DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 301

[TD 10054]

RIN 1545–BR75

Car Loan Interest Deduction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations regarding the deduction for certain taxpayers for an amount up to $10,000 of qualified passenger vehicle loan interest. This document also contains final regulations regarding new information reporting requirements for certain persons who, in a trade or business, receive from any individual interest aggregating $600 or more for any calendar year on a specified passenger vehicle loan, including applicable penalties for failures to file information returns or furnish payee statements as required. These regulations affect taxpayers that may deduct qualified passenger vehicle loan interest, and also persons subject to these information reporting requirements.

DATES:

Effective date: The final regulations are effective on November 9, 2026.

Applicability date: For dates of applicability, see §§ 1.163–16(i) and 1.6050AA–1(i).

FOR FURTHER INFORMATION CONTACT: Riston Escher of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317–7003 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Authority

This document contains amendments that add new regulations to the Income Tax Regulations (26 CFR part 1) under sections 163 and 6050AA of the Internal Revenue Code (Code), as amended and enacted, respectively, by section 70203(a) and (c)(1) of Public Law 119–21, 139 Stat. 72, 176–179 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), related to the allowance of a Federal income tax deduction under section 163(a) and (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). This document also contains amendments to the Procedure and Administration Regulations (26 CFR part 301) relating to electronic filing of returns under section 6011 of the Code, and penalties under section 6721 of the Code for failures to file information returns and under section 6722 of the Code for failures to furnish payee statements.

The regulations are issued under the authority of section 7805(a) of the Code, which authorizes the Secretary of the Treasury or the Secretary's delegate (Secretary) to prescribe all needful rules and regulations for the enforcement of the Code including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue. The regulations under section 6050AA are also issued under the authority of section 6050AA(e), which authorizes the Secretary to issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of section 6050AA, including regulations or other guidance to prevent the duplicate reporting of information under section 6050AA. The regulations under section 6011 are also issued under the authority of section 6011(e), which authorizes the Secretary to prescribe regulations that require taxpayers to electronically file returns, including information returns, if the taxpayer is required to file at least 10 returns of any type during a calendar year.

Background

Section 70203(a) of the OBBBA amended section 163(h) (relating to the disallowance of any deduction for personal interest) by inserting a new paragraph (4) to provide an exception for QPVLI. Section 70203(b) of the OBBBA amended section 63(b) of the Code by inserting a new paragraph (7) to allow this deduction for taxpayers that do not itemize their deductions. Section 70203(c) of the OBBBA added new section 6050AA to the Code to require information returns relating to applicable passenger vehicle loan interest received in a trade or business from individuals. The amendments made by section 70203 of the OBBBA apply to indebtedness incurred after December 31, 2024. 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. Section 6050AA(f) provides that no information return is required under section 6050AA for any period to which section 163(h)(4) does not apply.

I. Section 163

Section 163(a) allows a deduction for all interest paid or accrued within the taxable year on indebtedness. Section 163(h) generally disallows a deduction for personal interest. Section 163(h)(1) provides that a taxpayer other than a corporation cannot take a deduction for personal interest paid or accrued during the taxable year under chapter 1 of the Code (chapter 1). Section 163(h)(2) defines ''personal interest'' as any interest deductible under chapter 1 other than (a) interest paid or accrued on indebtedness properly allocable to the conduct of a trade or business (other than the trade or business of performing services as an employee), (b) investment interest, (c) interest taken into account under section 469 of the Code in computing income or loss from a passive activity, (d) qualified residence interest, (e) interest payable under section 6601 of the Code on any unpaid portion of the tax imposed by section 2001 of the Code for the period during which an extension of time for payment of such tax is in effect under section 6163 of the Code, and (f) any interest allowable as a deduction under section 221 of the Code.

As added by the OBBBA, new section 163(h)(4)(A) provides that in the case of taxable years beginning after December 31, 2024, and before January 1, 2029, personal interest does not include QPVLI. As a result, a deduction for QPVLI is allowable under section 163(a) for such taxable years. Section 163(h)(4)(B)(i) provides that ''qualified passenger vehicle loan interest'' 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, subject to certain enumerated exceptions in section 163(h)(4)(B)(ii). Section 163(h)(4)(C) provides limitations on the amount of QPVLI that a taxpayer can deduct during a taxable year. Section 163(h)(4)(D) defines an ''applicable passenger vehicle'' as a vehicle that satisfies the requirements of section 163(h)(4)(D)(i) through (vi) but excludes from the definition any vehicle the final assembly of which did not occur within the United States. Section 163(h)(4)(E) provides the definition of ''final assembly'' and special rules on the treatment of refinancings and related party indebtedness.

II. Section 63(b)(7)

Section 63 defines ''taxable income'' for purposes of subtitle A of the Code (subtitle A). Section 63(a) provides the general rule that, except as provided in section 63(b), for purposes of subtitle A, the term ''taxable income'' means gross income minus the deductions allowed by chapter 1 (other than the standard deduction). Section 63(b) provides that, in the case of an individual who does not elect to itemize the individual's deductions for the taxable year, for purposes of subtitle A, the term taxable income means ''adjusted gross income'' (as defined in section 62 of the Code), minus the deductions enumerated in section 63(b)(1) through (7). As amended by the OBBBA, new section 63(b)(7) provides that so much of the deduction allowed by section 163(a) as is attributable to the exception under section 163(h)(4)(A) is subtracted from adjusted gross income in computing taxable income.

III. Section 6050AA

Section 6050AA(a) provides that any person engaged in a trade or business who, in the course of that trade or business, receives from any individual interest aggregating $600 or more for any calendar year on an SPVL, must file an information return reporting the receipt of interest. Section 6050AA(b) provides that the information return filed by the recipient of such interest (interest recipient) must be in the form prescribed by the Secretary and must contain: (A) the name and address of the individual from whom such interest was received, (B) the amount of such interest received for the calendar year, (C) the amount of outstanding principal on the SPVL as of the beginning of such calendar year, (D) the date of origination of that loan, (E) the year, make, model, and vehicle identification number (VIN) of the APV that secures that loan (or any other description of that vehicle as the Secretary may prescribe), and (F) any other information as the Secretary may prescribe.

Section 6050AA(c) provides that every person required to make an information return under section 6050AA(a) must also furnish to each individual whose name is required to be included in the return a written statement showing the name, address, and phone number of the interest recipient, and the information required to be included in the information return under section 6050AA(b)(2)(B) through (F).

Section 6050AA(d)(1) provides that terms used in section 6050AA that are also used in section 163(h)(4) have the same meaning as when used in section 163(h)(4). Section 6050AA(d)(2) defines ''specified passenger vehicle loan'' as the indebtedness described in section 163(h)(4)(B) with respect to any APV.

Section 6050AA(e) authorizes the Secretary to issue regulations or guidance as may be necessary or appropriate to carry out the purposes of section 6050AA, including regulations or other guidance to prevent duplicate reporting.

IV. Section 6011 and Electronic Filing of Information Returns

Section 6011(e) authorizes the Secretary to prescribe regulations providing standards for determining which returns must be filed on magnetic media or in other machine-readable form. Section 6011(e)(5) authorizes the Secretary to prescribe regulations that require taxpayers to electronically file returns, including information returns, if the taxpayer is required to file at least 10 returns of any type during a calendar year.

V. Penalties Under Sections 6721 and 6722

Section 6721 imposes a penalty for any failure to file an information return on or before the required filing date, and for any failure to include all the information required to be shown on a return or the inclusion of incorrect information. Section 6722 imposes a penalty for any failure to furnish a payee statement on or before the required furnishing date to the person to whom such statement is required to be furnished and for any failure to include all the information required to be shown on a payee statement or the inclusion of incorrect information.

Section 70203(c)(2)(A) of the OBBBA amended section 6724(d)(1) of the Code to add information reporting requirements under section 6050AA—regarding returns relating to QPVLI received in a trade or business from individuals—to the definition of ''information return.'' Section 70203(c)(2)(B) of the OBBBA similarly amended the definition of ''payee statement'' in section 6724(d)(2). As a result of these amendments, penalties under sections 6721 and 6722 may be imposed on interest recipients that fail to file correct information returns and payee statements under section 6050AA.

On October 21, 2025, the IRS released Notice 2025–57, 2025–45 I.R.B. 692, to provide transitional guidance on the information reporting requirements under section 6050AA. Notice 2025–57 provides that an interest recipient will be deemed to have satisfied the reporting obligations under section 6050AA for interest on SPVLs received in calendar year 2025 if the interest recipient makes a statement available to the individual indicating the total amount of interest received in calendar year 2025 on an SPVL.

VI. Notice of Proposed Rulemaking

On January 2, 2026, the Treasury Department and the IRS published a notice of proposed rulemaking and notice of public hearing (REG–113515–25) in the **Federal Register** (91 FR 67) under sections 163, 6050AA, 6011, 6721, and 6722 (proposed regulations). The proposed regulations proposed rules regarding the deduction for certain taxpayers for an amount up to $10,000 of QPVLI. The proposed regulation also proposed rules regarding the new information reporting requirements for certain persons who, in a trade or business, receive from any individual interest aggregating $600 or more for any calendar year on an SPVL, including applicable penalties for failures to file information returns or furnish payee statements as required. The proposed regulations also proposed rules relating to electronic filing of returns under section 6011.

Summary of Comments and Explanation of Revisions

I. Overview

The Treasury Department and the IRS received 63 public comments in response to the notice of proposed rulemaking. Copies of the comments are available for public inspection at *http://www.regulations.gov* or upon request. In addition, a public hearing on the proposed regulations was held on February 24, 2026, at which three speakers provided testimony. After considering all of the public comments, speaker outlines, and testimony (collectively, comments) received in response to the proposed regulations, the Treasury Department and the IRS adopt the proposed regulations, as revised in response to the comments described in this Summary of Comments and Explanation of Revisions, as final regulations.

Comments addressing issues that are outside the scope of this rulemaking are generally not addressed in this Summary of Comments and Explanation of Revisions or adopted in the final regulations. These comments included recommendations and questions regarding implementation issues for other Code provisions and examination selection criteria. Unless otherwise indicated in this Summary of Comments and Explanation of Revisions, provisions of the proposed regulations with respect to which no comments were received are adopted without substantive change.

II. Comments on Proposed § 1.163–16

A. In General

In response to the comments received, the final regulations include revisions to the following provisions in proposed § 1.163–16: proposed § 1.163–16(b)(12) (*Qualified passenger vehicle loan interest (QPVLI)*) (finalized as § 1.163–16(b)(13)); proposed § 1.163–16(b)(13) (*Qualified vehicle classification*) (finalized as § 1.163–16(b)(14) (*Qualified vehicle type*)); proposed § 1.163–16(b)(14) (*Secured by a first lien*) (finalized as § 1.163–16(b)(15)); proposed § 1.163–16(c)(2) (*Determining the amount of interest paid or accrued during a taxable year*); proposed § 1.163–16(d)(2) (*Indebtedness incurred for the purchase of an APV*); and proposed § 1.163–16(e)(2) (*Determining whether original use commences with the taxpayer*). Additionally, in response to the comments received, the final regulations include the addition of the following new provisions in § 1.163–16: § 1.163–16(b)(6) (*Items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV*); § 1.163–16(d)(6)(v) (*Example 5: Method of allocating interest*); § 1.163–16(e)(2)(ii) (*Dealers*); § 1.163–16(e)(2)(iii) (*Original use for joint purchasers*).

