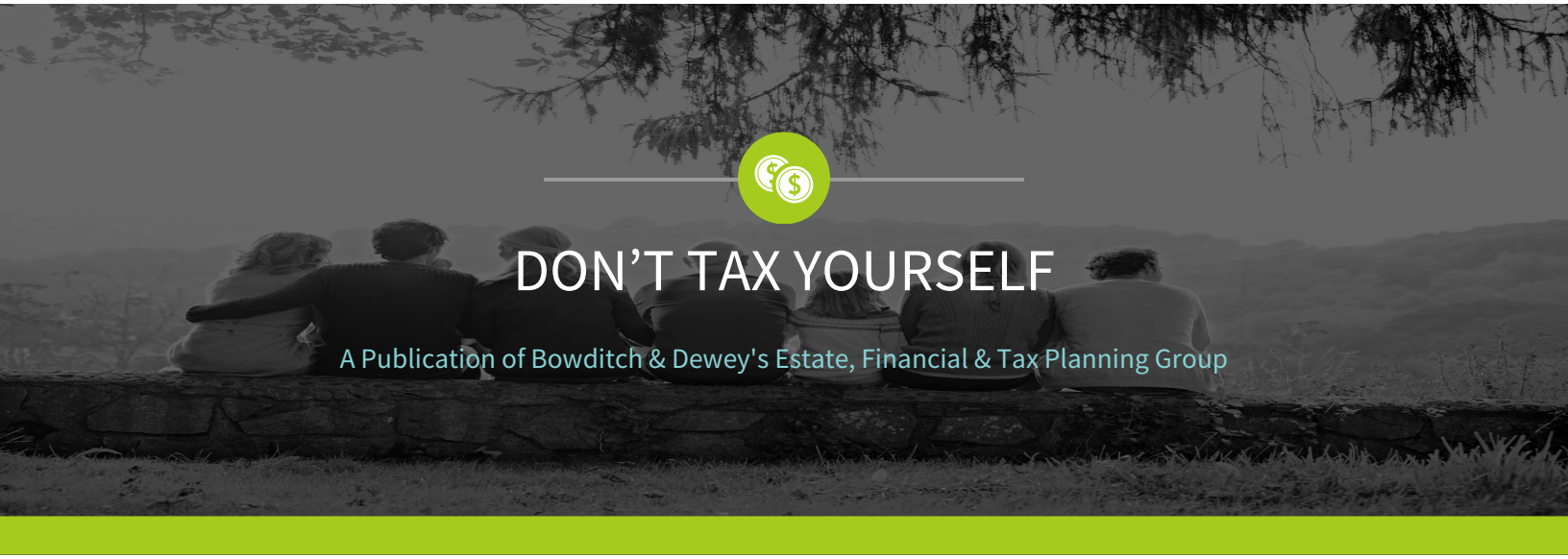


DON'T TAX YOURSELF

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Is My Car Loan Interest Deductible?

BY SCOTT C. CASHMAN • FEBRUARY 10, 2026

One of the new deductions available to taxpayers as part of the One Big Beautiful Bill Act signed into law on July 4, 2025, is a new deduction for interest paid on automobile loans.

Effective for tax years 2025 through 2028, individuals may deduct interest paid on a loan used to purchase (not lease) a qualified vehicle.

As is the case with much of the recent tax legislation, whether a taxpayer receives a benefit or not depends on the details and phaseouts built into the new law. What the One Big Beautiful Bill Act appears to give with one hand can be taken away by the other. The new rule is clearly designed to promote the purchase of new cars manufactured in the U.S.

In general, the following requirements must be met for a taxpayer to receive a tax deduction on their car loan interest payments:

- Vehicle must be purchased for personal use (lease payments do not qualify)
- Maximum annual deduction is $10,000
- Deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers)

To qualify for the deduction, the interest must be paid on a loan that:

- Originated after December 31, 2024
- Is used to purchase a vehicle, the original use of which starts with the taxpayer (***used vehicles do not qualify***)
- Is secured by a lien on the vehicle

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If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

A qualifying vehicle must meet the following criteria:

- The vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds
- The vehicle has undergone final assembly in the United States. The location of final assembly will be listed on the vehicle information label attached to each vehicle on a dealer's premises, and taxpayers may rely on the vehicle's plant of manufacture as reported in the vehicle identification number (VIN) to determine whether a vehicle has undergone final assembly in the United States. The website for the National Highway Traffic Safety Administration (NHTSA) provides plant of manufacture information.

If you otherwise qualify, this deduction will be available for both itemizing and non-itemizing taxpayers. However, be ready to include the Vehicle Identification Number (VIN) of the qualified vehicle on the tax return for any year in which the deduction is claimed.

The Internal Revenue Service has issued proposed regulations providing guidance on the car loan interest deduction.

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