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Larry's Tax Law

One Big Beautiful Bill Act, H.R. 1 - 119th Congress (2025-2026): Part IX - Deductibility of Automobile Loan Interest

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In this ninth installment of my multi-part series on the One Big Beautiful Bill Act (the "Act"), I discuss provisions of the Act that may permit individual taxpayers to deduct the interest incurred with respect to their automobile loan.[1] While the concept appears straightforward, its application is replete with intricate rules.

Background

In accordance with Code Section 163(h)(1), subject to certain exceptions, "[i]n the case of a taxpayer other than a corporation, no deduction shall be allowed under this chapter for personal interest paid or accrued during the taxable year."

Section 70203 of the Act temporarily amends Code Section 163(h) and provides that, for purposes of Code Section 163(h), personal interest does not include "qualified passenger vehicle loan interest."

The Act

To qualify for the new deduction on vehicle loan interest, several requirements must be satisfied.

1. Qualified Passenger Vehicle Loan Interest

The interest must constitute qualified passenger vehicle loan interest.

Code Section 163(h)(4)(B)(i) defines "qualified passenger vehicle loan interest as "any interest which is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, a passenger vehicle for person use."

However, per Code Section 163(h)(B)(ii), "qualified passenger vehicle loan interest does not include interest incurred with respect to:

- a loan to finance fleet sales;
- a loan incurred for the purchase of a commercial vehicle that is not used for personal purposes;
- any lease financing;
- a loan to purchase a vehicle with a salvage title; or

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- a loan to finance the purchase of a vehicle intended to be used for scrap or parts.

2. Qualified Passenger Vehicle

The vehicle must constitute an "applicable passenger vehicle." Under Code Section 163(h)(4)(D), an "applicable passenger vehicle" is defined as a:

- new vehicle (the original use of which commences with the taxpayer);
- a vehicle which is manufactured primarily for use on public streets, roads and highways (and does not include a vehicle operated exclusively on a rail or rails);
- a vehicle which has at least two wheels;
- a vehicle which is a car, minivan, van, sport utility vehicle, pickup truck or motorcycle;
- a vehicle which is classified as a motor vehicle for purposes of Title II of the Clean Air Act;
- a vehicle which has a gross vehicle weight rating of less than 14,000 pounds; and
- a vehicle, the final assembly of which occurred within the United States.

3. Related Party Loans Are Excluded

No deduction is allowed with respect to interest on indebtedness, otherwise qualifying under Code Section 163(h), which is owed to a related party of the taxpayer (as defined under Code Sections 707(b)(1) or 267(b)).

4. Cap On Deduction

The amount of interest that may be deducted under Code Section 163(h) is capped at $10,000 for any taxable year.

5. Modified Adjusted Gross Income Limitation

The allowable interest deduction under Code Section 163(h) is reduced (not below zero) by $200 for each $1,000 (or portion thereof) by which the taxpayer's modified adjusted gross income exceeds $100,000 ($200,000 in the case of a joint return). Modified adjusted gross income ("MAGI") for this purpose means adjusted gross income increased by any amounts excluded from gross income under Code Sections 911, 931 or 933. For most taxpayers, MAGI is simply adjusted gross income.

6. Refinancing of Automobile Loan

Interest incurred with respect to the refinancing of qualifying debt may be deductible under Code Section 163(h), subject to certain additional rules:

- The original debt must otherwise qualify under Code Section 163(h);
- The refinanced debt must be secured by a first lien on the applicable passenger vehicle with respect to which the original indebtedness was incurred; and

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- The deduction is only allowed to the extent that the refinanced debt does not exceed the original debt.

7. Itemizers and Non-Itemizers

This new temporary provision of the Code applies to both taxpayers who itemize and those who do not itemize.

8. Tax Reporting Requirements

Both the taxpayer and the lender have certain tax reporting obligations.

- The taxpayer must include the vehicle identification number on his or her income tax return wherein the deduction is claimed.
- Any person engaged in a trade or business who receives from any individual $600 or more for any calendar year on a passenger vehicle loan must report to the IRS such interest received on a form prescribed by the Secretary of Treasury (name and address of the payor, amount of interest received, principal owing at beginning of the calendar year, date of such loan, year, make, model and vehicle identification number of the vehicle, and such other information as the Secretary shall require). The recipient of the loan interest must also provide the taxpayer with a similar statement.

9. Temporary Provision

Section 70203 is a temporary provision of the Code. It applies to all tax years beginning after December 31, 2024, but before January 1, 2029. In 2029, we revert to pre-Act law (i.e., automobile loan interest is non-deductible).

Conclusion

This temporary provision of the Code only applies to the purchase of new passenger vehicles, the final assembly of which occurred in the United States. Given that most new vehicles purchased in this country are financed, this provision will positively impact a significant number of taxpayers. Of course, the phase-out makes it unavailable to high-income taxpayers. Whether this provision of the Act will increase new car sales is yet to be determined.

The Joint Committee on Taxation estimates that this temporary provision will cost the federal government a loss of tax revenues of approximately $57 billion.

Stay tuned for more installments in my series on the Act!

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[1] All references to "the Code" are to the Internal Revenue Code of 1986, as amended.

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Deductibility of Automobile

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