The final regulations also include revisions to § 1.163–16(c)(3)(ii) (*Exception for substitute vehicle due to an unforeseen intervening event*). The revisions to § 1.163–16(c)(3)(ii) are intended to clarify that a substitute APV described in § 1.163–16(c)(3)(ii) is treated as the APV with respect to which the SPVL was incurred for the purposes of § 1.163–16(c)(5) (*VIN requirement*) and § 1.163–16(d)(4) (*Refinancing of an SPVL*).

B. Definitions

1. Secured By a First Lien

Section 163(h)(4)(B)(i) provides that interest is QPVLI only if it is paid or accrued on indebtedness that is incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an APV for personal use. Proposed § 1.163–16(b)(14) provided that, for purposes of section 163(h)(4) and the proposed regulations, ''secured by a first lien'' means a valid and enforceable security interest in an APV under State or other applicable law with priority ahead of all other security interests, other than tax liens or other similar security interests that may be given higher priority at a later date following the date of purchase and only in limited circumstances.

One commenter requested that the final regulations provide clarity on whether ''first lien'' status is determined by the initial filing and attachment of the security interest, regardless of involuntary liens such as mechanic's liens or State tax liens that may cause the earlier lien to be subordinated. The commenter recommended that the final regulations clarify that a loan qualifies as a first lien so long as it was the first voluntary security interest recorded against the vehicle, disregarding involuntary liens (for example, mechanic's liens or State tax liens) that may take temporary legal priority under State or local law.

The Treasury Department and the IRS agree with the commenter that it would be helpful to further clarify the status of a lien that is subordinated by involuntary liens. Accordingly, § 1.163–16(b)(15) provides that ''secured by a first lien'' means the first voluntary security interest recorded against the vehicle, disregarding any involuntary liens that may be given temporary higher priority at a later date.

One commenter noted that under State law, vehicle lien placement generally relates back to the loan origination date if the lien is perfected within a statutory grace period. In certain cases, however, lien perfection may occur after this grace period, often due to administrative delays in title processing that are outside the lender's control. Accordingly, the commenter recommended that the final regulations clarify that interest accruing from the loan origination date (rather than the lien perfection date) may be QPVLI so long as the contract was originated as a purchase transaction secured by a first lien.

This commenter also noted that there are circumstances in which a vehicle lien is removed before the loan is paid in full, such as in the case of repossession and subsequent sale of the vehicle, or an insurance payment following a total loss claim. Accordingly, the commenter recommended that the final regulations clarify that temporary or permanent lien release events that occur after loan origination do not retroactively or prospectively disqualify a taxpayer from claiming the QPVLI deduction, provided that the vehicle finance contract was originally secured by a first lien on the purchased APV.

The Treasury Department and the IRS generally agree with these comments. Accordingly, § 1.163–16(b)(15) provides that an APV may be considered to be secured by a first lien even in a case in which a lien has not yet been perfected or recorded due to processing times or other similar short-term delays arising under State or other applicable law, and in limited circumstances in which a lien is removed in connection with the taxpayer no longer owning the vehicle but the taxpayer continues to be liable for an SPVL, such as in the case of a repossession of the vehicle or an insurance payout following a total loss claim.

2. Qualified Vehicle Type

Section 163(h)(4)(D)(iv) provides that a vehicle is an APV only if it is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle. Proposed § 1.163–16(b)(13)(ii) through (vii) defined the terms ''car,'' ''minivan,'' ''van,'' ''sport utility vehicle,'' ''pickup truck,'' and ''motorcycle'' by reference to certain vehicle classifications and definitions used by the Environmental Protection Agency (EPA). Some of these classifications depend on a vehicle's gross vehicle weight rating (GVWR) and one of these definitions depend on a vehicle's curb mass. Further, section 163(h)(4)(D)(vi) requires, and proposed § 1.163–16(e)(1)(vi) provided that for a vehicle to be an APV it must have a GVWR of less than 14,000 pounds.

One commenter noted that the proposed § 1.163–16(b)(13)(v) definition of sport utility vehicle would exclude sport utility vehicles with a GVWR exceeding 10,000 pounds. The commenter also noted that the proposed § 1.163–16(b)(13)(vi) definition of pickup truck would exclude pickup trucks with a GVWR exceeding 8,500 pounds. The commenter requested clarification on how the definitions in proposed § 1.163–16(b)(13)(v) and (vi) would operate together with the 14,000-pound GVWR limitation provided by section 163(h)(4)(D)(vi) and proposed § 1.163–16(e)(1)(vi).

The Treasury Department and the IRS agree with the commenter that the definitions of sport utility vehicle and pickup truck provided in proposed § 1.163–16(b)(13) could cause confusion regarding the treatment of those vehicles that have a GVWR that exceeds the GVWR specified in the applicable definition referenced in proposed § 1.163–16(b)(13), but do not exceed the 14,000-pound GVWR limitation provided by section 163(h)(4)(D)(vi). Further, while the definition of motorcycle referenced in proposed § 1.163–16(b)(13) would exclude motorcycles with a curb mass greater than 1,499 pounds, this weight restriction is not a statutory requirement. Accordingly, § 1.163–16(b)(14) provides broader definitions of sport utility vehicle, pickup truck, and motorcycle that do not reference a

GVWR or curb weight limitation for vehicles. Additionally, for clarity and ease of administration, the final regulations define van and minivan by direct reference to the applicable EPA regulation. As under the proposed regulations, these revised definitions operate together with, and do not alter, the separate requirement in section 163(h)(4)(D)(v) that the vehicle be treated as a motor vehicle for purposes of title II of the Clean Air Act.

C. Qualified Passenger Vehicle Loan Interest (QPVLI)

Section 163(h)(4)(B)(i) provides and proposed § 1.163–16(d)(1) provided that interest is QPVLI only if it is paid or accrued on indebtedness that is incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an APV for personal use. Proposed § 1.163–16(c) provided, in relevant part, that interest is QPVLI only if the interest is paid or accrued during the taxable year on indebtedness that is an SPVL secured by a first lien on an APV, and is not excluded from the definition of QPVLI.

For purposes of section 163(h)(4), QPVLI includes all interest payable with respect to the amount financed under an SPVL. In general, interest is an amount paid, received, or accrued as compensation for the use or forbearance of money under the terms of an instrument or contractual arrangement that is treated as a debt instrument for Federal income tax purposes or an amount otherwise treated as interest under the Code or Income Tax Regulations. For example, see § 1.163(j)–1(b)(22)(i); see also *Deputy* v. *DuPont,* 308 U.S. 488, 498 (1940).

Several commenters requested clarification on what constitutes interest for purposes of section 163(h)(4). Specifically, clarification was requested as to the treatment of stated periodic interest, prepaid interest (such as points), origination-related or financing-related charges, prepayment penalties, late payment charges, default-related charges, returned payment fees, and deferred or capitalized interest that is added to the outstanding principal balance in accordance with the terms of the indebtedness. Some commenters mentioned that certain of the fees are specifically referenced in other regulations or guidance relating to the deduction of interest for Federal income tax purposes (for example, see §§ 1.221–1(f) and 1.6050H–1).

The Treasury Department and the IRS agree with the commenters that additional clarification on what constitutes interest is appropriate, including the addition of examples of fees that are interest for purposes of section 163(h)(4). Accordingly, § 1.163–16(c)(2)(i) clarifies that QPVLI includes prepaid interest in the form of points and deferred or capitalized interest. The final regulations also provide that QPVLI includes origination-related or financing-related charges, prepayment penalties, late payment charges, default-related charges, and similar fees, if such charge, penalty, or fee is characterized as interest expense for Federal income tax purposes and is included in the amount reported as interest in the statement furnished to the taxpayer under section 6050AA(c) and § 1.6050AA–1(h). However, to the extent such interest (including prepaid interest in the form of points or deferred or capitalized interest) creates or increases the amount of original issue discount on the SPVL, such amounts generally are not deductible until paid in accordance with the payment ordering rules described in § 1.163–16(c)(2)(ii). See also section 1275(b) of the Code. The payment ordering rules in §§ 1.446–2 and 1.1275–2 determine when interest (including original issue discount) is paid and therefore deductible by the borrower. Similarly, these rules generally apply for information reporting purposes, including section 6050AA.

D. Specified Passenger Vehicle Loan (SPVL)

1. Indebtedness

Section 163(h)(4)(B)(i) provides and proposed § 1.163–16(d)(1) provided that interest is QPVLI only if it is paid or accrued on indebtedness that is incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an APV for personal use.[1] Proposed § 1.163–16(c) provided, in relevant part, that interest is QPVLI only if the interest is paid or accrued during the taxable year on indebtedness that is an SPVL secured by a first lien on an APV.

a. Incurring Indebtedness

Multiple commenters recommended that taxpayers should also be able to deduct QPVLI for vehicle loans incurred prior to December 31, 2024. These commenters noted that section 163(h)(4)(B)(i) excludes taxpayers who took out a loan to purchase a new vehicle in late 2024 but will pay nearly all of the interest on the loan from 2025 through 2028, the years in which QPVLI may be deducted.

Section 163(h)(4)(B)(i) defines ''qualified passenger vehicle loan interest'' or QPVLI, in relevant part, as interest paid on a loan incurred after December 31, 2024. Therefore, the Treasury Department and the IRS are not able to adopt the commenters' recommendation as doing so would be inconsistent with the plain language of the statute.

One commenter asked how to identify the amount of interest if a vehicle is purchased with a credit card. Section 163(h)(4)(B)(i) requires, in relevant part, that indebtedness be secured by a first lien on an APV. The Treasury Department and the IRS note that generally credit card indebtedness is not secured indebtedness. Therefore, the purchase of an APV, in whole or in part, with a credit card would generally not result in an SPVL and therefore any interest paid or accrued on this credit card indebtedness would not be QPVLI.

b. Amount of the Indebtedness

i. Indebtedness Incurred To Purchase an APV

Several commenters requested that the Treasury Department and the IRS treat all of the indebtedness incurred in connection with the purchase of an APV as an SPVL, and not require an allocation of the indebtedness between the SPVL portion and the non-SPVL portion as provided in proposed § 1.163–16(d)(2)(iii)(A) because of the compliance burden this allocation approach would impose.

The allocation approach, however, is necessary to ensure compliance with the statutory requirement that only interest ''for the purchase'' of an APV is deductible under section 163(h)(4). Accordingly, the final regulations maintain the allocation approach.

Proposed § 1.163–16(d)(2)(i) generally provided that indebtedness qualifies as an SPVL only to the extent the indebtedness is incurred for the purchase of an APV and, if part of the same purchase transaction, for any other items or amounts customarily financed in an APV purchase transaction and that are directly related to the purchase of the APV. The preamble to the proposed regulations provided that whether items or amounts are customarily financed in an APV purchase transaction is determined on an industry-wide basis, and not by reference to the financing terms of a particular financing entity. Proposed § 1.163–16(d)(2)(i) provided examples of such ''customarily financed'' items to include vehicle service plans, extended warranties, sales

[1] Section 163(h)(4)(B)(i) does not use a specific term for this indebtedness, and the final regulations, like the proposed regulations, refer to such indebtedness as a ''specified passenger vehicle loan'' or an ''SPVL,'' which is the term used in section 6050AA to reference this indebtedness, for consistency.

taxes, and vehicle-related fees. Proposed § 1.163–16(d)(2) provided that any indebtedness that is not described in proposed § 1.163–16(d)(2)(i) would not qualify as an SPVL, even if the items or amounts were incurred as part of a purchase transaction for an APV. Examples of such indebtedness include indebtedness incurred for the repayment of negative equity on a loan secured by a trade-in vehicle, to purchase collision and liability insurance, or to purchase any property or services not directly related to an APV (for example, a trailer or boat).

