CAR LOAN INTEREST DEDUCTION · 2026 GUIDE

How the Car Loan Interest Deduction Works

A new federal deduction lets many people deduct interest paid on a loan used to buy a **new, US-assembled vehicle for personal use**. It applies for tax years **2025 through 2028**, so your 2026 return can include interest you pay during 2026.

Key facts (IRS)

- Up to **$10,000** of qualifying interest per year.
- Available whether you itemize or take the standard deduction.
- Reduced when modified AGI is over **$100,000** (**$200,000** married filing jointly).
- The vehicle's **VIN** must be on your return each year you claim it.

What this kit does

- **Eligibility** tab: 8 Yes/No questions with a clear result.
- **Interest Log**: copy the interest from each lender statement.
- **Calculator**: 3 inputs give your estimated deduction, with the phase-out math folded away.
- **Scenarios**: 4 worked examples you can change.
- **Records**: what to keep, with key dates.

What it does not cover

- Leases, used vehicles and vehicles used for business.
- State income tax rules.
- Your full tax return. Ask a tax professional to confirm your numbers.

My notes

Education only, not tax, legal or financial advice. Rules can change; confirm with a tax professional. © taxnpaypro.com · personal-use license.

CAR LOAN INTEREST DEDUCTION · 2026 GUIDE

Eligibility Checklist

Tick each box. All must be true for the interest to count.

☐ The vehicle is **new**: its original use starts with you (used vehicles do not qualify).

☐ You **bought** it with a loan. Lease payments do not qualify.

☐ The loan was **originated after December 31, 2024**.

☐ The loan is **secured by a lien** on the vehicle.

☐ It is a car, minivan, van, SUV, pickup truck or motorcycle.

☐ Its gross vehicle weight rating is **under 14,000 pounds**.

☐ It had **final assembly in the United States**.

☐ It is for **personal use**, not business or commercial use.

☐ You will put the **VIN** on your return for each year you claim it.

How to check final assembly

- Look at the vehicle information label (window sticker) at the dealer: it lists the final assembly location.
- Or use the plant of manufacture shown by the VIN, for example with the NHTSA VIN Decoder (nhtsa.gov/vin-decoder).

> Refinanced a qualifying loan? The IRS says interest on the refinanced amount is generally eligible. Ask your tax professional if you added cash or a new borrower.

My notes

Education only, not tax, legal or financial advice. Rules can change; confirm with a tax professional. © taxnpaypro.com · personal-use license.

CAR LOAN INTEREST DEDUCTION · 2026 GUIDE

The Phase-Out Math + 4 Examples

This follows the steps on the IRS Schedule 1-A (Form 1040), Part IV:

1. Interest paid on qualifying loans (minus any part deducted on Schedule C, E or F).
2. Take the smaller of step 1 or **$10,000**.
3. MAGI minus **$100,000** (**$200,000** if married filing jointly). If zero or less, stop: step 2 is your deduction.
4. Divide step 3 by $1,000 and **round up** to a whole number.
5. Multiply step 4 by **$200**. Step 2 minus step 5 = your deduction (not below zero).

Example (values are examples)	A	B	C	D
Filing status	Not joint	Not joint	Joint	Not joint
MAGI	$85,000	$112,500	$230,000	$150,000
Interest paid	$3,200	$4,000	$11,000	$6,000
After $10,000 cap	$3,200	$4,000	$10,000	$6,000
Over threshold	$0	$12,500	$30,000	$50,000
$1,000 steps (rounded up)	0	13	30	50
Reduction	$0	$2,600	$6,000	$10,000
Deduction	**$3,200**	**$1,400**	**$4,000**	**$0**

A deduction lowers taxable income, not tax owed dollar for dollar. Your tax saved depends on your tax rate.

My notes

Education only, not tax, legal or financial advice. Rules can change; confirm with a tax professional. © taxnpaypro.com · personal-use license.

CAR LOAN INTEREST DEDUCTION · 2026 GUIDE

Records, Dates & Where It Goes

Keep these records

☐ Purchase contract or bill of sale (shows a new vehicle).

☐ Loan agreement (origination date and lien).

☐ Window label or VIN result showing US final assembly.

☐ The VIN.

☐ Your lender's statement of interest received for the year.

☐ This workbook's Interest Log and Calculator printout.

IRS Pub. 463 says to keep records that support a deduction generally for 3 years from the date you file the return.

Key dates

When	What
Early 2027	Lender statement showing the interest you paid in 2026
April 15, 2027	2026 federal return due for most filers
2025–2028	Tax years this deduction applies to

Where it goes

On the 2025 forms, the deduction is figured on **Schedule 1-A (Form 1040), Part IV**, which also asks for the VIN. Check the final 2026 form and instructions when they are released.

> Privacy: this kit never needs your SSN, loan account number or any password. Do not type them into the workbook.

My notes

Education only, not tax, legal or financial advice. Rules can change; confirm with a tax professional. © taxnpaypro.com · personal-use license.