HORTY
Your partner for success

The OBBBA Car Loan Tax Deduction

If you're shopping for a new car, there's a limited-time tax break that could save you thousands of dollars. However, there's a specific window of time, the rules are strict, and you must act strategically to make it work.

What Is This New Deduction?

Buried in the One Big Beautiful Bill Act signed on July 4th is a provision that lets you deduct up to $10,000 of car loan interest each year. It's an "above the line" deduction, meaning you can claim it whether you itemize or take the standard deduction.

This deduction runs from 2025 through 2028, covering loans originated between January 1st, 2025, and December 31st, 2028. If you took out a loan earlier this year, don't worry. The law applies retroactively to loans taken out earlier in 2025, before the bill was signed on July 4th, as long as they meet all the other requirements.

The Four Key Requirements

Let me break down what qualifies, because these rules are surprisingly specific:

First, the loan must be for new vehicles only. Used cars are not eligible, nor is lease financing. The original use must begin with you. It must be for personal use only and not for business or commercial purposes.

Second, final assembly must happen in the United States. This is where it gets tricky. Some domestic brands built in Mexico or Canada won't qualify, while some foreign brands assembled in states like Ohio, Kentucky, Alabama, or Texas will qualify. You'll need to verify the assembly location using the vehicle's VIN number.

Third, vehicle must meet certain specifications. The car must have at least two wheels, weigh less than 14,000 pounds, and meet the Clean Air Act motor vehicle definitions. This covers most cars, trucks, SUVs, minivans, and even some motorcycles.

Fourth, there are loan requirements. The debt must be incurred after December 31st, 2024, secured by a first lien on the vehicle, and cannot be owed to a related party.

The Income Limits You Must Know

Even if your vehicle qualifies, you need to pass an income test. The deduction begins to phase out once your modified adjusted gross income exceeds $100,000 for single filers or $200,000 for married couples filing jointly.

Here's the precise formula: the deductible amount decreases by $200 for every $1,000 of income above those thresholds. Therefore, it disappears entirely for single filers with an income of $150,000 and joint filers with an income of $250,000.

For example, if you're single with $110,000 of modified AGI, you're $10,000 over the threshold. Your maximum deduction drops by $2,000 – that's ten times two hundred – so instead of $10,000, your cap becomes $8,000.

This means that middle-income households benefit most, while higher earners need to consider other tax planning strategies.

The Electric Vehicle Sweet Spot

Electric vehicle buyers have an additional, albeit short-term, benefit. There's a three-month window – from July 4th through September 30th, 2025 – where you can potentially stack two benefits.

The federal EV credit of up to $7,500 remains in effect until September 30th, despite the OBBBA ending it seven years earlier than the Inflation Reduction Act's original 2032 sunset date.

But here's what you need to know about EV credit eligibility:

The income limits are different: $150,000 for single filers, $225,000 for heads of household, and $300,000 for married filing jointly. The credit amount can also vary based on battery capacity requirements – some vehicles may qualify for less than the full $7,500 or not qualify at all.

So if you buy a qualifying electric vehicle assembled in the US with the right battery specs and an MSRP below $55,000 – or $80,000 for trucks and SUVs – you could potentially get both the credit and the interest deduction. Just remember: you need to meet the income requirements for both programs, and they're different.

New Paperwork Requirements

The IRS is creating new compliance requirements. Your lender must file Form 6050-AA and furnish a copy to the borrower by January 31st each year . The IRS has announced special transition relief for 2025, allowing lenders to adapt to these new reporting rules. You'll need to enter your vehicle's VIN directly on your tax return when claiming the deduction.

Keep your settlement statements, loan documents, and the lender's form for at least three years. If you refinance, the deduction remains available but only on the original loan balance.

Looking Ahead

This deduction is temporary – it's designed as relief during a period of rising tariffs and elevated vehicle prices that have stretched buyers' budgets. Lawmakers framed this as temporary relief, and whether it becomes permanent or expires in 2028 depends on future budget debates.

For now, you have four model years to take advantage, and EV buyers have less than one calendar quarter to potentially double-dip on incentives.

Next Step

This isn’t a magic bullet that makes car buying cheap, but it’s a meaningful benefit for those who understand the rules and plan accordingly. The key is running the numbers before you shop and keeping detailed records after you make a purchase. For buyers purchasing qualifying new vehicles, this could mean saving hundreds or even thousands of dollars at tax time. In today’s market, where every incentive matters, knowledge truly is power.

HORTY
Your partner for success

About Horty & Horty.

Horty & Horty, P.A. ("Horty") is a full-service public accounting and advisory firm providing personalized and unparalleled service to closely held businesses and owners throughout the Delaware Valley. We are trusted advisors whose service offerings and proven methodologies are designed to mitigate financial risk and help clients realize their goals and achieve success.

Wilmington Office:
503 Carr Road, Suite 120
Wilmington, DE 19809
(302) 652-4194

Dover Office:
3702 North DuPont Highway
Dover, DE 19901
(302) 730-4560

dmphillips@horty.com

https://www.horty.com/