



Regulatory Comment: Car Loan Interest Deduction

THE ISSUE:

On January 2, 2026, the Department of the Treasury (Treasury) issued a [notice of proposed rulemaking](#) and a [notice of public hearing](#) regarding proposed regulations establishing a deduction of up to \$10,000 for qualified passenger vehicle loan interest and new information reporting requirements and penalties for businesses receiving \$600 or more in such interest annually. The proposed regulations would affect taxpayers that may deduct qualified passenger vehicle loan interest and credit unions subject to these information reporting requirements.

IMPACT TO CREDIT UNIONS:

From a credit union standpoint, this proposed rule is primarily a compliance and operational obligation. The regulations impose new, mandatory information reporting and recordkeeping obligations that will require systems updates, compliance oversight, and careful borrower communication. Credit unions must issue Internal Revenue Service (IRS) information returns for qualifying loans, furnish borrower statements with required disclosures, and ensure accuracy to avoid penalties under sections 6721 and 6722. This means that credit unions will need to update their loan origination systems, modify Form 1098-style reporting workflows, and train staff and vendors. Lastly, because the proposed rules assist taxpayers in claiming the deduction, credit unions may likely see an increase in auto lending demand.

For more details, please see our recently updated [H.R.1 Vehicle Loan Interest Deduction and Interest Reporting FAQs](#).

KEY POINTS:

- This proposed rulemaking would create new regulations that pertain to the allowance of a federal income tax deduction under section 163(a) and 163(h)(4) for qualified passenger vehicle loan interest (QPVLI) and certain information reporting requirements under section 6050AA for persons receiving certain interest on a specified passenger vehicle loan (SPVL).
- Section 6050AA of the Internal Revenue Code requires interest recipients (i.e., credit unions) receiving at least \$600 of interest on an SPVL within a calendar year to file an information return with the IRS and furnish a statement to the payor of record.
- The new allowance of a deduction for QPVLI under section 163(a) and (h)(4) applies solely to taxable years beginning after December 31, 2024, and before January 1, 2029.

ACTION NEEDED: Deadlines and contacts

Please use the comment link below to respond to America's Credit Unions' survey. This will help shape the discussion and better address your needs in our comment letters.

- Comments due to America's Credit Unions: January 28, 2026 — [Submit here](#).
- Comments due to Treasury: February 2, 2026
- Questions? Contact [John Vatian](#), Regulatory Advocacy Counsel, Innovation and Technology, America's Credit Unions
- Agency contact: Riston Escher of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317-7003.

QUESTIONS TO CONSIDER:

1. Have you or your credit union identified which existing or future auto loans may fall within the scope of these rules? More broadly, how much auto lending does your credit union do?
2. Does your credit union foresee increased member inquiries or disputes related to whether reported interest is deductible?
3. Would new reporting under section 6050AA require system modifications, vendor updates, or manual processes?
4. What operational or compliance costs do you anticipate if these reporting requirements are finalized as proposed?

BACKGROUND:

On July 4, 2025, H.R. 1, commonly known as the One Big Beautiful Bill Act (OBBBA), was signed into law by President Trump. America's Credit Unions has consistently engaged the IRS on the car loan interest deduction provision. In July, we sent a [letter to the IRS](#) offering comments and recommendations regarding the implementation of the new interest deduction for qualified vehicle loans. On October 21, 2025, the IRS released [transitional guidance](#) for 2025 for lenders who are required to file information returns with the IRS and provide statements to borrowers

showing the total amount of interest received on qualified passenger vehicle loans.¹ In December, America’s Credit Unions wrote to the IRS again seeking to resolve remaining ambiguities in the implementation of several tax provisions in the OBBBA. Following America’s Credit Unions and leagues’ call for clarity, the IRS published this proposed rule and is now seeking comments.

SECTION BY SECTION ANALYSIS:

Historically, auto loan interest has been non-deductible, but the OBBBA creates a narrow, temporary exception that allows certain taxpayers to deduct car loan interest and requires lenders to report that interest so the IRS can administer the deduction. Below, we analyze the statutory framework and explain the provisions under the proposed rule.