Several commenters requested that the Treasury Department and the IRS expand the list of examples in proposed § 1.163–16(d)(2)(i) of items that are customarily financed in an APV purchase transaction that are directly related to the purchase of the APV, including such items as vehicle repair plans, mechanical repair coverage, vehicle protection products (including tire, wheel, paint, and interior protection products), warranties, extended warranties, guaranteed asset protection (GAP) insurance, credit-related insurance products (including credit-related accident, health, and life products), key fob replacement, and title and registration fees.

The Treasury Department and the IRS agree with the commenters that expanding the examples of items customarily financed in an APV purchase transaction that are directly related to the purchase of the APV would provide additional clarity. Accordingly, the final regulations expand the list of examples of items customarily financed in an APV purchase transaction that are directly related to the purchase of the APV. Further, the final regulations clarify that the exclusion for collision and liability insurance applies only to collision or liability insurance that is not credit insurance.

One commenter requested that the Treasury Department and the IRS expand the list of examples in proposed § 1.163–16(d)(2)(i) to include vehicle-related accessories as items that are regarded as customarily obtained or paid for as part of an APV purchase transaction. The Treasury Department and the IRS agree that indebtedness attributable to vehicle-related accessories that are components of the APV may be included in an SPVL. Accordingly, the final regulations provide that indebtedness incurred for vehicle-related accessories that are components of the APV purchased as part of an APV transaction may be an SPVL. Additionally, the final regulations now include language adopted from the preamble to the proposed regulations to make clear that whether items or amounts are customarily financed in an APV purchase transaction and are directly related to the purchase of the APV is determined on an industry-wide basis and not by reference to the financing terms of a particular financing entity.

ii. Negative Equity

A number of comments received were related to amounts representing debt on a vehicle traded in as part of the purchase transaction for the APV in excess of the value of the vehicle, which is sometimes referred to as ''negative equity.'' Proposed § 1.163–16(d)(2)(ii) provided that indebtedness incurred for amounts representing negative equity under an existing loan on a trade-in vehicle is not incurred by a taxpayer for the purchase of an APV, and therefore is not an SPVL.

Many commenters requested that the Treasury Department and the IRS instead provide that indebtedness incurred for amounts representing negative equity may qualify as an SPVL, especially because the incurrence of indebtedness for amounts representing negative equity occurs regularly for many purchasers.

The Treasury Department and the IRS do not adopt these requests, and the final regulations provide that indebtedness incurred for amounts representing negative equity is not incurred by a taxpayer for the purchase of an APV, and therefore is not an SPVL. Section 163(h)(4)(B)(i) describes indebtedness that is incurred by the taxpayer for the purchase of an APV for personal use. Amounts representing negative equity are not incurred for the purchase of an APV as required by the statute and instead represent indebtedness related to a prior purchased vehicle that is refinanced in connection with the purchase of a new vehicle. While proposed § 1.163–16(d)(2)(i) provided that an SPVL also includes indebtedness incurred for items or amounts customarily financed in an APV purchase transaction and that are directly related to the purchase of the APV, negative equity on an existing vehicle loan is not related to the purchase of the APV—the negative equity instead relates to a prior vehicle purchase transaction that is distinct from and unrelated to the APV purchase. Moreover, allowing amounts representing negative equity to be included in an SPVL would allow taxpayers to deduct interest attributable to indebtedness incurred prior to 2025 or for the purchase of a vehicle that is not an APV. Accordingly, the final regulations exclude amounts of indebtedness attributable to negative equity from being an SPVL.

c. Method of Allocating Interest

Proposed § 1.163–16(d)(2)(iii)(A) provided that in the case of indebtedness that is partially an SPVL, payments of interest and principal are allocated on a pro rata basis between the portion of indebtedness that is an SPVL and the portion of indebtedness that is not an SPVL.

Two commenters requested guidance on acceptable allocation methods or, alternatively, requested confirmation as to whether reasonable allocation methods will be permitted. However, neither commenter suggested any examples of an allocation method different from the pro rata method contained in the proposed regulations. Another commenter proposed calculating the amount of deductible interest on a proportional basis. For example, if a consumer financed a vehicle with a balance of $50,000 and $5,000 of that balance was determined to not be an SPVL, deductible interest would be 90 percent (45,000/50,000) of the total interest paid with 10 percent (5,000/50,000) being non-deductible.

The final regulations require the use of the pro rata allocation method and do not provide for any other allocation method. The final regulations also add an example illustrating the pro rata allocation method. See § 1.163–16(d)(6)(v).

2. Refinancing

Section 163(h)(4)(E)(ii) generally provides that a new loan resulting from refinancing an SPVL is an SPVL if the new loan is secured by a first lien on the APV with respect to which the refinanced SPVL was incurred, but only to the extent the amount of the new loan does not exceed the amount of the refinanced SPVL. This proposed rule was described in proposed § 1.163–16(d)(4), which clarified that the amount of the new loan that is an SPVL is limited to the outstanding balance of the refinanced SPVL as of the date of the refinancing. Consistent with section 163(h)(4)(B)(i) and (h)(4)(D)(i), proposed § 1.163–16(d)(5)(i) provided that the SPVL must have been originally incurred by the taxpayer, and proposed § 1.163–16(d)(4) provided that, if there is a change in obligor as part of the refinancing, the new loan is not an SPVL with regard to any obligor other than the original obligor unless the refinancing is in connection with a change in obligor by reason of the obligor's death within the meaning of proposed § 1.163–16(d)(5)(ii).

A number of commenters requested that the Treasury Department and the IRS clarify in the final regulations whether additional APV-related products or customary amounts incurred in a refinancing (for example, refinancing charges and vehicle-related consumer protection products, including warranties and insurance products) constitute indebtedness that is an SPVL. The commenters described a typical situation in which the customer refinances the loan to purchase an APV shortly after the customer purchased the APV (for example, to get a lower interest rate than the rate charged by the dealer). As part of the refinancing, the customer finances the purchase of what would otherwise be ''customarily financed'' items or amounts in an APV purchase transaction, such as GAP insurance, that the customer did not purchase in connection with the original APV purchase transaction.

The Treasury Department and the IRS do not adopt these requests. Under section 163(h)(4)(E)(ii), if an SPVL is refinanced, the new loan cannot qualify as an SPVL to the extent the amount of the new loan exceeds the amount of the refinanced SPVL. The inclusion of amounts in excess of the amount of the refinanced loan, even if such amounts are attributable to products or amounts related to or customarily incurred with the purchase of an APV, would conflict with the plain language of the statute. Accordingly, the final regulations do not adopt these comments.

Several commenters requested that the Treasury Department and the IRS clarify in the final regulations whether the inclusion of additional obligors in a refinancing of an SPVL would result in the new loan failing to qualify as an SPVL. Consistent with section 163(h)(4)(B)(i) and (h)(4)(D)(i), and as provided in proposed § 1.163–16(d)(5)(i), indebtedness is an SPVL only if it was originally incurred by the taxpayer. Accordingly, the Treasury Department and the IRS clarify that in the event a new borrower is added to indebtedness as part of a refinancing of an SPVL, the indebtedness continues to be an SPVL with respect to the original obligor(s), but is not an SPVL with respect to the new obligor(s).

One commenter requested clarification as to whether interest attributable to prior vehicle loan balances on an SPVL that are rolled into a new loan as part of a refinancing may be included in the new SPVL to the extent those balances are part of the amount financed. The final regulations provide that the amount of a new loan, to the extent attributable to accrued but unpaid interest on the refinanced SPVL, may qualify as an SPVL provided all the other requirements to be an SPVL are satisfied.

E. Applicable Passenger Vehicle (APV)

Section 163(h)(4)(D) defines APV as meaning any vehicle: (i) the original use of which commences with the taxpayer; (ii) that is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails); (iii) that has at least 2 wheels; (iv) that is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle; (v) that is treated as a motor vehicle for purposes of title II of the Clean Air Act; and (vi) that has a GVWR of less than 14,000 pounds. Section 163(h)(4)(D) also provides that the term APV does not include any vehicle the final assembly of which did not occur within the United States.

1. Original Use

Section 163(h)(4)(D) provides, in relevant part, that for a vehicle to be an APV, the original use of the vehicle must commence with the taxpayer. Proposed § 1.163–16(e)(2)(i) provided that original use of a vehicle commences with the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. In the case of a dealer, proposed § 1.163–16(e)(2)(i) provided that original use of a vehicle does not commence with the dealer unless the dealer registers or titles the vehicle. In the case of a purchaser that is not a dealer and that incurs indebtedness to purchase a vehicle, proposed § 1.163–16(e)(2)(i) provided that original use of the vehicle does not commence with that purchaser unless the vehicle is treated as a new vehicle under the loan documentation.

One commenter requested clarity regarding the definition of ''new vehicle'' in proposed § 1.163–16(e)(2)(i). The Treasury Department and the IRS clarify that the requirement that a vehicle be treated as a new vehicle under the loan documentation refers to the lender's classification of the vehicle for purposes of its financing programs.

Multiple commenters recommended that the definition of APV be extended to include used or ''nearly-new'' vehicles. Several of these commenters noted that the definition should be changed because lower-income taxpayers cannot afford to purchase new vehicles. Section 163(h)(4)(D) provides, in relevant part, that for a vehicle to be an APV, the original use of the vehicle must commence with the taxpayer. If the original use of a vehicle commences with a person other than the taxpayer, the vehicle is not an APV in the hands of the taxpayer. Allowing a taxpayer that does not satisfy the original use requirement to treat the vehicle as an APV would be in direct conflict with the plain language of the statute and congressional intent. Accordingly, the Treasury Department and the IRS decline to adopt this recommendation.

Multiple commenters noted that State vehicle titling and registration requirements for demonstrator vehicles vary by State, leading to differing consumer outcomes in different jurisdictions. Specifically, the commenters noted that in States that require a dealer to title or register demonstrator vehicles, the original use of that vehicle would always commence with the dealer and therefore would never commence with a purchaser that is not a dealer. One commenter noted that this rule is arbitrary, and recommended the final regulations provide that original use of a vehicle be deemed to commence with the first purchaser that is not a dealer, notwithstanding any prior temporary use or titling by the dealer for demonstrator or service vehicle purposes.

The Treasury Department and the IRS understand and appreciate that taxpayers are concerned that dealers' prior use of vehicles could prevent original use from commencing with a subsequent purchaser that is not a dealer, including concerns that this result may vary among States. Accordingly, § 1.163–16(e)(2)(ii) provides that original use of a vehicle held by a dealer does not commence with the dealer if the vehicle is held primarily for sale to customers in the ordinary course of its trade or business, and as a result the dealer is not considered to be the first person that takes delivery of the vehicle after it is sold, registered, or titled as described in § 1.163–16(e)(2)(i). However, original use of a vehicle may commence with a dealer if the vehicle is held by the dealer for any purpose other than primarily for sale to customers in the ordinary course of its trade or business. For example, a dealer may own a service vehicle that is not held primarily for sale to customers and instead is used to support the dealer's business operations, such as use as a customer loaner. Original use of this service vehicle will generally begin with the dealer. In contrast, a dealer may own a demonstrator vehicle that is held primarily for sale to customers and is used for customer test drives. Original use of this demonstrator vehicle will generally not begin with the dealer and instead may begin with a customer that purchases the vehicle. This rule is consistent with similar concepts in the Code, such as the original use requirement for certain property to be eligible for the additional first year depreciation deduction under section 168(k)(2)(A)(ii) of the Code. Section 1.168(k)–2(b)(3)(i) and (b)(3)(ii)(A) provide in relevant part that depreciable property meets the requirement if the original use of the property commences with the taxpayer. Section 1.168(k)–2(b)(3)(ii)(A) explains that original use means the first use to which the property is put, whether or not that use corresponds to the use of the property by the taxpayer. Example 2 in § 1.168(k)–2(b)(3)(vii)(B) applies the original use requirement to a dealer's use of a vehicle as a demonstrator for prospective customers while the vehicle is held primarily for sale to customers in the ordinary course of the dealer's business, concluding that the dealer's ''use'' of a vehicle as a demonstrator does not constitute ''original use'' of the vehicle for the purposes of meeting the original use requirement. Similarly, § 1.163–16(e)(2)(v)(A) (*Example 1: Demonstrator vehicles*) of the final regulations addresses how § 1.163–16(e)(1)(i) and (e)(2) apply when a vehicle is used by a dealer as a demonstrator vehicle while primarily being held for sale to customers in the ordinary course of its trade or business.

