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NEWS RELEASE

FOR IMMEDIATE RELEASE

New Sales Tax Deduction Not Limited to One Vehicle

Thomson Reuters Tax Expert Obtains Guidance from IRS

New York, NY, May 11, 2009 – In an effort to stimulate automobile sales, the American Recovery and Reinvestment Act of 2009 included a new income tax deduction for state or local sales or excise taxes paid on qualifying motor vehicle purchases made after February 16, 2009 and before January 1, 2010. The deduction is limited to the taxes on the first $49,500 of the cost of the vehicle. A previous release from the Tax & Accounting business of Thomson Reuters (dated March 2nd) stated that the legislation was unclear as to whether this limitation applied to an individual's total vehicle purchases or each separate vehicle purchase, and that presumably the IRS would address this in guidance.

The IRS has not yet issued formal guidance on this. However, William E. Massey, a Senior Tax Analyst from the Tax & Accounting business of Thomson Reuters, contacted the IRS about this issue and a spokesperson from its National Media Relations office responded as follows: "If you buy a car costing more than $49,500, you get a deduction based only on the first $49,500 of the purchase price. The limitation is imposed on a *per vehicle* basis. Accordingly, a taxpayer may deduct the taxes paid on the purchase of more than one vehicle, even if the total of the purchase price exceeds $49,500. There is no limitation on the number of vehicles an individual can purchase."

"This is good news for a taxpayer who needs to purchase two or more cars this year. Under the position stated by the IRS spokesperson, he or she can deduct the sales taxes on the first $49,500 of the purchase price of each one," notes Massey. For example, an individual could buy a car for use in his or her business and another for personal use and deduct the taxes up to the limit on each vehicle.

"Keep in mind, the deduction isn't limited to cars," reminds Massey. "Qualifying vehicles also include light trucks and motorcycles, as well motor homes." In all cases, the original use of the vehicle must commence with the taxpayer. Massey observes that "this means that the motor vehicle must be brand new to qualify. But this does not mean that only 2009 or 2010 model year vehicles may qualify.

A 2008 or earlier model may qualify as long as it is brand new when purchased by the taxpayer this year after February 16."

While there is no limit on the number of vehicles that can qualify for the new deduction, there is an income limit. Under this limit, the amount of sales or excise taxes that may be treated as qualified motor vehicle taxes is phased out ratably for a taxpayer with modified AGI (MAGI) between $125,000 and $135,000 ($250,000 and $260,000 on a joint return). MAGI is adjusted gross income computed in a special way.

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