A. Section 163

The proposed Section 163 would, for tax years 2025 through 2028, temporarily let individuals deduct interest on a qualifying, U.S.-final-assembled personal vehicle loan (new after 12/31/2024 and secured by a first lien), subject to dollar limits and exceptions.

Section 163(h)(4)(B)(i)

“QPVLI” means any interest that is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle (APV) for personal use.

The following loans would not be considered QPVLI under Section 163:

- A loan to finance fleet sales.
- A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes.
- Any lease financing.
- A loan to finance the purchase of a vehicle with a salvage title.
- A loan to finance the purchase of a vehicle intended to be used for scrap or parts.

Additionally, if the original APV has to be replaced because of an unexpected event (like a lemon-law replacement or an insurance-required replacement). In that case, interest can still qualify as QPVLI if:

- the lien is transferred to the replacement APV under the loan documents,

¹ See, Transitional Guidance Regarding Returns Relating to Certain Interest on Specified Passenger Vehicle Loans Received in a Trade or Business, available at <https://www.irs.gov/pub/irs-drop/n-25-57.pdf>.

- the replacement APV is still an APV and is new to the taxpayer (original use starts with the taxpayer), and
- the same loan continues, with no real change other than swapping the collateral.

If the lender instead treats the old loan as paid off and issues a new loan for the replacement APV, then the new loan must independently meet the normal requirements for interest to qualify as QPVL.

Section 163(h)(4)(C)

Provides the following limitations on the amount of QPVL that a taxpayer can deduct during a taxable year:

- Dollar cap: the amount of interest taken into account as QPVL for any taxable year cannot exceed \$10,000.
- Income-based reduction (after applying the \$10,000 cap): the otherwise allowable deduction is reduced (but not below zero) by \$200 for each \$1,000 (or portion thereof) by which modified adjusted gross income exceeds \$100,000 (\$200,000 for a joint return).
- Modified adjusted gross income: adjusted gross income increased by any amount excluded from gross income under sections 911, 931, or 933.

Section 163(h)(4)(D)

Defines an “applicable passenger vehicle” (APV) as a vehicle meeting the following requirements, and excludes any vehicle the final assembly of which did not occur within the United States:

- The original use of which commences with the taxpayer. (commences with the first person that takes delivery of a vehicle after the vehicle is sold, registered, or titled)
- Manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails).
- Has at least 2 wheels.
- Is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle.
- Is treated as a motor vehicle for purposes of title II of the Clean Air Act.
- Has a gross vehicle weight rating of less than 14,000 pounds.

Section 163(h)(4)(E)

Provides the definition of “final assembly” and special rules on the treatment of a refinancing and related party indebtedness.

- Final assembly: the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not permanently installed.
- Treatment of refinancing: qualifying indebtedness includes refinancing of qualifying indebtedness secured by a first lien on the same APV, but only up to the amount of the refinanced indebtedness.
- Related parties: qualifying indebtedness does not include indebtedness owed to a person related to the taxpayer within the meaning of section 267(b) or 707(b)(1).

B. Section 6050AA

Section 6050AA is a newly enacted information reporting provision that requires lenders and other persons engaged in a trade or business to report specified passenger vehicle loan interest received from individuals. Specifically, when a lender receives more than \$600 of interest in a calendar year on a specified passenger vehicle loan, it must file an information return with the IRS and furnish a corresponding statement to the borrower.

Information to be included on information return (from lender to IRS):

- 1) payor of record name, address, and TIN
- 2) interest recipient name, address, and TIN
- 3) amount of interest received for the calendar year
- 4) outstanding principal on the SPVL as of the beginning of the calendar year
- 5) loan origination date
- 6) APV year, make, model, and VIN securing the loan
- 7) date the SPVL was acquired
- 8) any other information required by the form or instructions

Information to be furnished to each individual: The statement must include the same information reported on the IRS form.

