Should You Buy a New Car in 2009?

November 12, 2009 at 5:01 PM EST

Road map to Tax Savings from Thomson Reuters Tax Analyst

NEW YORK, Nov. 12 /PRNewswire/ -- Do you need a new car but worry about making a big-ticket purchase during tough times? Switch gears and get that new vehicle, says Laurie Asch, Senior Tax Analyst for the Tax & Accounting business of Thomson Reuters. Legislation passed earlier this year to jump-start the economy includes a tax incentive for new car purchases. Asch explains how to 'wheel and deal' this expiring tax break, and various tax credits (two new for 2009) for purchases of new energy-saving cars, to lessen your sticker shock.

Free ride on sales tax. If you buy a new car, SUV, or light truck by year-end, you can deduct the state or local sales or excise taxes paid on up to $49,500 of the purchase price. "You will get the deduction whether you itemize or claim the standard deduction, and it's allowed for alternative minimum tax (AMT) purposes," says Asch. "You may also claim the deduction for more than one car. For example, for a married couple whether filing jointly or separately, each spouse can deduct the taxes for his or her own new car." However, the deduction phases out if your modified adjusted gross income (MAGI) is between $125,000 and $135,000 (between $250,000 and $260,000 on a joint return).

Note some added benefits: "You do not have to use the car for business, *and* it doesn't have to be an energy saver," says Asch. However, you must buy the car by Dec. 31, 2009, before Congress puts on the brakes. One other potential road block: you cannot take this deduction next April if you elect to deduct state and local sales taxes in lieu of state and local income taxes.

Green light for credits. In addition to the above deduction, if your new car is an energy saver and is certified as meeting applicable environmental requirements, you may be entitled to one of the credits described below, which apply for both regular tax and AMT purposes. (Unlike a deduction, a credit reduces your tax dollar for dollar.)

You do not have to use the car for business, but it must be used predominantly in the U.S.

For certain credits, the amount allowed for a particular manufacturer's cars phases out after a set number of its vehicles is sold. So, even if your new car otherwise qualifies, you may not get the full credit. Ask your dealer, or go to IRS's Web site (www.irs.gov), to find out what you can claim for your new car.

Alternative motor vehicle credit. The AMV credit consists of separate credits for four different types of vehicles:

Qualified fuel cell. The credit equals a base amount ($8,000 for cars and light trucks). Asch advises taxpayers to rev up their purchases now if possible, because the base amount will drop to $4,000 in 2010. There is an additional $1,000 to $4,000 based on rated fuel economy compared to 2002 models.

Advanced lean-burn technology. The credit equals $400 to $2,400 (based on rated fuel economy compared to 2002 models), plus an additional $250 to $1,000 (based on estimated lifetime fuel savings). So, you may be able to claim as much as $3,400 ($2,400 + $1,000)--ask your dealer for specifics. Certain Volkswagen and Mercedes-Benz models are certified for the credit. But because of the phase-out, it has been reduced for Ford and Mercury vehicles, and it's not available for Honda, Toyota, or Lexus vehicles.

Qualified hybrid. For cars and light trucks, the credit amount is the same as for advanced lean-burn technology vehicles (see above). Certain Cadillac, Chevrolet, Chrysler, Saturn, GMC, Nissan, and Mazda models are certified for the credit. But because of the phase-out, it has been reduced for Ford and Mercury vehicles, and it is not available for Honda, Toyota, or Lexus vehicles. Asch points out that you cannot claim this credit if the new-for-2009 qualified plug-in electric drive motor vehicle credit (see below) is available.

Qualified alternative fuel motor. The credit equals 50 percent of the vehicle's 'incremental cost,' plus an additional 30 percent if it meets certain emissions standards, but not more than $4,000 for a car or light truck.

New-for-2009 qualified plug-in electric drive motor vehicle credit. For qualifying vehicles, the NQPEDMV credit equals $2,500, plus $417 for each kilowatt hour (kwh) of battery capacity over 4 kwhs (over 5 kwhs, after 2009), not to exceed $7,500. The NQPEDMV credit hasn't been phased out yet.

New-for-2009 qualified plug-in electric vehicle credit. The QPEV credit equals 10 percent of the 'low-speed' vehicle's cost, not to exceed $2,500. The QPEV credit is not allowed if a NQPEDMV credit is allowed.

Cash-for-clunkers program. The Consumer Assistance to Recycle and Save (CARS) Program( )provided a cash incentive, in the form of a tax-free voucher that reduced the purchase price, to trade in older gas-guzzling vehicles for new, more fuel-efficient ones. This 'cash-for-clunkers' program was scheduled to be in effect through Nov. 1, 2009, but was so popular that all funding for it (including amounts allocated under a special extension) was exhausted before Sept. 1. "While you really had to be in the fast lane to take advantage of this tax break, don't miss out on the others," says Asch.

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