

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

## NO TAX ON CAR LOAN INTEREST

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**TOPLINE:** The One Big Beautiful Bill (OBBB) allows borrowers to deduct interest payments for domestic car loans, colloquially known as “No Tax on Car Loan Interest.”

**BACKGROUND:** Until 1986, the tax code generally allowed individual taxpayers to deduct interest payments related to consumer loans, including car loans. The [Tax Reform Act of 1986](#) lowered tax rates while eliminating many tax deductions, including the deductions for interest payments on car loans and most other consumer loans (though the deductibility of home mortgages was retained).

Most personal deductions can only be claimed if taxpayers choose to itemize instead of taking the standard deduction. The standard deduction amount is (as of 2026) equal to \$16,100/\$32,200 (single/married joint filers). Most middle-income families choose the standard deduction because for them it typically dwarfs the amount of itemizable deductions they can claim. However, unlike other deductions, **above-the-line** deductions can be claimed even if taxpayers choose the standard deduction.

### What OBBB Did:

- [Created](#) a new above-the-line deduction for up to \$10,000 of car loan interest payments related to passenger vehicles purchased between 2025 and 2028.
- [Required](#) final assembly of the vehicle to have occurred in the U.S. to qualify.
- [Set up](#) the tax deduction to begin phasing out for taxpayers with modified adjusted gross income of \$100,000/\$200,000 (single/married joint filer).

### Why It Matters?

- The tax code's treatment of interest income and interest payments was inconsistent as interest income received by auto loan financiers was taxed, but consumer interest payments were non-deductible, causing double taxation.
- Americans have more than [100 million](#) auto loans, according to estimates from the New York Fed.
- [JCT](#) estimated “No Tax on Car Loan Interest” is a **\$31 billion** tax cut over four years.

**Where Can I Find the Changes?** OBBB Section [70203](#); [26 U.S.C. § 163\(h\)](#).

**BOTTOMLINE:** Generally, a broad tax base with few deductions is preferable, as it allows for lower tax rates and a simpler tax code.

However, there is a strong case for allowing deductions for interest payments because interest *income* received by consumer loan financing companies *is taxable*. No Tax on Car Loan Interest helps ensure that the IRS can't collect more taxes simply because one party takes out a car loan from another party.