The statement must also include:

- a legend identifying it as important tax information furnished to the IRS and stating penalties may apply if the payor of record overstated a deduction, and
- a legend stating the payor of record may be unable to deduct the full amount of interest reported.

Based on these provisions, credit unions that originate or service passenger vehicle loans will be subject to new information reporting obligations.

C. Section 6011 and Electronic Filing of Information Returns

Section 6011 grants the Secretary of the Treasury broad authority to require taxpayers and information return filers to submit returns and statements in the manner prescribed by regulation, including electronically. In the context of section 6050AA, section 6011 serves as the statutory basis for requiring electronic filing of vehicle loan interest information returns, consistent with the IRS's broader push toward mandatory e-filing for most information returns. Credit unions that receive \$600 or more of interest on a single SPVL during a calendar year must (1) furnish a written statement to the member (payor of record) by January 31, and (2) file an information return with the IRS by February 28 (or March 31 if filed electronically) of the following year.

D. Penalties Under Sections 6721 and 6722

Section 6721 establishes penalties for failing to file correct information returns with the IRS, including failures to file on time, failures to file electronically when required, or filing returns with incomplete or incorrect information.

For interest on SPVLs received in calendar year 2025, an interest recipient is treated as meeting the section 6050AA reporting obligation if they make a statement available to the individual showing the total amount of interest received in 2025 on an SPVL.

Explanation of Provisions

I. QPVLI Generally

- QPVLI is interest on a personal loan used to buy an APV, but only if the loan was taken out after December 31, 2024 and is secured by a first lien on the APV when the interest is paid or accrued.
- Interest on the loan accrues daily. Payments are treated as paying accrued unpaid interest first, then principal. A simple daily interest calculation based on the outstanding principal and the APR or stated rate can be used to determine how much interest is unpaid when a payment is made.

II. Specified Passenger Vehicle Loan (SPVL)

The regulations formally define an SPVL as indebtedness incurred after December 31, 2024, to purchase an APV for personal use, secured by a valid and enforceable first lien. The "first lien" requirement allows for limited statutory exceptions, such as tax liens that may arise later under state law, ensuring that routine compliance issues do not inadvertently disqualify loans.

The SPVL Must Be Incurred for the Purchase of an APV

Indebtedness is an SPVL only to the extent it is incurred to pay for:

- the APV, and
- other items or amounts customarily financed in an APV purchase transaction that directly relate to the purchased APV (examples given: vehicle service plans, extended warranties, sales taxes, vehicle-related fees).

Indebtedness is not incurred for the purchase of an APV to the extent it is for:

- negative equity on a trade-in vehicle,
- collision or liability insurance,
- property or services not directly related to the purchased APV (example: a trailer or a boat), or
- cash proceeds the taxpayer receives from the lender.

If the loan includes both qualifying and nonqualifying amounts, only the qualifying portion is an SPVL, and interest on the nonqualifying portion is not QPVL.

Any down payment or other consideration supplied by the taxpayer is applied first to negative equity and other nonqualifying amounts when determining the nonqualifying portion.

Refinanced SPVLs

A refinancing loan is an SPVL only to the extent:

- it is secured by a first lien on the same APV, and
- the amount treated as an SPVL does not exceed the outstanding balance of the refinanced SPVL on the refinancing date.

If the refinancing involves a change in obligor, the new loan is not an SPVL for any new obligor other than the original obligor, except for certain changes in obligor due to death.

The SPVL must be incurred by the taxpayer

- A loan is an SPVL only if it was originally incurred by the taxpayer.
- If a new person becomes the obligor, the loan is no longer an SPVL for that new obligor, except when the change in obligor occurs by reason of the original obligor's death.
- Changes in obligor "by reason of death" include succession by the decedent's estate, a surviving joint owner, a contract or transfer-on-death beneficiary, operation of law, or certain distributions by an estate or trust to a legatee/heir/beneficiary because of the death.

- “By reason of death” does not include changes resulting from a sale, exchange, or other disposition by an estate or trust (other than the covered distributions), or later dispositions by someone who received the APV due to death (unless that person also dies and the rule applies again).