Additionally, consistent with proposed § 1.163–16(e)(2)(i), § 1.163–16(e)(2)(i) provides that in the case of any purchaser that incurs indebtedness for the vehicle purchase, original use of the vehicle does not commence with that purchaser unless the loan documentation treats the vehicle as a new vehicle. This rule aligns with the requirement in section 163(h)(4)(D)(i) that for a vehicle to be an APV, the original use of the vehicle for which indebtedness is incurred must commence with the taxpayer.

One commenter asked how the proposed original use rule in proposed § 1.163–16(e)(2)(i) would apply in the case of two individuals who purchase a vehicle when both individuals are listed on the vehicle's title and are obligors on the loan incurred to finance the purchase. Alternatively, the commenter asked how the proposed rule applied if the two individuals purchase the vehicle and are obligors on the loan incurred to finance the purchase, but only one of the individuals is listed on the title.

The Treasury Department and the IRS confirm that if a vehicle is purchased by more than one person, then original use of that vehicle may commence with each of these purchasers. Accordingly, § 1.163–16(e)(2)(iii) provides that if more than one person purchases a vehicle and one of these purchasers is the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled, then each of these purchasers is considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled as described in § 1.163–16(e)(2)(i).

Multiple commenters requested clarity regarding the application of the proposed original use rule in the case of a leased vehicle that is eventually purchased by the lessee.

The Treasury Department and the IRS understand that leased vehicles are often purchased by the lessee either during or at the end of the vehicle lease term. It is common for original use of a leased vehicle to commence with the lessor, in which case original use would not commence with a lessee that purchases the vehicle. Additionally, if a lessee purchases a vehicle during or at the end of a vehicle lease term and finances that purchase by incurring a loan, the loan documentation generally does not treat the vehicle as a new vehicle. As a result, the original use of the vehicle would not commence with the lessee under § 1.163–16(e)(1)(i). Section 1.163–16(e)(2)(v)(C) (*Example 3: Vehicle purchase following a lease*) addresses how § 1.163–16(e)(1)(i) and (e)(2) apply when a lessee purchases a vehicle at the end of the lease term.

Multiple commenters requested clarification regarding whether original use of a vehicle manufactured in a prior year but not purchased until a subsequent year (for example, a 2025 model year vehicle that was sold to a purchaser that is not a dealer in 2026 after the manufacturer's release of a 2026 model year vehicle) may commence with the purchaser. The Treasury Department and the IRS confirm that original use of a vehicle commences with a taxpayer as described in § 1.163–16(e)(2), regardless of whether the vehicle was manufactured in a prior year but not sold until a subsequent year.

2. Vehicles With Temporary Living Quarters

One commenter requested clarity regarding whether a self-propelled vehicle designed to provide temporary living quarters for recreational, camping, or seasonal use could be an APV. In order to be an APV, a vehicle must meet the requirements to be an APV at the time of purchase. The Treasury Department and the IRS confirm that a vehicle that meets the section 163(h)(4)(D) requirements at the time of purchase will be considered an APV, regardless of whether the vehicle was designed to provide temporary living quarters.

3. Final Assembly

Section 163(h)(4)(D) provides that the definition of APV does not include any vehicle the final assembly of which did not occur within the United States. Section 163(h)(4)(E)(i) provides that, for the purposes of section 163(h)(4)(D), the term ''final assembly'' means 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 the component parts are permanently installed in or on the vehicle. Proposed § 1.163–16(e)(3) provided that, to establish that final assembly occurred within the United States, the taxpayer may rely on (1) the vehicle's plant of manufacture as reported in the VIN under 49 CFR 565; or (2) the final assembly point reported on the label affixed to the vehicle as described in 49 CFR 583.5(a)(3). Further, the preamble to the proposed regulations provided that taxpayers could determine whether the vehicle's plant of manufacture is located in the United States by following the instructions on the National Highway Traffic Safety Administration (NHTSA) VIN Decoder website: *https://www.nhtsa.gov/vin-decoder.*

One commenter recommended that APVs should include all new vehicles regardless of where the vehicles are manufactured. Another commenter recommended an exemption to the final assembly requirement for any vehicle manufactured by certain large U.S. vehicle manufacturers. The Treasury Department and the IRS do not adopt these recommendations because section 163(h)(4)(D) explicitly requires that a vehicle must have undergone final assembly in the United States to be an APV.

One commenter noted that certain vehicle models with identical specifications may have undergone final assembly either in the United States or in other countries. Accordingly, the commenter recommended that the final assembly determination be made at the vehicle make-and-model level rather than at the VIN level to ensure taxpayers purchasing the same model vehicle are not treated differently under the Code. Alternatively, the commenter recommended that transitional or safe harbor provisions be considered for vehicle models that may have undergone final assembly either in the United States or in other countries.

The Treasury Department and the IRS understand that not all vehicles of the same make and model undergo final assembly in the same location and where a vehicle's final assembly occurred cannot be determined reliably from its make and model. For example, the final assembly of some vehicles of a make and model marketed by a U.S.-headquartered manufacturer may in certain cases have occurred outside the United States, while some vehicles of a make and model marketed by a non-U.S.-headquartered manufacturer may have occurred in the United States. Nonetheless, section 163(h)(4)(D) explicitly provides that a vehicle must have undergone final assembly in the United States to be an APV. Accordingly, the Treasury Department and the IRS do not adopt this commenter's recommendations.

One commenter noted that it was unclear what should be done if the NHTSA VIN Decoder website is unavailable. The Treasury Department and the IRS note that reliance on the vehicle's plant of manufacture as reported in the VIN (which can be checked on the NHTSA VIN Decoder website) to establish the location of final assembly is one non-exclusive option provided by the IRS for taxpayers' convenience. A taxpayer may also determine where a vehicle's final assembly occurred by relying on the vehicle's final assembly point reported on the label affixed to the vehicle as described in 49 CFR 583.5(a)(3), which is sometimes referred to as the ''window sticker.''

F. Personal Use

Section 163(h)(4)(B)(i) provides that QPVLI is interest paid or accrued on indebtedness incurred by the taxpayer for the purchase of an APV for personal use. Proposed § 1.163–16(f)(1) provided that a taxpayer that incurs indebtedness to purchase an APV is considered to purchase that APV for personal use if, at the time the indebtedness is incurred, that taxpayer expects that the APV will be used for personal use by the taxpayer, the taxpayer's spouse, or an individual that is related to the taxpayer within the meaning of section 152(c)(2) or (d)(2) of the Code, or any combination of these individuals, for more than 50 percent of the time.

One commenter asked if the personal use determination is made annually or only at the time the vehicle is purchased. Additionally, multiple commenters asked whether the personal use determination is affected by a change in the way a vehicle is used after the indebtedness is incurred.

The Treasury Department and the IRS reaffirm that the personal use requirement in section 163(h)(4) is a requirement that must be satisfied at the time the indebtedness is incurred, and not an ongoing requirement. Accordingly, differences between expected use at the time the indebtedness is incurred and later actual use of the vehicle do not affect the personal use determination.

One commenter noted that the proposed regulations would complicate recordkeeping and the audit process by requiring taxpayers that use a vehicle for personal and business purposes to allocate interest between QPVLI and business interest.

Proposed § 1.163–16(g)(2) provided that taxpayers may deduct independently deductible interest (generally, interest that is QPVLI and that also is deductible as a different type of interest under section 163(a) or a different section of the Code) as either QPVLI or as a different type of interest as described in proposed § 1.163–16(g)(1). Accordingly, taxpayers that use a vehicle for personal and business purposes are not required to allocate interest between QPVLI and business interest, but may choose to do so.

G. QPVLI Limitations

1. Dollar Limitation

Section 163(h)(4)(C)(i) provides that the deduction allowed for QPVLI by a taxpayer for any taxable year cannot exceed $10,000. Proposed § 1.163–16(h)(1) provided that the amount taken into account as QPVLI by a taxpayer for any taxable year may not exceed $10,000 per Federal tax return regardless of filing status.

One commenter requested that the Treasury Department and the IRS clarify how the rules work if a taxpayer has multiple SPVLs. The commenter recommended that taxpayers be able to aggregate interest from all SPVLs to determine QPVLI and apply the $10,000 per return limit to this total amount.

The Treasury Department and the IRS clarify that under section 163(h)(4) a taxpayer with multiple SPVLs may aggregate interest from these loans to determine the total amount of QPVLI prior to applying the $10,000 per return limit.

2. Modified Adjusted Gross Income Phaseout

Section 163(h)(4)(C)(ii) provides and proposed § 1.163–16(h)(2) provided that the amount otherwise allowable as a deduction under section 163(a) as QPVLI (after the application of the section 163(h)(4)(C)(i) dollar limitation) is reduced (but not below zero) by $200 for each $1,000 (or portion thereof) by which the modified adjusted gross income (MAGI) of the taxpayer for the taxable year exceeds $100,000. In the case of married taxpayers filing a joint Federal income tax return, section 163(h)(4)(C)(ii) provides and proposed § 1.163–16(h)(2) provided that this reduction begins after the taxpayer's MAGI exceeds $200,000.

Multiple commenters requested clarification regarding the application of the MAGI phaseout to taxpayers that file a Federal income tax return with a filing status of head of household. The MAGI phaseout thresholds for all taxpayers are explicitly set by section 163(h)(4)(C)(ii), which provides two specific dollar amount thresholds: a $200,000 phaseout threshold applicable to joint filers and a $100,000 phaseout threshold applicable to all other taxpayers, including taxpayers that have a filing status of head of household. Accordingly, comments requesting a change in the phaseout threshold amount for taxpayers that have a filing status of head of household are not adopted.

Multiple commenters recommended that final regulations increase the MAGI phaseout thresholds. One of these commenters requested a separate increased threshold for taxpayers that file a Federal income tax return with a filing status of head of household. The Treasury Department and the IRS decline to adopt these recommendations because section 163(h)(4)(C)(ii) explicitly provides the MAGI phaseout thresholds for all taxpayers.

Multiple commenters recommended that the MAGI phaseout reduce the $10,000 annual limitation on QPVLI under section 163(h)(4)(C)(i), rather than reduce the amount otherwise deductible as QPVLI under section 163(a). Section 163(h)(4)(C)(ii) explicitly requires that the amount otherwise allowable as a deduction under section 163(a) be reduced as a taxpayer's MAGI exceeds the applicable dollar amount thresholds. Accordingly, the Treasury Department and the IRS do not adopt these recommendations.

H. Taxpayers That May Deduct QPVLI

Section 163(h)(4)(B)(i) provides that QPVLI is interest paid or accrued on indebtedness incurred by the taxpayer for the purchase of an APV for personal use. Because business entities cannot satisfy the personal use requirement, proposed § 1.163–16(a)(2)(i) provided that only individuals, decedents' estates, and non-grantor trusts may deduct QPVLI.

One commenter requested that the Treasury Department and the IRS clarify in the final regulations whether nonresident alien individuals may deduct QPVLI. The commenter noted that section 873(b) of the Code lists the nonbusiness deductions allowed for nonresident alien individuals and does not include QPVLI in this list.

