



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

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The Honorable Tom Harkin  
United States Senate  
Washington, DC 20510

Attention:

Dear Senator Harkin:

This letter responds to your inquiry about the Iowa one-time fee for new vehicle registration. You asked if the fee is a state sales or excise tax for purposes of the federal income tax deduction for qualified motor vehicle taxes.

In Iowa, vehicle owners must pay a fee for new registration in addition to an annual registration fee. The vehicle owner generally pays the fee for new registration to the county treasurer at the same time he or she applies for a new registration and certificate of title. The state imposes the fee as a percentage of the purchase price of the vehicle (Iowa Code section 321.105A(2)). The state determines the base amount of the purchase price in the same manner as it would determine the sales price for purposes of Iowa's general sales tax on tangible personal property (Iowa Code section 321.105A(2)(a)). A number of exemptions from the fee are available, such as an exemption for an individual who paid sales tax on the purchase to another state, and an exemption for a dealer who purchases the vehicle for resale (Iowa Code section 321.105A(2)(c)(7) and (14)).

The American Recovery and Reinvestment Act of 2009 enacted the federal income tax deduction for qualified motor vehicle taxes (Pub. L. No. 111-5, div. B, sec. 1008, 123 Stat. 115, 317 (2009)). A qualified motor vehicle tax is any state or local sales or excise tax imposed on the purchase of a qualified motor vehicle (section 164(b)(6)(A) of the Internal Revenue Code (the Code)). Any tax imposed on a consumer that is a stated amount per unit of property, or that is measured by the gross sales price or the gross receipts from the sale, is a sales tax for this purpose (section 1.164-3(e)(1) of the Income Tax Regulations). A consumer is defined as the ultimate user or purchaser of the property (section 1.164-3(e)(2) of the Income Tax Regulations).

Under these rules, a fee or tax that a state or local government imposes but does not designate as a sales tax nevertheless may be a sales tax for purposes of the qualified motor vehicle tax deduction. To qualify, the fee or tax must be assessed on a consumer's purchase and either must be based on the vehicle's sales price or must be a per-unit fee. The Internal Revenue Service recently announced in a news release that taxpayers may deduct these fees or taxes, regardless of whether the taxpayer's state has a state sales tax (IR-2009-60 (June 10, 2009)). I have enclosed a copy of this news release for your reference.

Iowa's fee for new registration is a sales tax for purposes of the motor vehicle tax deduction when the fee is imposed on a consumer's purchase of a vehicle. Taxpayers, therefore, may deduct this fee as a qualified motor vehicle tax if all other statutory requirements for the deduction are met (section 164(b)(6) of the Code).

I hope this information is helpful. If you have any questions, please call me at \_\_\_\_\_, or \_\_\_\_\_ at \_\_\_\_\_.

Sincerely,

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George J. Blaine  
Associate Chief Counsel  
(Income Tax and Accounting)

Enclosure