Anneken, Huey & Moser PLLC
Certified Public Accountants
Engaged. Responsive. Future-focused.

Here's the Tax Beat broadcast for October 21

Subject Line: Six Cylinders of Separation

Back in 1992, Mazda rolled out a cute little coupe called the MX-3. (Canadians got it as the "Precidia," which sounds like a gas station hair loss pill.) It looked like every other rounded-off Japanese sport compact of the era, right down to the hard plastic dashboard. But under the hood sat something genuinely strange: a 1.8-liter V6, the smallest six-cylinder engine ever bolted into a production car. Car magazines loved it. Engineers scratched their heads. Why would anyone go to the trouble of building a V6 the size of a four-banger?

The answer wasn't speed. It was Japan's annual road tax, which jumped sharply the moment an engine passed two liters. Mazda wanted V6 smoothness and bragging rights without pushing buyers into the next tax bracket, so the engineers shaved displacement down to 1,845 cc and kept the body under 1.7 meters wide to stay in the cheaper "compact" class. (The MX-3 is basically a tax return with cloth seats.) Thirty-five years later, car nerds still argue whether that was genius or madness. Mazda's accountants have no doubt.

Here's the thing: this happens everywhere, all the time, and you may be standing on top of an example right now. Look down. If you're wearing Converse Chuck Taylors, there's a thin layer of felt glued to the sole. It's not for grip. It wears off in a week. It's there because U.S. customs law taxes sneakers with rubber soles at up to 37.5%, while "slippers" with fabric soles pay a fraction of that. Cover half the sole with fuzz, and presto: your basketball shoe is legally a house slipper.

Or consider the "chicken tax." In 1964, Europe slapped tariffs on American poultry, so Lyndon Johnson retaliated with a 25% tariff on imported light trucks. The chickens are long forgotten, but the truck tax is still with us. Subaru beat it in the 1970s by bolting two plastic seats into the bed of its BRAT pickup, turning it into a "passenger car." Ford tried the same trick with Transit Connect vans from Turkey, shipping them with flimsy rear seats and then ripping the seats out on the dock in Baltimore. The Justice Department called those "sham seats," and in 2024 Ford paid $365 million to make the problem go away. (Lesson: Engineering around a tax is legal. Subterfuge isn't.)

Then there's the X-Men. In the 1990s, the tariff on "dolls," meaning figures representing human beings, was 12%, while "toys" representing non-humans paid just 6.8%. So Marvel's toy company spent six years in the Court of International Trade arguing that Wolverine, Storm, and the Fantastic Four weren't human. Judge Judith Barzilay personally examined more than 60 action figures (her opinion notes she sometimes had to remove their clothes) before ruling in 2003 that mutants are, in fact, not people. Marvel fans were outraged. Marvel's finance department was delighted.

You're doing this too, whether you realize it or not. Why is every CPA's parking lot full of Tahoes and Suburbans? Because Section 179 and bonus depreciation let you write off a work vehicle over 6,000 pounds far faster than a sedan. Why does the mortgage interest deduction help explain the American suburb? Why do business owners race to buy equipment in December?

Every one of those choices has an internal revenue code section hiding inside it. The only question is whether somebody designed around that line on purpose, or whether you're paying tax on a two-liter life when a 1.8 would've done the job just fine.

Mazda built a whole engine around one line in the tax code. You've got a few hundred thousand lines to work with. Call us and we'll find the ones built for you!

Kevin