The Treasury Department and the IRS agree with the commenter that clarification on whether nonresident alien individuals may deduct QPVLI is needed. With limited exceptions, a nonresident alien individual is not allowed deductions that are not connected with income that is effectively connected with the conduct of a U.S. trade or business. See section 873. Thus, a nonresident alien individual will generally not be allowed to deduct QPVLI, which relates to indebtedness incurred to purchase an APV for personal use. However, in limited circumstances, interest connected to income that is effectively connected with the conduct of a U.S. trade or business will qualify as QPVLI. For example, a nonresident alien individual that purchases an APV primarily for personal use may also use the APV as part of his or her trade or business, and thus may pay interest that qualifies as QPVLI. See part II.F (*Personal Use*) of this Summary of Comments and Explanation of Revisions. In that case, the nonresident alien individual would be allowed under § 1.163–16(g)(2) to deduct the interest connected to that business as either QPVLI or as business interest expense. This same analysis would apply to a decedent's estate that is a foreign estate or a non-grantor trust that is a foreign trust, each of which computes its taxable income in the same manner as a nonresident alien individual. See section 641(b) of the Code. The Treasury Department and the IRS intend to modify the instructions for the relevant forms to clarify that a nonresident alien individual, foreign estate, or foreign non-grantor trust is not allowed to deduct QPVLI, except in the limited circumstances described in this paragraph.

One commenter requested that U.S. citizens residing in the Commonwealth of Puerto Rico that are required to file a Federal tax return be allowed to deduct QPVLI. U.S. citizens residing in the Commonwealth of Puerto Rico that are required to file a Federal tax return are generally entitled to claim deductions to the extent those deductions are properly allocated and apportioned pursuant to the rules under sections 861 and 933 of the Code and the regulations thereunder. Accordingly, these taxpayers may be eligible to deduct QPVLI, subject to the allocation and apportionment rules in sections 861 and 933.

One commenter recommended that individuals with any filing status (including single, married filing jointly, and head of household) should be able to deduct QPVLI. The Treasury Department and the IRS confirm that filing status does not impact QPVLI deduction eligibility.

III. Comments on Proposed § 1.6050AA–1

A. In General

In order to make the regulations more readable, the final regulations include two revisions to the proposed rules that move language from the definitions in § 1.6050AA–1(b) to other paragraphs in § 1.6050AA–1. First, the language in proposed § 1.6050AA–1(b)(3)(ii) (*Interest received on behalf of another person*) has been moved to new § 1.6050AA–1(c), and the subsequent paragraphs in § 1.6050AA–1(b) have been finalized accordingly. Second, the language in proposed § 1.6050AA–1(b)(2)(ii) (*De minimis rule*) and (e) (*Amount of interest received on SPVL for calendar year*) have been grouped together in new § 1.6050AA–1(f)(1) and (2), respectively. As a result, the language in proposed § 1.6050AA–1(b)(2)(i) has been moved to § 1.6050AA–1(b)(2) and the heading in proposed § 1.6050AA–1(b)(2)(i) has been deleted. As discussed more fully in this part III of the Summary of Comments and Explanation of Revisions (*Comments on Proposed § 1.6050AA–1*), the substantive contents of these provisions have not been revised in the final regulations.

B. Definitions

1. Applicable Passenger Vehicle (APV)

Section 6050AA(d)(1) provides that terms used in section 6050AA have the same meaning as when used in section 163(h)(4). The term APV is used in section 6050AA(b)(2)(E) and (d)(2). Section 163(h)(4)(D) defines an APV as a vehicle that satisfies the requirements of section 163(h)(4)(D)(i) through (vi), but excludes from the definition any vehicle the final assembly of which did not occur within the United States.

Proposed § 1.6050AA–1(b)(1) provided that the term ''applicable passenger vehicle'' or ''APV'' has the same meaning as that provided in section 163(h)(4)(D) and proposed § 1.163–16(b)(1). Proposed § 1.163–16(b)(1) provided that a vehicle is an ''applicable passenger vehicle'' or ''APV'' if it satisfies the requirements set forth in proposed § 1.163–16(e)(1). Proposed § 1.163–16(e)(1) further provided that a vehicle is an APV only if it satisfies the requirements set forth in section 163(h)(4)(D). Proposed § 1.163–16(e)(2) and (3), respectively, provided rules for determining whether original use commences with the taxpayer and whether final assembly occurred in the United States.

Many commenters expressed general disapproval of the requirement for interest recipients to determine if a vehicle is an APV, a vehicle that satisfies the requirements that are set forth in section 163(h)(4)(D) and proposed § 1.163–16(b)(1). These commenters generally claimed that it would be burdensome for interest recipients to determine if a vehicle is an APV because interest recipients do not currently have the information necessary to make this determination. Specifically, several commenters claimed that interest recipients do not currently maintain records that include whether the vehicle's original use commences with the borrower, the vehicle's GVWR, where the vehicle's final assembly occurred, or whether the vehicle satisfies other APV requirements. These commenters generally recommended that the final regulations allow interest recipients to report interest on all vehicle loans and recommended that individual taxpayers seeking to claim the deduction alone should determine whether their vehicle qualifies as an APV.

The Treasury Department and the IRS acknowledge the concerns raised by these commenters and are aware that interest recipients may need to collect additional information to determine whether a vehicle is an APV. However, as a result of the statutory interaction between sections 6050AA(d)(1) and 163(h)(4)(D), determining whether a vehicle is an APV is necessary to determine whether reporting is required under section 6050AA. See part II.E of this Summary of Comments and Explanation of Revisions (*Applicable Passenger Vehicle (APV)*) for a discussion of the regulations under section 163(h)(4)(D). In addition, taxpayers need the information reported under section 6050AA to accurately complete their Federal income tax returns. Information reported on the Form 1098–VLI, *Vehicle Loan Interest Statement,* such as the vehicle's VIN, whether the original use of the vehicle began with the purchaser (payor of record), and whether final assembly occurred in the United States, will enable taxpayers to accurately claim the QPVLI deduction.

Several commenters discussed their concerns about using a vehicle's VIN to verify where a vehicle's final assembly occurred. One commenter indicated that the commenter understands the vehicle's VIN indicates the plant of manufacture; however, the commenter noted that while taxpayers and dealers have access to the vehicle's window label, the interest recipient may not. One commenter requested simplified VIN and final assembly verification. Another commenter requested that the final regulations allow interest recipients to report the VIN reflected in their records without requiring the interest recipients to verify where a vehicle's final assembly occurred.

The statutory text of section 6050AA(b)(2)(E) requires interest recipients to report VINs. See part III.F of this Summary of Comments and Explanation of Revisions (*Requirement to File an Information Return*) for a discussion of the requirement to report the APV's VIN. Although these interest recipients may not currently have easy access to a VIN, they must obtain VINs to comply with their statutory information reporting obligations. Further, the Treasury Department and the IRS understand the VIN and the NHTSA VIN lookup tool can be used to determine whether a vehicle has a GVWR of less than 14,000 pounds and whether the final assembly of the vehicle occurred within the United States. Accordingly, no changes are made in the final regulations to the text of proposed § 1.6050AA–1(b)(1) in response to these comments.

Other commenters requested safe harbor provisions related to the determination of whether a vehicle is an APV. One commenter requested that the Treasury Department and the IRS consider including a safe harbor in the final regulations to allow interest recipients to rely on dealer or manufacturer data to make the APV determination. Another commenter requested that the Treasury Department and the IRS provide a safe harbor in the final regulations allowing lenders to rely on loan documentation and dealer certifications regarding new vehicle status and original use.

The Treasury Department and the IRS decline to adopt a safe harbor for interest recipients with respect to determining whether a vehicle satisfies the requirements of section 163(h)(4)(D). Section 6001 of the Code provides that every person liable for tax or the collection thereof must keep such records, render such statements, make such returns, and comply with such rules and regulations as may be prescribed. Under § 1.6001–1(a), any person required to file a return of information with respect to income must keep such permanent books of accounts or records sufficient to establish the matters required to be shown in any return of such information. This includes all of the information required by section 6050AA, which is information that lenders can obtain. The general recordkeeping requirements require interest recipients to establish the items required to be shown on the section 6050AA information return. See part III.B.2 of this Summary of Comments and Explanation of Revisions (*Specified Passenger Vehicle Loan (SPVL)*) for a discussion of interest recipients' obligations when the vehicle is refinanced.

2. Specified Passenger Vehicle Loan (SPVL)

Section 6050AA(d)(2) provides that the term ''specified passenger vehicle loan'' means the indebtedness described in section 163(h)(4)(B) with respect to any APV. Proposed § 1.6050AA–1(b)(7) provided that the term ''specified passenger vehicle loan'' or ''SPVL'' has the meaning provided in proposed § 1.163–16(b)(15). Proposed § 1.163–16(b)(15) provided that ''specified passenger vehicle loan'' or ''SPVL'' means indebtedness that satisfies the requirements set forth in proposed § 1.163–16(d)(1). Proposed § 1.163–16(d)(1) provided that SPVL means indebtedness that is incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an APV for personal use.

Many commenters requested that the final regulations not require interest recipients to report interest received on an SPVL. In general, these commenters requested that the final regulations require interest recipients to report interest received on any vehicle loan rather than only on an SPVL. Most of these commenters claimed interest recipients do not currently possess sufficient information to determine whether a loan is an SPVL.

Many commenters indicated that interest recipients do not currently collect or maintain information relating to whether a loan meets the requirements of section 163(h)(4)(B). Some commenters claimed that specific interest recipients, including credit unions, do not currently track all the information necessary to determine the interest allocable to different components of a vehicle loan. Other commenters claimed that interest recipients do not currently track interest allocable to negative equity or the amount of nonqualifying indebtedness.

Some commenters requested that the final regulations include safe harbors that would allow the interest recipients to report interest received on any vehicle loan rather than the amount of interest received only on an SPVL. One commenter requested that the final regulations include a safe harbor under which interest recipients are not required to allocate interest between qualifying and non-qualifying portions of the vehicle loan. Another commenter requested that the final regulations include a safe harbor allowing interest recipients to provide interest statements to any borrower who paid $600 or more in interest on a vehicle-secured loan, accompanied by a disclaimer.

Some commenters indicated their view that certain requirements of section 163(h)(4)(B) are known only to the taxpayer. Some commenters claimed that only taxpayers are able to know whether the vehicle loan was incurred for the purchase of an APV for personal use. Others claimed that vehicle finance companies process changes of party to vehicle finance contracts from time to time, but do not currently have data regarding whether the death of the original payor of record is the reason for such transfer. These commenters generally requested that the final regulations require that the taxpayer, rather than the interest recipient, be responsible for determining whether a vehicle loan is an SPVL.

The statutory language does not support permitting interest recipients to report interest received on all vehicle loans. Section 6050AA(a) provides that the information return relates to interest received on an SPVL. Section 6050AA(b)(2) provides that the information return filed by the interest recipient must include the amount of such interest received for the calendar year. The interest referred to in section 6050AA(b)(2) is the interest received on an SPVL. The Treasury Department and the IRS understand that the definition of SPVL in § 1.6050AA–1(b)(7) may require interest recipients to collect information they do not currently collect. However, the statute requires reporting of interest received on an SPVL, not vehicle loan interest in general.

Several commenters discussed whether interest recipients can determine whether a taxpayer expects to use the vehicle for personal use. One commenter requested that the final regulations provide an objective, standardized mechanism for establishing personal use at origination that credit unions can document through ordinary loan records. Another commenter requested that the final regulations provide that interest recipients need only rely on the information contained in the retail installment sales contract. This commenter also requested that the final regulations include a safe harbor regarding the personal use of the vehicle.

