“No Tax on Car Loan Interest”: Information and How-To (2025-2028)

Introduction

For tax years 2025 through 2028, taxpayers may deduct interest on a loan used to purchase a qualified vehicle, provided the vehicle was purchased for **personal use** and meets other tests.

➢ This deduction is distinct from the deduction for business use of a vehicle for self-employed taxpayers. The “No Tax on Car Loan Interest” deduction applies to personal-use vehicles that meet other criteria.

➢ If the taxpayer uses the same vehicle for self-employment, the loan interest deduction must take into account the percentage of time the car was used for personal use and deduct only that portion. The taxpayer can take the percentage of the loan interest deduction attributable to self-employment as a **Schedule C** expense. See Deducting Car Loan Interest as a Self-Employment Expense.

The maximum annual deduction is $10,000, with the deduction beginning to phase out for taxpayers with MAGI above $100,000 ($200,000 for joint filers). The deduction is available whether the taxpayer takes the standard deduction or itemizes.

Eligibility to Claim the “No Tax on Car Loan Interest” Deduction

- The taxpayer must have either a valid SSN or a valid ITIN.
- The loan must have been taken out after December 31, 2024.
- The loan must have been used to purchase a new vehicle **(not a used vehicle)**.
- The vehicle must be for personal (not business or commercial) use.
- The loan must be secured by a lien on the vehicle.

  ➢ If a loan that meets the above criteria is later refinanced, the interest paid on the refinanced loan is generally eligible for the deduction as well.
- 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 must have undergone final assembly in the United States. Vehicles that have undergone final assembly in the U.S. will have a VIN that begins with 1, 4, 5, 7f through 7Z, or 70. You can **search the VIN Decoder website** to confirm that the vehicle’s plant of manufacture was located in the United States.

Information Needed to Claim the Deduction

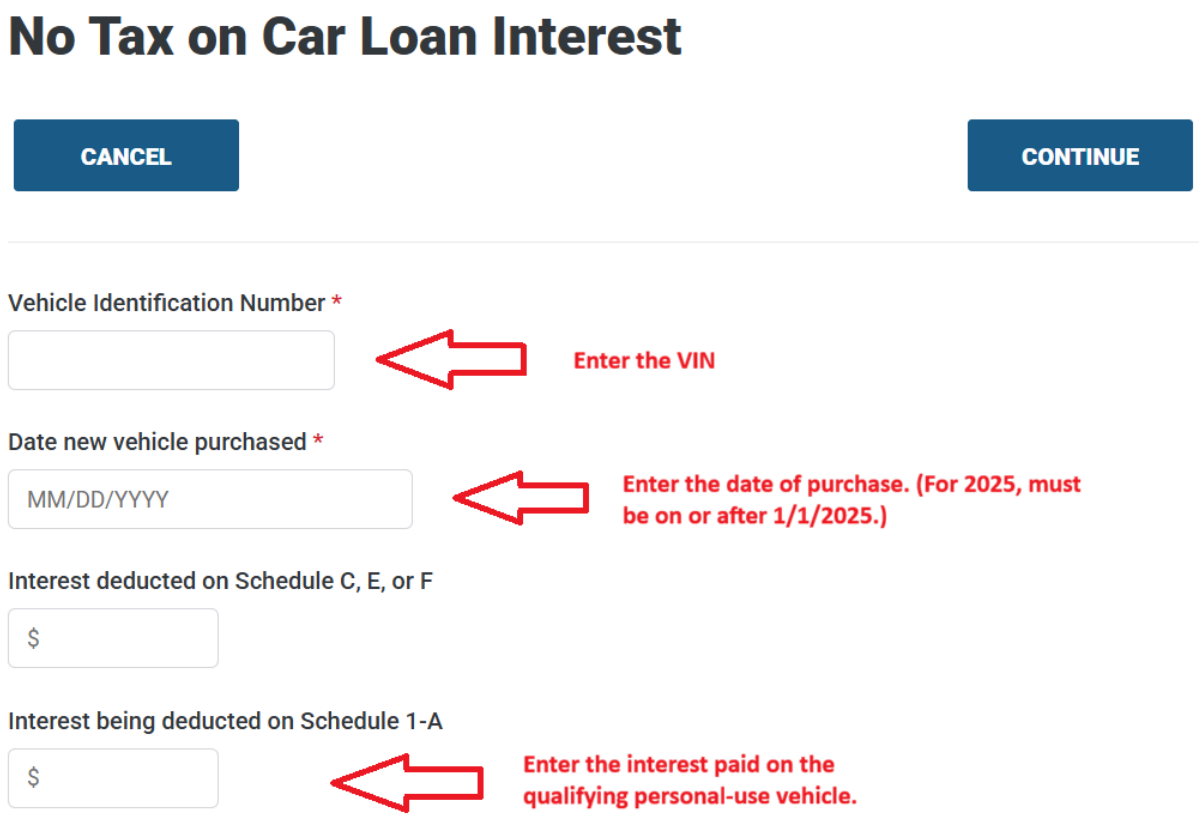
- The Vehicle Identification Number (VIN), which should indicate the vehicle was assembled in the U.S. (See above.)

- A statement from the lender showing the interest paid to the lender during the tax year. Lenders are required to provide a statement to borrowers by January 31, 2026, showing the total amount of interest paid in 2025 on qualifying vehicle loans. This statement might be part of a monthly statement, an annual summary, or an online portal notification. Beginning in tax year 2026, this information is likely to be included on **Form 1098-VLI** (similar to a mortgage interest tax form).

How To Assist the Taxpayer

1. In the tax return, navigate to **Federal Deductions Additional Deductions No Tax on Car Loan Interest**.

2. Enter the VIN, date of purchase, and amount of loan interest in the **No Tax on Car Loan Interest** screen.



3. Click on **Continue**.
   ➢ To add a second personal vehicle with auto loan interest eligible for the deduction, select **+ Add another item**. The form includes space for two vehicles, and additional

vehicles will be noted on an overflow statement.

4. Continue tax return preparation.