

Self-Employment Expense: Calculating Car Loan Interest

This is the information we need to determine to help our client:

Do you have a car loan on this vehicle? **Yes** **No**

The amount of the loan: \$ _____

The start date of the loan: _____

Length of the loan: _____

Interest rate of the loan: _____

Percentage time vehicle was used for business: _____ %

Calculated interest from loan for this tax year: \$ _____

Self-employed clients who have car payments typically will know the sale price of the car, length of the loan, the date of their purchase and their monthly payment. They will not necessarily know the interest rate of their loan. However, we can figure out the interest rate by playing with a [loan amortization calculator](#) readily available on the internet.

Example: The client says that in June 2023 he purchased a used 2015 Chevy for \$20,000. He says his monthly payment is \$415/month, and he knows he will pay off his car in 7 years, which is 84 monthly payments. Using the loan amortization calculator, we can fill in the following, playing with the interest rate until we match the monthly payment amount:

Your estimated monthly payment	
\$ 415	
Total Principal Paid	\$20,000
Total Interest Paid	\$14,819

[Compare Loan Rates](#)

[See amortization schedule](#)

You can see that the total principal paid is \$20,000 and the total interest paid for the loan will be \$14,819.

Beneath the Compare Loan Rates button is a line that says “See amortization schedule”. Clicking on that will bring you to a full schedule, that outlines both the payment and interest for each payment, and allows you to specify the starting date of the loan:

Used
▼

Interest rate

17.5 %
or
Find A Rate
▼

Compare Loan Rates

[Hide amortization schedule](#)

Start Date

06/01/2023

Estimated Payoff Date

June 1st, 2030

Amortization Schedule

Payment Date	Payment	Principal	Interest	Total Interest	Balance
06/01/23	\$415	\$123	\$292	\$292	\$20,000
07/01/23	\$415	\$125	\$290	\$582	\$19,877
08/01/23	\$415	\$126	\$288	\$870	\$19,753
09/01/23	\$415	\$128	\$286	\$1,156	\$19,626

At the bottom of the amortization schedule there is a blue Print Schedule button; use this to print out a copy for the client!

04/01/30	\$415	\$403	\$12	\$14,813	\$811
05/01/30	\$415	\$409	\$6	\$14,819	\$409
06/01/30	\$415	\$415	\$0	\$14,819	\$0

[Print Schedule](#)

After you have printed out the schedule, mark off the year 2024 payment lines, and add up the interest paid during 2024. This total interest amount will then need to be used as an expense **at the same percentage as the personal car was used for self-employment**. That is, if this car was used solely for self-employment– 100% of the time– then 100% of the interest is a business expense. If the car was used for self-employment for only 15% of the time, then only 15% of the interest is a business expense. **NOTE: The Interest is the third column!**

01/01/24	\$415	\$136	\$279	\$2,282	\$19,102
02/01/24	\$415	\$138	\$277	\$2,558	\$18,966
03/01/24	\$415	\$140	\$275	\$2,833	\$18,828
04/01/24	\$415	\$142	\$273	\$3,105	\$18,688
05/01/24	\$415	\$144	\$270	\$3,376	\$18,546
06/01/24	\$415	\$146	\$268	\$3,644	\$18,402
07/01/24	\$415	\$148	\$266	\$3,910	\$18,255
08/01/24	\$415	\$150	\$264	\$4,174	\$18,107
09/01/24	\$415	\$153	\$262	\$4,436	\$17,957
10/01/24	\$415	\$155	\$260	\$4,696	\$17,804
11/01/24	\$415	\$157	\$257	\$4,953	\$17,649
12/01/24	\$415	\$159	\$255	\$5,208	\$17,492

Include this information with all the other information for the preparer. However, be sure to tell the stunned client that he should bring this amortization table with him each time he is preparing his self-employment papers for his tax return! It will save us a step!