The Treasury Department and the IRS understand that interest recipients may not currently have documentation necessary to determine whether the personal use requirement is met. While retail installment sales contracts may include some indication of whether a vehicle is purchased for personal or business use, this is not true of all such contracts. Further, even when a contract includes some indication of use, this information may not be available to assignees of the loan. If the information in the contract is sufficient for the interest recipient to determine that the personal use requirement is met, then, in the absence of conflicting information, the interest recipient may rely on that information. With respect to other contracts, the interest recipient may choose to make arrangements to obtain information regarding personal use from the obligor, from the lender of record, or by other means. In addition, interest recipients may rely on the same evidence of personal use as the obligor.

Several commenters discussed what they consider to be unique issues when an SPVL is refinanced. In general, these commenters claimed that interest recipients after refinancing do not currently have access to the information needed to verify that the refinanced debt was an SPVL in the first instance. One commenter noted that there are currently no reliable mechanisms to confirm whether the borrower was the original owner during a refinance transaction or whether a refinanced vehicle was purchased during a qualifying year.

Some commenters requested that the final regulations adopt different, specific reporting requirements when a vehicle-secured loan is refinanced. These commenters claimed that, in a typical vehicle refinance transaction, lenders do not receive a copy of the prior retail installment sales contract, and that refinance lenders generally receive limited information. Some commenters recommended that the final regulations clarify that interest recipients may report interest paid on vehicle-secured refinance loans without making determinations regarding original purchase eligibility and that vehicle eligibility determinations remain solely with the taxpayer. One commenter requested that the final regulations allow lenders to treat the entire refinanced amount as an SPVL, up to the payoff amount reflected on the prior lender's payoff statement, without ongoing pro rata interest allocation that lender systems are not currently designed to perform. Another commenter requested that the final regulations clarify that, for purposes of section 6050AA reporting, interest recipients may rely on a signed borrower certification of original ownership.

The Treasury Department and the IRS acknowledge the concerns raised by these commenters and are aware that interest recipients may need to collect more information with respect to refinanced vehicle loans in order to determine whether the vehicle loan is an SPVL. However, as a result of the interaction between sections 6050AA(d) and 163(h)(4)(B), determining whether the vehicle loan is an SPVL is necessary to determine whether reporting is required under section 6050AA. Section 163(h)(4)(E)(ii) generally provides that a new loan resulting from refinancing an SPVL is an SPVL if the new loan is secured by a first lien on the APV with respect to which the refinanced SPVL was incurred, but only to the extent the amount of the new loan does not exceed the amount of the refinanced SPVL. The statute does not include separate rules for reporting interest received on an SPVL that meets the requirements of section 163(h)(4)(E)(ii). Accordingly, interest recipients must perform adequate diligence to meet their reporting requirements for refinanced SPVLs.

Some commenters noted that it would be useful for the amount of interest reported under section 6050AA to be the same as the amount of interest an eligible borrower would be allowed to deduct. The Treasury Department and the IRS agree with these commenters. The Treasury Department and the IRS acknowledge that it is not possible for interest recipients to know whether the amount of the SPVL is limited by the dollar or MAGI limitations in section 163(h)(4)(C). Therefore, to minimize the risk of recipients claiming an interest deduction that exceeds the limitation imposed by section 163(h)(4)(C), § 1.6050AA–1(h)(2)(iv) requires that the written statement from the interest recipient include a legend stating that the payor of record may be unable to deduct the full amount of interest reported on the statement. See part III.G of this Summary of Comments and Explanation of Revisions (*Requirement to Furnish a Written Statement*) for a further discussion of the legend.

3. Calendar Year

Proposed § 1.6050AA–1(b)(2) provided that the calendar year for which interest is received is the later of the calendar year for which interest is received or the calendar year in which the interest properly accrues. Proposed § 1.6050AA–1(b)(2)(ii) permitted an interest recipient to report, as interest received during the calendar year, prepaid interest properly accruing by the following January 15.

One commenter requested guidance for handling payment reversals that cross calendar years and other corrections that occur after year-end processing cutoffs.

The Treasury Department and the IRS decline to include a rule in the final regulations on how to correct information returns under section 6050AA. IRS Publication 1099, *General Instructions for Certain Information Returns,* includes information on how to file corrected information returns and interest recipients should use those instructions to determine how to file any corrected returns.

In order to make the regulations more readable, however, the language in proposed § 1.6050AA–1(b)(2)(ii) (*De minimis rule*) has been moved to new § 1.6050AA–1(f)(1) and the heading has been updated.

4. Interest Recipient

Proposed § 1.6050AA–1(b)(3) provided that the term ''interest recipient'' means a person that is engaged in a trade or business, whether or not the trade or business of lending money, and who, in the course of that trade or business, receives interest on an SPVL. When a person collects interest on an SPVL on behalf of another, proposed § 1.6050AA–1(b)(3)(ii) provided that the person that first receives the interest generally would be required to report under proposed § 1.6050AA–1(a), and no reporting would be required upon the transfer of the interest from the interest recipient to the person on whose behalf the interest recipient received the interest. However, if the initial recipient does not possess the reporting information for the borrower and the person on whose behalf the interest recipient received the interest is engaged in a trade or business and would receive the interest in the course of its trade or business if it received the interest directly, proposed § 1.6050AA–1(b)(3)(ii)(A) would require the person on whose behalf the interest recipient received the interest, rather than the initial recipient, to report.

One commenter requested clarification regarding which party should be considered the interest recipient in a securitization structure for retail installment sales contracts. This commenter also requested confirmation that parties may contractually delegate reporting obligations to another party and, when a delegation occurs, clarification of which party bears the obligation for a given calendar year.

No modifications are needed in the final regulations to the text of proposed § 1.6050AA–1(b)(3) in response to this comment. Home mortgages have historically been securitized, and the final regulations are similar to the interest recipient rules for mortgage interest in § 1.6050H–1(c). The Treasury Department and the IRS decline to provide an example regarding the specific fact pattern included in the comment. However, the new examples in § 1.6050AA–1(c)(5) generally illustrate the effect of the definition when a car loan is securitized.

The Treasury Department and the IRS understand that when a vehicle loan is securitized the interest recipient may not currently have ready access to the information necessary to determine if a vehicle satisfies the requirements to be an APV, or information regarding whether a loan is an SPVL. However, as discussed in parts III.B.1 and III.B.5 of this Summary of Comments and Explanation of Revisions (*Applicable Passenger Vehicle (APV)* and *Specified Passenger Vehicle Loan (SPVL),* respectively), such determinations are required by statute.

One commenter requested that the regulations address how reporting obligations should be satisfied if the interest recipient enters bankruptcy or is otherwise unable to report for a calendar year. The Treasury Department and the IRS decline to address the consequences of bankruptcy on an interest recipient's reporting obligation because it is outside the scope of these regulations.

To make the regulations more readable, the language in proposed § 1.6050AA–1(b)(3)(ii) (*Interest received on behalf of another person*) has been moved to new § 1.6050AA–1(c). As a result, the language in proposed § 1.6050AA–1(b)(3)(i) has been moved to § 1.6050AA–1(b)(3) and the heading in proposed § 1.6050AA–1(b)(3)(i) has been deleted. In addition, the new examples in § 1.6050AA–1(c)(5) illustrate the reporting obligation when a person collects interest on an SPVL on behalf of another when a car loan is securitized.

5. Payor of Record

Proposed § 1.6050AA–1(b)(5) defined a ''payor of record'' on an SPVL as any person carried on the books and records of the interest recipient as the principal borrower on the SPVL. As a result of the interaction between proposed § 1.6050AA–1(b)(5) and (a)(2), only the payor of record would be furnished a written statement on the SPVL under proposed § 1.6050AA–1(a)(2)(ii). Proposed § 1.6050AA–1(b)(5) also provided that the term ''person'' for the purposes of proposed § 1.6050AA–1(b)(5) means any individual, decedent's estate, or non-grantor trust.

One commenter supported the proposed definition of payor of record. This commenter requested confirmation that only one written statement per SPVL per year is required and acceptable, even if the loan has more than one borrower. The Treasury Department and the IRS confirm that as a result of the interaction between § 1.6050AA–1(b)(5) and (a)(2), when there are co-borrowers on an SPVL, only the payor of record is required to be furnished a written statement on the SPVL under § 1.6050AA–1(a)(2)(ii).

Another commenter requested clarification on what, if any, reporting obligations exist when the borrower is deceased at the time of the filing deadline. This commenter requested that the final regulations include guidance confirming that the interest recipient may rely on available public records, correspondence, or obligor account status indicators to determine whether to furnish a statement and that furnishing to the estate or co-obligor would satisfy the furnishing requirement.

No modifications are needed in the final regulations to the text used in proposed § 1.6050AA–1(b)(5). As a result of the interaction between § 1.6050AA–1(b)(5) and (a)(2), only the payor of record would be furnished a written statement on the SPVL under § 1.6050AA–1(a)(2)(ii). The payor of record on the SPVL can be a decedent's estate, and the death of the borrower does not eliminate the statutory reporting requirement.

C. Reporting by a Foreign Person

Under proposed § 1.6050AA–1(c)(1), an interest recipient that is a foreign person would be required to report with respect to interest received on an SPVL to the extent such interest is received at a location in the United States. Under proposed § 1.6050AA–1(c)(2), an interest recipient that is a foreign person and receives interest at locations outside the United States would be required to report only if the foreign person is a controlled foreign corporation (as defined in section 957(a) of the Code) or if 50 percent or more of the foreign person's gross income was effectively connected with the conduct of a trade or business within the United States.

One comment requested guidance regarding the information reporting obligations of foreign persons holding securitized interests in a vehicle loan. The Treasury Department and the IRS do not believe it is necessary to provide any additional clarification in response to this comment because foreign persons holding securitized interests in a vehicle loan with reporting obligations under section 6050AA are subject to the same requirements as domestic interest recipients holding securitized interests in a vehicle loan.

D. Reporting With Respect to a Nonresident Alien Individual, Foreign Decedent's Estate, or Foreign Non-Grantor Trust

Proposed § 1.6050AA–1(d)(1) provided that the reporting requirement of section 6050AA does not apply if the payor of record is a nonresident alien, foreign decedent's estate, or foreign non-grantor trust. Proposed § 1.6050AA–1(d)(2) provided the documentation rules that the interest recipient is required to follow to determine whether the payor of record is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust.

Some commenters requested changes to proposed § 1.6050AA–1(d)(1) in the final regulations. One commenter requested specific language in the final regulations noting that the payor of record is presumed to be a U.S. person for section 6050AA purposes. Another commenter claimed that vehicle finance companies do not necessarily have data regarding the legal status of customers and requested that proposed § 1.6050AA–1(d)(2) and (3) be deleted in the final regulations so that finance companies are not required to determine the legal status of the payor of record.

The Treasury Department and the IRS understand the concern that vehicle finance companies may not currently have the documentation necessary to determine whether a particular payor of record is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust. However, the documentation rules that the interest recipient is required to follow are similar to the longstanding rules applicable to nonresident alien individuals who pay mortgage interest in § 1.6050H–1(d)(2). Accordingly, the Treasury Department and the IRS decline to modify the reporting requirement of section 6050AA in the case of a payor of record that is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust.

E. Amount of Interest Received on an SPVL for the Calendar Year

Under proposed § 1.6050AA–1(e), whether an interest recipient receives $600 or more of interest on an SPVL would be determined on an SPVL-by-SPVL basis. To make the regulations easier to read, the language in proposed § 1.6050AA–1(b)(2)(ii) (*De minimis rule*) and (e) (*Amount of interest received on SPVL for calendar year*) have been grouped together in new § 1.6050AA–1(f)(1) and (2), respectively, and new headings have been added to the paragraphs. The contents of proposed § 1.6050AA–1(e) have not been changed.

