companies?

A. Yes. As long as it is a new car and otherwise qualifies, you may take the deduction.

Q. What about this "cash for clunkers" I'm hearing about? How can I take advantage of that program?

A. The Car Allowance Rebate System is handled by the National Highway Traffic Safety Administration. You can find out more information about CARS by visiting www.cars.gov.