

DEALERSHIP TAX BULLETIN

This tax bulletin is provided courtesy of:



President Bush signed the

American Jobs Creation Act of 2004

into law on *October 22, 2004*.

Several changes in this new legislation that may affect your dealership and/or your customers are outlined below:

- 1) **For tax years beginning 2004 and 2005, the act provides for an election to deduct sales tax as an itemized deduction, in lieu of taking an itemized deduction for applicable state and local income taxes.**

Important Note: Certain customers may be able to benefit from an increased deduction for sales related to certain large ticket items including motor vehicles and boats!

Since some states do not have income taxes, residents in those states will have a new itemized deduction on their 2004 returns. For those states currently imposing an income tax, this bill gives taxpayers the option of deducting the larger of state income taxes or sales taxes.

Taxpayers claiming the sales tax deduction may either:

- a) Retain documentation of actual sales tax expenditures to substantiate the sales tax deduction, or
- b) Use IRS-provided tables that will take into account average consumption by taxpayers, including such factors as filing status, number of dependents, adjusted gross income, and state and local general sales tax rates. These tables will not include sales tax provisions for the purchase of **motor vehicles, boats**, and any other items so specified by the IRS. Taxpayers will add to the amount of the tables their actual amount of sales tax paid on these purchases.

Please note that the sales tax tables have not yet been published.

- 2) **Effective with purchases after the October 22, 2004 enactment date, Internal Revenue Code Section 179 expensing for a heavy SUV (6001 lbs. up to 14,000 lbs.) is now limited to \$25,000.**

In 2003 the Section 179 expensing limit was raised to \$100,000 (with a qualifying property limitation of \$400,000) and no limitations placed on SUVs as long as they had a loaded GVW greater than 6,000 lbs. With the signing of this bill, only \$25,000 can be expensed for a heavy SUV meeting the loaded GVW of 6,001 lb. to 14,000 lb. guidelines.