F. Requirement To File an Information Return

Section 6050AA(b) provides that the information return filed by the interest recipient must be in the form prescribed by the Secretary and must contain: (A) the name and address of the individual from whom such interest was received, (B) the amount of such interest received for the calendar year, (C) the amount of outstanding principal on the SPVL as of the beginning of such calendar year, (D) the date of origination of that loan, (E) the year, make, model, and VIN of the APV that secures that loan (or such other description of that vehicle as the Secretary may prescribe), and (F) any other information as the Secretary may prescribe.

Under proposed § 1.6050AA–1(f), the interest recipient would be required to file a form designated by the Secretary that contains: (i) the name, address, and taxpayer identification number of the payor of record; (ii) the name, address, and taxpayer identification number of the interest recipient; (iii) the amount of interest received for the calendar year; (iv) the amount of outstanding principal on the SPVL as of the beginning of such calendar year; (v) the date of origination of such loan; (vi) the year, make, model, and VIN of the APV that secures such loan; (vii) the date the SPVL was acquired; and (viii) any other information required by the form or its instructions.

Some commenters discussed the requirement to file an information return with the IRS. One commenter recommended allowing interest recipients to submit a single information return detailing all SPVL transactions for the reporting period. Another commenter noted the requirement to report the VIN, year, make, model, loan origination date, acquisition date, outstanding principal balances, and lien status would require system modifications. Other commenters claimed that interest recipients may experience difficulties accurately reporting the VIN. One commenter recommended that the final regulations provide a safe harbor for minor clerical errors in VIN reporting.

The Treasury Department and the IRS decline to change the requirement for interest recipients to file a return with the IRS for each SPVL, as this is expressly required by sections 6050AA(a) and 6724(d)(1)(B). The items in proposed § 1.6050AA–1(f) generally followed the items prescribed in section 6050AA(b)(2). The Treasury Department and the IRS understand that interest recipients may not currently track the VIN associated with the vehicle. Section 6050AA(b)(2)(E) requires the interest recipient to report the VIN of the APV that secures the loan on which interest is received. The Treasury Department and the IRS cannot modify this statutory requirement; in addition, an accurate VIN will enable the interest recipients and the IRS to verify other statutorily mandated information. See part III.B.1 of this Summary of Comments and Explanation of Revisions (*Applicable Passenger Vehicle (APV)*) for a discussion of how to determine if a vehicle is an APV.

One commenter requested clarification that the ''date acquired'' information ensures that the taxpayer can consolidate multiple information returns when there are multiple interest recipients for the same SPVL during the same calendar year. The Treasury Department and the IRS understand SPVLs may be sold or otherwise transferred to a new lender of record during the calendar year. The Treasury Department and the IRS confirm that the date acquired information provides the taxpayer with information regarding which period is covered by each information return rather than requiring consolidated reporting by multiple interest recipients.

G. Requirement To Furnish a Written Statement

Section 6050AA(c) provides that every person required to make an information return under section 6050AA(a) must also furnish to each individual whose name is required to be included in the return a written statement showing the name, address, and phone number of the information contact of the interest recipient, and the information required to be included in the information return under section 6050AA(b)(2)(B) through (F).

Proposed § 1.6050AA–1(g) would require the interest recipient that would be required to file a return under proposed § 1.6050AA–1(a) to furnish a statement to the payor of record. Under proposed § 1.6050AA–1(g), the recipient would be the payor of record and the written statement would be required to include the information that was reported on the form designated for this purpose. In addition, the written statement would be required to include a legend identifying the statement as important tax information that is being furnished to the IRS and stating that penalties may apply if the payor of record overstates a deduction for interest reported on the statement. Proposed § 1.6050AA–1(g)(2)(ii) would also require that the written statement include a legend stating that the payor of record may be unable to deduct the full amount of SPVL interest reported on the statement.

Several commenters claimed the interest recipients should not be required to furnish a written statement to the payor of record. In general, these commenters recommended allowing the interest recipient to provide the amount of interest received to the payor of record either on a monthly statement or via an online portal, similar to the requirements of Notice 2025–57. The Treasury Department and the IRS decline to change the requirement to furnish a statement to the payor of record, as this is expressly required by sections 6050AA(c) and 6724(d)(2)(MM).

Many commenters recommended that the Treasury Department and the IRS confirm that the taxpayer has the ultimate responsibility for determining whether and to what extent the taxpayer is able to claim the deduction allowed under section 163(h)(4). The Treasury Department and the IRS confirm the taxpayer has the ultimate responsibility for deductions claimed on the taxpayer's Federal income tax return. To minimize the risk of recipients claiming an interest deduction that is limited by section 163(h)(4)(C) or for which they are otherwise ineligible, the written statement must include a legend providing certain information.

Some commenters discussed the legend described in proposed § 1.6050AA–1(g)(2)(iii). One commenter stated that the legend is quite lengthy and might be improved if simplified. Two commenters expressed concern that the legend inappropriately deputizes the interest recipient as an enforcement authority or tax deduction eligibility auditor.

The Treasury Department and the IRS decline to make any changes to the legend in response to these comments. The legend described in § 1.6050AA–1(h)(2)(iii) is similar to the legend required on written statements reporting mortgage interest in § 1.6050H–

2(b)(2)(ii) and (iii). The use of similar language is helpful to taxpayers and minimizes the risk of recipients being confused by any differences between the two forms. Finally, the legend reinforces the principle that it is the taxpayer who must make the final decision on whether and how much to claim as a deduction on the tax return.

One commenter recommended that an option to provide an electronic statement to the payor be added to the final regulations. Another commenter recommended that the final regulations clarify that the written statement can be sent in an electronic form if the payor of record has consented to receiving disclosures electronically under the Electronic Signatures in Global and National Commerce Act (E-SIGN Act), Public Law 106–229, 114 Stat. 464 (June 30, 2000).

The Treasury Department and the IRS decline to modify the rules regarding the electronic furnishing of certain payee statements because they are outside the scope of these regulations. The revenue procedure relating to electronic furnishing of certain payee statements is generally updated annually and is also reproduced as IRS Publication 1179, *General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, and Certain Other Information Returns.* See Rev. Proc. 2025–22, 2025–30 I.R.B. 200, and Publication 1179 published July 21, 2025. The Treasury Department and the IRS emphasize that interest recipients can utilize existing procedures for electronic furnishing of the payee statement. Interest recipients can also provide comments on Notice 2026–4, which requests comments on whether the Treasury Department and the IRS should modify the electronic furnishing requirements applicable to persons required to furnish payee statements. See Notice 2026–4, 2026–13 I.R.B. 726 (March 23, 2026).

H. Transition Relief

Several commenters recommended that the Treasury Department and the IRS extend the transition relief provided in Notice 2025–57. Other commenters recommended that the final regulations include a phased implementation timeline.

The OBBBA was signed into law on July 4, 2025. Section 163(h)(4), as amended, and new section 6050AA apply to indebtedness incurred after December 31, 2024. The statute provides for reporting related to indebtedness incurred prior to the enactment of the OBBBA. The Treasury Department and the IRS understand that recipients needed time to make the necessary changes to their systems to comply with their new information reporting responsibility under section 6050AA. In Notice 2025–57, the Treasury Department and the IRS provided transitional guidance with respect to the reporting obligations under section 6050AA with regard to interest that the recipient received on an SPVL in calendar year 2025. However, taxpayers need the information reported under section 6050AA to complete their personal income tax returns, and interest recipients will have had approximately 18 months from the enactment of the OBBBA to the time that they will need to begin reporting under section 6050AA. Therefore, the Treasury Department and the IRS are not including additional transitional guidance or phased implementation in the final regulations.

Some commenters requested penalty relief for good-faith efforts made by interest recipients or reasonable cause relief during the initial compliance period. Another commenter requested that the Treasury Department and IRS clarify whether reasonable cause relief would apply when the interest recipient lacks access to necessary data despite commercially reasonable efforts. In the refinance context, one commenter requested confirmation that an interest recipient would not be penalized for relying in good faith on its books and records for identifying the payor of record and the information available to it in connection with refinancing, including borrower attestations and payoff documentation from the prior lender.

Section 6721 imposes a penalty for any failure to file an information return on or before the required filing date, and for any failure to include all the information required to be shown on a return or the inclusion of incorrect information. Section 6722 imposes a penalty for any failure to furnish a payee statement on or before the required furnishing date to the person to whom such statement is required to be furnished, and for any failure to include all the information required to be shown on a payee statement or the inclusion of incorrect information. Section 6724(a) provides that no penalty may be imposed under sections 6721 and 6722 if it is shown that any such failure was due to reasonable cause and not willful neglect. The Treasury Department and the IRS have determined that providing additional safe harbors or reasonable cause relief is unnecessary in light of the statutory provision in section 6724(a).

One commenter requested clarification on the interaction between the applicability date included in the final regulations and Notice 2025–57. The Treasury Department and the IRS confirm that an interest recipient may satisfy the reporting obligations under section 6050AA for interest received in calendar year 2025 by satisfying the reporting obligations under section 6050AA for calendar year 2025 as described in Notice 2025–57.

I. Miscellaneous

A couple of commenters discussed recordkeeping requirements. One commenter requested additional clarification on the recordkeeping and reporting requirements for taxpayers. Another commenter recommended adding a specific record retention requirement for recipients of interest to the final regulations in § 1.6050AA–1.

Taxpayers are required to maintain records that are sufficient to enable the IRS to determine their correct tax liabilities. See section 6011 and § 1.6001–1(a). The Treasury Department and the IRS have determined that providing additional record retention requirements for taxpayers is both unnecessary and outside the scope of these regulations. With respect to the information returns required by section 6050AA, it is unnecessary to prescribe specific recordkeeping requirements because § 1.6050AA–1(g)(2) prescribes the information that must be reported by interest recipients.

IV. Explanation of Revisions to Proposed §§ 301.6011–2, 301.6721–1, and 301.6722–1

The final regulations include a revision to proposed § 301.6011–2 to reflect that Form 1098–VLI is used to report information required under section 6050AA. The final regulations also include revisions to proposed §§ 301.6721–1 and 301.6722–1 that are necessary as a result of correcting amendments to TD 9991, 91 FR 13220, published March 19, 2026. The language in proposed § 301.6721–1(j)(2) and (j)(2)(i) and proposed § 301.6722–1(g)(2) and (g)(2)(i) were published in the correcting amendments to TD 9991 and are not republished in the final regulations. The language in proposed § 301.6721–1(j)(2)(ii) has been moved to § 301.6721–1(j)(2)(iii). Second, the language in proposed § 301.6722–1(g)(2)(ii) has been moved to § 301.6722–1(g)(2)(iii). The contents of these provisions are not being revised in the final regulations.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

Executive Orders 12866 and 13563 direct agencies to assess costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility.

The final regulations have been designated by the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs (OIRA) as subject to review under Executive Order 12866 pursuant to the Memorandum of Agreement (MOA, July 4, 2025) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations. OIRA has determined that the final rulemaking is significant under section 3(f)(1) of Executive Order 12866 and subject to review under Executive Order 12866 and section 1(b) of the MOA. Accordingly, the final regulations have been reviewed by OMB.

This final rule is expected to be an Executive Order 14192 regulatory action.

