Insights

New Reporting and Deduction Rules for Vehicle Loans Under the One Big Beautiful Bill Act

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Background
On July 4, 2025, President Donald J. Trump signed into law the One Big Beautiful Bill Act ("OB3"). Among its many provisions, OB3 introduces a new, temporary tax deduction for passenger-vehicle loan interest[1] and imposes corresponding reporting requirements on lenders, including credit unions and banks [2]. Crucially, these rules are already in effect: they apply to any qualifying vehicle loan originated after December 31, 2024. As a result, many institutions may have originated qualifying loans without realizing that special data-tracking and reporting obligations now apply. These provisions represent the first time that consumer auto-loan interest has triggered ***both*** a federal deduction and a lender reporting duty, creating a new compliance layer similar in concept to Form 1098 mortgage-interest reporting [3].

Key Provisions

1. New Above-the-Line Deduction for Consumers – IRC §163(h)(4)(E)
For tax years 2025 through 2028, individual taxpayers may claim an above-the-line deduction (i.e., available even for those taking the standard deduction) for qualified passenger-vehicle loan interest paid or accrued after December 31, 2024.

A "qualified passenger-vehicle loan" is a first-lien loan used to purchase a new passenger vehicle for personal (non-business) use that satisfies all of the following:

- Original use begins with the taxpayer;
- Manufactured primarily for public road use and has at least two wheels;
- Classified as a car, van, SUV, pickup truck, or motorcycle under the Clean Air Act;
- Gross Vehicle Weight Rating (GVWR) under 14,000 lbs.;
- Final assembly occurred within the United States.

Taxpayers may deduct up to $10,000 per year of qualifying interest, subject to income phase-outs beginning at $100,000 (MAGI)[4] for single filers and $200,000 (MAGI) for joint filers, fully phasing out at $120,000 and $240,000, respectively.

2. New Lender Reporting Obligations – IRC §6050AA
Businesses—including credit unions, banks, and finance companies—that receive $600 or more of interest in a calendar year from an individual on a qualifying passenger-vehicle loan must now file an information return with the IRS and provide a borrower statement each year.

Each return and borrower statement must include:

- Borrower's name and address;
- Total interest received for the year;
- Principal outstanding at the start of the year;
- Loan origination date;
- Vehicle year, make, model, and VIN (or equivalent identifier);
- Any additional data the IRS may require by regulation.

The borrower statement must also list the lender's contact information and be delivered by January 31 of the year following the payment year. The IRS has not yet released the standardized form—expected to be analogous to Form 1098—but it will carry the usual §§ 6721–6722 penalty regime for non-filing or inaccurate reporting [5].

What Financial Institutions Should Do Now

Action	Why It Matters
Identify potential qualifying loans originated after 12/31/2024	These may already be subject to § 6050AA even if made before IRS form release.
Verify vehicle 'final assembly' in the U.S.	IRS guidance confirms lenders may use the VIN Decoder tool provided by the National Highway Traffic Safety Administration (NHTSA). VIN Decoder | NHTSA
Update loan-origination and servicing systems	Capture fields for VIN, make/model/year, lien status, and borrower TIN.
Develop borrower-notification and reporting workflows	Prepare to furnish statements by January 31, 2026, covering 2025 interest.
Train compliance and servicing staff	Clarify that institutions must report interest data—but do not determine borrower deductibility.

Phase-Out Mechanics for Borrowers
The deduction is reduced proportionally as income rises within the phase-out range. Example: A married couple with $215,000 MAGI and $9,000 qualifying interest would see a 37.5% reduction, allowing a $5,625 deduction. Once MAGI exceeds $240,000 (joint) or $120,000 (single), no deduction is allowed.

Implications for Lenders
- Immediate Applicability: The rule applies to any qualifying loan made on or after 1/1/2025.
- Operational Burden: Institutions must review 2025 portfolios to identify potentially qualifying loans.
- Unresolved Items: The IRS has yet to finalize the reporting form and definitions of "applicable passenger vehicle."
- Next Steps: Early data-capture and compliance planning will mitigate risk and streamline 2026 reporting.

Recommended Next Steps
- Conduct an Internal Loan Audit – Identify all vehicle loans closed since 1/1/2025; verify eligibility criteria and flag qualifying loans.
- Enhance Data Collection Protocols – Ensure origination systems record VIN and U.S.-assembly

confirmation.

- Monitor IRS Guidance – Watch for forthcoming IRS regulations and model forms implementing § 6050AA.
- Educate Borrowers and Staff – Provide general awareness materials—but avoid characterizing interest as “deductible,” since eligibility varies by taxpayer.

Conclusion

Financial institutions—including credit unions—should act now to ensure that vehicle-loan data systems and reporting processes can meet these new statutory obligations. While the deduction benefits borrowers, lenders bear the compliance responsibility.

If you have questions about the new requirements or need assistance designing compliant reporting and verification procedures, please contact **Brett Ashton**, **Kendall Schnurpel**, or your Krieg DeVault attorney.

[1] IRC §163(h)(4)(E).

[2] IRC §6050AA.

[3] Note: before the Tax Reform Act of 1986, personal interest—including car-loan interest—was generally deductible under former §163(a). The 1986 Act enacted §163(h), disallowing such “personal interest,” and no reporting duty applied until the One Big Beautiful Bill Act (Pub. L. 119-21, §70203) created both the temporary deduction (§163(h)(4)(E)) and lender-reporting requirement (§6050AA).

[4] MAGI (Modified Adjusted Gross Income) refers to a taxpayer’s adjusted gross income as modified by certain statutory add-backs. It is the measure used by the Internal Revenue Service to determine a taxpayer’s eligibility for specific deductions, credits, and other tax-related benefits.

[5] Under §§ 6721–6722, penalties apply for failing to file required information returns or furnish correct borrower statements, generally ranging from $60 to $310 per form depending on when corrected, with higher amounts (and no cap) for intentional disregard. The same framework applies to Forms 1098 and 1099.

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