Purchase

“Purchase” means an acquisition that is both:

- an acquisition of a vehicle for federal income tax purposes, and
- an acquisition of title under State or other applicable law.

A purchase results in the taxpayer being listed as the owner on the title or registration, with the lender listed as the first lienholder. The lender holding the physical title does not change whether it is a purchase.

III. Applicable Passenger Vehicle (APV)

Original Use

Original use begins with the first person who takes delivery of the vehicle after it is sold, registered, or titled.

For a dealer, original use does not begin with the dealer unless the dealer registers or titles the vehicle to itself.

For a retail purchaser who finances the vehicle, original use begins with the purchaser only if the loan documentation treats the vehicle as a new vehicle.

Exception: if a retail purchaser returns the vehicle within 30 days after taking delivery, original use is treated as not having begun with that purchaser. A later retail purchaser may satisfy the original use requirement if the later purchaser’s loan documentation treats the vehicle as new.

Final Assembly

To establish that final assembly occurred in the United States, the taxpayer may rely on either:

- the vehicle’s plant of manufacture as reported in the VIN under 49 CFR 565, or
- the final assembly point reported on the vehicle information label described in 49 CFR 583.5(a)(3).

IV. *Proposed § 1.6050AA-1*

Definitions

Calendar year for which interest is received

- The calendar year for reporting is the later of:
 - the calendar year the interest is received, or
 - the calendar year the interest properly accrues.
- An interest recipient may treat prepaid interest as received in the current calendar year if it properly accrues by January 15 of the following year.
- If an interest recipient reports that prepaid interest in the current year under the January 15 rule, it is not reported again in the following year.

Interest recipient

- An “interest recipient” is a person engaged in a trade or business (whether or not lending is the business) that, in the course of that trade or business, receives interest on an SPVL.
- If one person receives interest on an SPVL on behalf of another:
 - the person that first receives the interest generally must report it, and no reporting is required when the interest is later transferred to the other person; but
 - the first recipient does not report if:
 1. the first recipient does not have the borrower reporting information, and
 2. the other person is engaged in a trade or business and would receive the interest in that trade or business if it received the interest directly.
 - In that case, the other person must report.

Lender of record

- The “lender of record” is the person who, at the time the loan is made:
 - is named as the lender on the loan documents, and
 - has a right to receive payment from the payor of record that is secured by a lien on the payor of record’s APV.
- The lender of record’s intent to sell or transfer the loan after closing does not change who is the lender of record.
- A lender of record must file an information return with the IRS and furnish a statement to the payor of record if it receives \$600 or more of interest on an SPVL in a calendar year, even if it intends to transfer the loan.

Payor of record

- The “payor of record” is the person shown in the interest recipient’s books and records as the principal borrower on the SPVL.

- If the books and records do not show which borrower is the principal borrower, the interest recipient must designate a borrower as the principal borrower.
- Only the payor of record is furnished the written statement for the SPVL.
- For this definition, “person” means an individual, a decedent’s estate, or a non-grantor trust.

Determining if a Loan Is an SPVL

- If an assignee, including credit union lenders, has information in the loan documents sufficient to determine the personal use requirement is met, and there is no conflicting information, the assignee may rely on that information for its reporting obligations.
- If the assignee does not have sufficient information to determine personal use, the assignee may obtain that information from the obligor, the lender of record, or another source.

Amount of Interest Received on an SPVL for the Calendar Year

- The \$600 reporting threshold is determined loan by loan (SPVL-by-SPVL).
- No reporting is required for an SPVL if the interest recipient receives less than \$600 of interest on that SPVL during the calendar year, even if the interest recipient receives \$600 or more in total across multiple SPVLs from the same payor of record.
- An interest recipient may (but is not required to) report interest of less than \$600 on an SPVL. If it chooses to report, it must follow the requirements of proposed § 1.6050AA-1.

Due Dates

Written statement to the payor of record: on or before January 31 of the year following the calendar year the interest is received.

Information return to the IRS: on or before February 28 of the following year (March 31 if filed electronically).