

2009 Federal Sales Tax Deduction



The American Recovery and Reinvestment Act of 2009 contains an important tax incentive for individuals and businesses who purchase a new passenger automobile, light truck or motor home from February 17, 2009 through the end of 2009. In general, buyers will be permitted to deduct the sales/excise tax imposed on their new vehicle purchase on their federal income tax return.

What Taxes are Deductible? The law allows a deduction for state or local sales or excise tax imposed on the purchase of a qualified motor vehicle. In Minnesota that includes:

- 6.5% motor vehicle sales tax that dealers collect and remit to the Deputy Registrar.
- \$20 transit tax charged by dealers in 5 counties around the Twin Cities.
- \$20 local excise tax charged on sales of vehicles by dealers located in Baxter, Brainerd, Mankato, New Ulm, Owatonna and Rochester.

What New Vehicles Qualify for the Deduction?

- Cars, light trucks and SUV's with a gross vehicle weight of 8500 lbs or less.
- Motorcycles.
- Self propelled motor homes.
- New vehicles of any model year – when the original use commences with the taxpayer. Extrapolating from other IRS regulations, MADA believes that new vehicle demonstrator vehicles are eligible for the deduction.
- Eligible vehicles sold for under \$49,500 qualifies for the full deduction. Consumers may deduct sales taxes on the first \$49,500 of any vehicle purchased above this price.

How about Leases? There's no deduction for sales tax paid on a new vehicle lease.

What Customers Qualify for the Deduction?

- Individual customers with modified adjusted gross income of less than \$125,000 or joint-filers making less than \$250,000 a year in 2009 would qualify for the deduction.
- Deductible as an "above the line" (for itemizers and non-itemizers) deduction on federal tax return.

Minnesota Income Tax Deduction? No. Sales taxes deducted on a federal return are added back in to determine Minnesota taxable income.

Effective Date. The new sales tax deduction applies to new vehicle purchases made on or after February 17, 2009 through December 31, 2009.

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