
For the first time since the Tax Reform Act of 1986 made personal interest nondeductible, American drivers can write off interest on a car loan. The car loan interest deduction created by the One Big Beautiful Bill Act allows up to \$10,000 per year in deductible interest for tax years 2025 through 2028. It has been marketed heavily by dealers and lenders, and it sounds like meaningful relief in a market where the average new vehicle transaction sits near \$49,000.

The rules are narrower than the headline. A large share of buyers who assume they qualify do not, and even for those who do, the deduction addresses the cost of borrowing while doing nothing about the far larger financial exposure sitting in the driveway. Here is what the provision actually covers, what it is worth in real dollars, and what it leaves completely unprotected.

What the Deduction Actually Is

The provision allows an individual to deduct qualified passenger vehicle loan interest, capped at \$10,000 per tax year, for the 2025 through 2028 tax years. It is available whether you itemize or take the standard deduction, which is unusual and genuinely useful for the majority of filers who do not itemize. It is claimed on Schedule 1-A alongside Form 1040.

If you are carrying more than one qualifying loan, the interest can be combined toward the \$10,000 ceiling. The deduction is not tied to powertrain, so gas, hybrid, and electric vehicles are treated identically. That is a different test entirely from the clean vehicle credit, which expired on September 30, 2025.

This is a deduction, not a credit. It reduces the income you are taxed on, not the tax you owe. A \$2,000 deduction for someone in the 22% bracket is worth roughly \$440, not \$2,000.

The Rules That Disqualify Most Buyers

The Vehicle Test

A qualified vehicle is a car, minivan, van, SUV, pickup truck, or motorcycle with a gross vehicle weight rating below 14,000 pounds that underwent final assembly in the United States. Two words in that sentence do most of the damage. The vehicle must be new, so used vehicles do not qualify at all, and final assembly must be domestic. Assembly location can be confirmed through the vehicle information label on the dealer lot or through the VIN. The National Highway Traffic Safety Administration publishes a lookup tool for confirming assembly point, and the IRS proposed regulations describe the accepted verification methods.

The Loan Test

The loan must have originated after December 31, 2024 and must be a first lien secured by the vehicle itself. The vehicle has to be for personal use. Commercial, fleet, and business-use vehicles generally fall outside the provision, and leases do not qualify at all. Refinancing is permitted, with the caveat that the new loan must be secured by a first lien on

the same vehicle and the starting balance cannot exceed the ending balance of the original loan.

The Income Test

This is where most of the eliminations happen. The deduction begins phasing out at \$100,000 of modified adjusted gross income for single filers and \$200,000 for joint filers. The reduction is \$200 for every \$1,000 of income above the threshold, which means the benefit reaches zero at \$150,000 single and \$250,000 joint.

Put those three filters together and the eligible population is a taxpayer under the income ceiling, buying new rather than used, choosing a domestically assembled model, financing rather than leasing, and using the vehicle personally.

Requirement	Qualifies	Does Not Qualify
Vehicle condition	New vehicle only	Any used vehicle
Assembly location	Final assembly in the U.S.	Imported final assembly
Weight rating	Under 14,000 lbs GVWR	14,000 lbs GVWR or above
Loan origination	After December 31, 2024	Loans originated in 2024 or earlier
Loan structure	First lien secured by the vehicle	Unsecured loans and all leases
Vehicle use	Personal use	Business, fleet, or commercial use
Income (single)	Under \$100,000 MAGI for full benefit	\$150,000 MAGI or above
Income (joint)	Under \$200,000 MAGI for full benefit	\$250,000 MAGI or above

One more compliance detail matters. You must report the vehicle identification number on your return for every year you claim the deduction, and lenders receiving \$600 or more in qualified interest during a calendar year are required to file information returns with the IRS and furnish statements to borrowers. The regulations were issued in proposed form and remain subject to change, so anyone relying on the deduction for planning should confirm current guidance at [IRS.gov](https://www.irs.gov) or with a tax professional.

What It Is Worth in Real Dollars

Run the math on a realistic purchase. Finance \$40,000 over 72 months at 7%. First-year interest lands in the neighborhood of \$2,700. For a filer under the phaseout in the 22% bracket, that deduction is worth roughly \$590 in reduced federal tax in year one, and it declines every year afterward as the loan amortizes and the interest portion of each payment shrinks.

Hitting the full \$10,000 cap requires an unusually large loan at a high rate, and by the time a borrower is paying that much annual interest, they are frequently approaching the income phaseout as well. The Joint Committee on Taxation scored the provision at roughly \$31 billion across fiscal years 2025 through 2034, which is a real cost to the Treasury spread across millions of returns and modest per taxpayer.

The realistic benefit for most qualifying households is a few hundred dollars in the first year, tapering after that. It is worth claiming. It is not worth restructuring a purchase decision around.

