

# IRS News Release

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## Special Tax Break on New Car Purchases Available in States With No Sales Tax

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WASHINGTON —The Internal Revenue Service and Treasury Department today announced that a tax break for the purchase of new motor vehicles is available in states that do not have a state sales tax. Under the American Recovery and Reinvestment Act of 2009, taxpayers who buy a new motor vehicle this year are entitled to deduct state or local sales or excise taxes paid on the purchase.

The IRS and Treasury have determined that purchases made in states without a sales tax – such as Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon – can also qualify for the deduction.

The IRS said today that taxpayers who purchase a new motor vehicle in states that do not have state sales taxes are entitled to deduct other 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. According to the IRS, Congress intended for these fees or taxes to qualify for this special tax deduction.

“This special tax break is available for people purchasing a new car this year, and that can include people in states without a sales tax,” said IRS Commissioner Doug Shulman. “This means that more people can take advantage of this deduction when they file their tax returns next year.”

To qualify for this deduction, the vehicle must be purchased after Feb. 16, 2009, and before Jan. 1, 2010. Taxpayers can claim this special deduction only on their 2009 tax returns to be filed next year.

The deduction is limited to the fees or taxes paid on up to \$49,500 of the purchase price of a qualified new car, light truck, motor home or motorcycle.

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.

The special deduction is available regardless of whether taxpayers itemize deductions on their returns. Taxpayers who do not itemize will add this additional amount to the standard deduction on their 2009 tax return. The IRS reminded taxpayers the deduction may not be taken on 2008 returns.