New deduction: Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (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).

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

- Originated after December 31, 2024
- Used to purchase a vehicle originally used by the taxpayer (used vehicles do not qualify)
- For a personal use vehicle (not for business or commercial use)
- Secured by a lien on the vehicle

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

Qualified vehicle: A qualified vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.

To determine if a vehicle had final assembly in the U.S., check one of these:

- The information label attached to the vehicle on a dealer's premises
- The vehicle identification number (VIN)
- The National Highway Traffic Safety Administration (NHTSA) VIN Decoder

Taxpayer eligibility: Deduction is available for both itemizing and non-itemizing taxpayers. The taxpayer must include the vehicle identification number (VIN) of the vehicle on the tax return for any year when the deduction is claimed.

Reporting: Lenders or other recipients of qualified interest must file information returns with the IRS and furnish statements to taxpayers showing the total amount of interest received during the taxable year.

Guidance: The IRS will provide transition relief for tax year 2025 for interest recipients subject to the new reporting requirements.