What the Deduction Does Not Protect You From

This is the part dealer marketing skips, and it is where the numbers get serious.

Depreciation

A few hundred dollars in tax savings is not a rounding error against first-year depreciation on a new vehicle, which routinely runs into five figures. Certain segments move faster than others. Electric vehicles have been particularly volatile, and our analysis of [electric vehicle depreciation in 2026](#) lays out how far apart the segments have drifted.

Negative Equity

In the second quarter of 2026, 29.6% of trade-ins toward new vehicle purchases carried negative equity, and the average amount owed above the vehicle's value reached \$6,884, a record for a second quarter. The average monthly payment on a new loan carrying negative equity from the trade hit \$944.

That gap is not theoretical. If your financed vehicle is totaled while you are underwater, the settlement pays the vehicle's actual cash value and the loan balance above it remains yours. Our coverage of [what happens when your car is totaled and you still owe on the loan](#) walks through the scenarios, and [how GAP insurance works alongside a total loss appraisal](#) explains where that coverage does and does not close the shortfall.

Diminished Value After an Accident

If your new vehicle is damaged and repaired, it carries an accident record for the rest of its life. That record costs real money at resale, and the loss commonly runs into thousands of dollars on a late-model vehicle. No tax provision addresses it. The only mechanism that recovers it is a documented claim against the responsible party's insurer, supported by an appraisal built on comparable market evidence rather than a generic percentage.

The size of that loss varies significantly by segment and by the specific condition of the vehicle, which is why category averages are unreliable. Our work on [why vehicle condition drives diminished value](#) and our breakdown of [diminished value loss by vehicle segment](#) show how wide the spread actually is.

An Undervalued Total Loss Settlement

With total loss frequency at a record 23.1% of claims, the odds that a damaged vehicle gets written off rather than repaired are higher than at any point on record. The settlement offer on a total loss is generated by valuation software using selected comparables, and the difference between that opening number and a properly supported actual cash value routinely exceeds every dollar the interest deduction will ever return.

How to Approach This Practically

- **Confirm the assembly point before you sign.** Check the vehicle information label on the lot or run the VIN. Do not rely on the brand name or a salesperson's assurance.
- **Keep your loan documentation and interest statements.** You will need the VIN on the return every year you claim, and lenders report qualified interest of \$600 or more.

- **Model your MAGI against the phaseout before counting on the benefit.** Between \$100,000 and \$150,000 single, or \$200,000 and \$250,000 joint, the deduction shrinks by \$200 per \$1,000 of income.
- **Do not let a tax line item drive vehicle selection.** A few hundred dollars of deduction will not offset a segment that depreciates several thousand dollars faster.
- **Protect the asset, not just the payment.** If the vehicle is damaged, document the loss properly. Diminished value and total loss recoveries dwarf the deduction in dollar terms.

Appraisal Engine does not provide tax advice, and nothing here should be treated as a substitute for a conversation with a qualified tax professional about your specific return. What we do is quantify the other side of the ledger: what your vehicle is actually worth, and what an accident or a total loss declaration has taken from it.

The Tax Break Is Small. The Value Loss Is Not.

If your vehicle has been damaged, repaired, or declared a total loss, the dollars at stake are far larger than any deduction. Get a certified appraisal built on real market data before you settle.

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Frequently Asked Questions

Can I claim the car loan interest deduction on a used vehicle?

No. The provision applies only to loans used to purchase a new vehicle that the taxpayer is the original user of. Used vehicles are excluded regardless of assembly location, loan structure, or income.

Do I have to itemize to claim it?

No. The deduction is available whether you itemize or take the standard deduction. It is reported on Schedule 1-A filed with your Form 1040, and you must include the vehicle identification number for every year you claim it.

Does a leased vehicle qualify?

No. The loan must be a first lien secured by the vehicle you are purchasing. Lease payments are not qualified vehicle loan interest, and leased vehicles fall outside the provision entirely.

What happens if I refinance my car loan?

Interest on a refinanced loan is generally still eligible, provided the new loan is secured by a first lien on the same qualifying vehicle and the initial balance of the new loan does not exceed the ending balance of the original loan.

How much is the deduction actually worth to me?

It reduces taxable income rather than tax owed. On a \$40,000 loan at 7% over 72 months, first-year interest is roughly \$2,700, which is worth about \$590 for a filer in the 22% bracket, and less each year as the loan amortizes. Reaching the full \$10,000 cap requires an unusually large loan at a high rate.

Does this deduction help if my car is totaled or damaged?

No. The deduction only addresses interest paid on the loan. It does nothing about a settlement offer below your vehicle's actual cash value, a loan balance above what the insurer pays, or the market value your vehicle loses from carrying an accident history. Those require documentation and, in most cases, an independent appraisal.