Need for Regulation

Section 70203 of Public Law 119–21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), amends section 163(h) of the Internal Revenue Code [2] to provide a newly allowable income tax deduction for qualified passenger vehicle loan interest (QPVLI). In the absence of regulations, taxpayers would face substantial uncertainty about which vehicle loan interest is eligible for the deduction. The OBBBA also establishes section 6050AA of the Code to require interest recipients receiving at least $600 of interest on a specified passenger vehicle loan (SPVL) within a calendar year to file an information return with the Internal Revenue Service (IRS) and furnish a statement to the payor of record. In the absence of guidance, interest recipients would face uncertainty about how to comply with the requirements.

[2] References to a ''section'' are to a section of the Internal Revenue Code of 1986, as amended (Code), unless otherwise indicated.

The final regulations clarify the statute for taxpayers and lenders, including by: defining ''personal use'' and providing a standard for ''personal use'' of a vehicle; clarifying the requirements for interest to be QPVLI; clarifying the requirements for indebtedness to be an SPVL; defining ''indebtedness incurred for the purchase of an applicable passenger vehicle'' to include the cost of warranties, service plans, and other amounts customarily financed in a vehicle purchase transaction that are directly related to the purchased vehicle; establishing which information must be reported by lenders to comply with the information reporting requirements; clarifying that the deduction is limited to $10,000 per return, regardless of the taxpayer's filing status; providing rules for determining whether ''final assembly'' of a vehicle occurred in the United States; and offering further definitions and clarifications of terms in section 163(h)(4) and section 6050AA, such as the vehicle identification number (VIN).

I. The Statute and Final Regulations

Under section 163(h)(1), certain taxpayers cannot deduct personal interest paid or accrued during the taxable year. Section 70203(a) of the OBBBA adds a new section 163(h)(4) to the Code. Section 163(h)(4)(A) provides that, in the case of taxable years beginning after December 31, 2024, and before January 1, 2029, personal interest does not include QPVLI. This allows taxpayers to deduct QPVLI for taxable years beginning after December 31, 2024, and before January 1, 2029. Section 163(h)(4)(B) defines QPVLI as 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. Section 163(h)(4)(B) also includes exceptions to QPVLI, such as financing for commercial vehicles or lease financing, and a requirement for taxpayers to include the VIN of the APV on the tax return in order to claim the deduction.

The final regulations provide definitions and clarifications of terms related to QPVLI in section 163(h)(4) and section 6050AA. The final regulations clarify that individuals, decedents' estates, and non-grantor trusts may deduct QPVLI. The final regulations provide that interest is only QPVLI if the interest is paid or accrued during the taxable year on indebtedness that is an SPVL secured by a first lien on an APV and is not otherwise excluded from the definition of QPVLI. The final regulations adopt a standard for personal use that provides that a taxpayer is considered to purchase an APV for personal use if, at the time the indebtedness is incurred, the taxpayer expects that the APV will be used for personal use by the taxpayer, the taxpayer's spouse, or an individual that is related to the taxpayer within the meaning of section 152(c)(2) or (d)(2) of the Code, or any combination of these individuals, for more than 50 percent of the time the taxpayer expects to own the APV. The 50 percent threshold is intended to correspond to a vehicle being predominantly used for ''personal use'' within the meaning of section 163(h)(4)(B)(i) while still allowing taxpayers with considerable non-personal use to benefit from the deduction. If the taxpayer is a decedent's estate or non-grantor trust, personal use is tested based on the use by legatees or heirs, or beneficiaries, respectively. Further, under the final regulations, the taxpayer is not required to reevaluate compliance with the personal use standard in taxable years after the indebtedness is incurred. The final regulations also clarify that taxpayers may not deduct the same interest as both QPVLI and otherwise deductible interest (such as a business interest expense) and that taxpayers must report certain information relating to vehicle interest deducted independent of QPVLI.

Typical auto loan sales contracts indicate an ''amount financed'' that may include property and services in addition to the amount for the price of the vehicle. The final regulations provide that indebtedness incurred for the purchase of an APV as well as for certain items or amounts customarily financed in an APV purchase transaction that are directly related to the purchased APV is an SPVL and therefore interest paid or accrued on such indebtedness is potentially eligible to be deducted. The final regulations describe certain items and services that are considered customarily financed in an APV purchase transaction that are directly related to the purchased APV, such as vehicle service plans, extended warranties, sales taxes, and vehicle-related fees. Indebtedness not incurred for the purchase of an APV nor for any other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchased APV is not an SPVL, and, therefore, interest paid or accrued on such indebtedness is not QPVLI. For example, to the extent that a taxpayer incurs indebtedness to purchase collision and liability insurance that is not a credit insurance product or to purchase any property or services unrelated to the vehicle (for example, a trailer or a boat), that indebtedness is not an SPVL, and, therefore, interest paid or accrued on that indebtedness is not QPVLI.

Section 163(h)(4)(C) establishes limitations on the amount of QPVLI that a taxpayer may deduct. The dollar limit is $10,000 per taxable year. The final regulations clarify that this limit applies regardless of the taxpayer's filing status for that taxable year. Additionally, under section 163(h)(4)(C)(ii)(I), the deduction for QPVLI is reduced (but not below zero) by $200 for each $1,000 (or portion thereof) by which the taxpayer's modified adjusted gross income (MAGI) exceeds $100,000 ($200,000 in the case of a married couple filing a joint return). Section 163(h)(4)(C)(ii)(II) defines ''modified adjusted gross income'' for the purposes of this phaseout as adjusted gross income of the taxpayer for the taxable year plus any amount excluded from gross income under sections 911, 931, or 933 of the Code. The final regulations clarify that for estates and non-grantor trusts, the MAGI phaseout is applied to the estate or trust, not with respect to the beneficiaries of the estate or trust; and for estates and non-grantor trusts, MAGI means AGI as defined in section 67(e) of the Code.

Section 163(h)(4)(D) defines the term ''applicable passenger vehicle.'' The criteria for an APV include that its original use must commence with the taxpayer and that its final assembly must have occurred in the United States. The final regulations provide rules for determining whether original use of a vehicle begins with the taxpayer, rules for whether a vehicle's final assembly occurred in the United States, and definitions for other APV-related terms used in the statute. Original use generally commences with the first person that takes delivery of a vehicle after the vehicle is sold, registered, or titled. For purchasers that incur indebtedness to purchase a vehicle, original use does not commence with the taxpayer unless the loan documentation treats the vehicle as a new vehicle. The final regulations provide that taxpayers can determine the location of final assembly by (1) the plant of manufacture as reported in the VIN or (2) the final assembly point reported on the label affixed to the vehicle.

Section 163(h)(4)(E) provides other definitions and special rules. These include the treatment of refinancing and of indebtedness owed to related parties. The final regulations clarify that for refinanced loans, the amount of the new loan on which interest may be considered QPVLI is limited to the outstanding balance of the refinanced loan as of the date of the refinancing.

Section 70203(b) of the OBBBA amends section 63(b) of the Code so that the deduction for QPVLI is allowed for taxpayers who do not elect to itemize their deductions. The final regulations clarify that the deduction is available to taxpayers who itemize their deductions and to taxpayers who claim the standard deduction.

Section 70203(c) of the OBBBA adds a new section 6050AA to the Code that establishes information reporting requirements for vehicle loan interest. Any person who, in the course of a trade or business, receives from any individual more than $600 in a calendar year on an SPVL must provide an information return to the IRS and furnish a statement to the payor of record. The final regulations provide operational definitions and rules for complying with the information reporting requirements. The final regulations clarify the need to report the date the SPVL was acquired; require that the statement to the payor of record includes a legend clarifying that the taxpayer may be unable to deduct the full amount of interest shown on the statement; and offer guidance on reporting by and to certain foreign persons. To prevent duplicate reporting, the final regulations also provide that if an interest recipient's records for a loan do not indicate which borrower is the principal borrower, the interest recipient must designate a principal borrower. This follows established practice with respect to information reporting requirements for qualified residence interest.

II. Baseline

The Treasury Department and the IRS have assessed the benefits and costs of the final regulations relative to a no-action baseline reflecting anticipated Federal income tax-related behavior in the absence of the final regulations.

III. Affected Entities and Taxpayers

The final regulations affect individuals, decedents' estates, and non-grantor trusts that may deduct QPVLI, and also affect any person engaged in a trade or business, who, in the course of that trade or business, receives interest aggregating $600 or more for any calendar year on an SPVL and is therefore subject to certain information reporting requirements. As described in the preamble to the final regulations, interest recipients receiving less than $600 of interest on an SPVL have the option to provide information returns.

Under section 163(h)(4), the deduction is limited to interest on loans for vehicles with final assembly occurring in the U.S. whose original use commences with the taxpayer. The Treasury Department and the IRS estimate that in 2024, roughly 6 million loans originated on new U.S.-assembled vehicles. See Table A. Retail sales of new light vehicles in the U.S. totaled about 16 million in 2024;[3] roughly 60 percent of new vehicle purchases are financed with loans;[4] and analysis of vehicle model sales data suggests that about 60 percent of vehicles sold in the U.S. undergo U.S. final assembly. The Treasury Department and the IRS do not have an estimate of the number of decedents' estates and non-grantor trusts that are obligors on vehicle loans.

TABLE A—ESTIMATED ANNUAL LOANS ON NEW U.S.-ASSEMBLED VEHICLES

1. 2024 U.S. new light vehicle sales	16 million.
2. Share of new vehicle sales financed with loans	60 percent.
3. Of new vehicles sold, share with U.S. final assembly	60 percent.

[3] ''Light vehicle retail sales in the United States from 1976 to 2024,'' Statista, last accessed October 27, 2025, *https://www.statista.com/statistics/199983/us-vehicle-sales-since-1951/; https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles;* ''New and used passenger car and light truck sales and leases,'' Bureau of Transportation Statistics, last accessed October 27, 2025, *https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles.* The 16 million total transactions (row 1 of Table A) includes leases; the share of new vehicle transactions financed with a loan (row 2 of Table A), used to estimate the number of loans on new U.S.-assembled vehicles, excludes leases.

[4] ''State of the Automotive Finance Market Report: Q2 2025,'' Experian, last accessed October 27, 2025, *https://www.experian.com/automotive/auto-credit-webinar-form;* ''New and used passenger car and light truck sales and leases,'' Bureau of Transportation Statistics, last accessed October 27, 2025, *https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles.*

TABLE A—ESTIMATED ANNUAL LOANS ON NEW U.S.-ASSEMBLED VEHICLES—Continued

4. Estimated annual loans on new vehicles with U.S. final assembly	Approximately 6 million.

Notes: Row 4 is the rounded product of rows 1, 2, and 3.
Sources: "Light vehicle retail sales in the United States from 1976 to 2024," Statista, last accessed October 27, 2025, *https://www.statista.com/statistics/199983/us-vehicle-sales-since-1951/; https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles;* "New and used passenger car and light truck sales and leases," Bureau of Transportation Statistics, last accessed October 27, 2025, *https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles;* "State of the Automotive Finance Market Report: Q2 2025," Experian, last accessed October 27, 2025, *https://www.experian.com/automotive/auto-credit-webinar-form;* manufacturer vehicle model sales data.

To identify the number of businesses that the final regulations are expected to affect, the Treasury Department and the IRS analyzed confidential tax return data. For tax year 2023, approximately 36,000 businesses filed a tax return with North American Industry Classification System (NAICS) codes for new car dealers (code 441110), motorcycle dealers (code 441227), car loan lenders (code 522220), and consumer lending (code 522291). See Table B. This total does not include used car dealers because the statute and regulations only apply to loans for new vehicles.

TABLE B—ESTIMATED NUMBER OF AFFECTED BUSINESSES BY NAICS CODE

New car dealers (441110)	17,800
Motorcycle dealers (441227)	4,100
Car loan lenders (522220)	5,800
Consumer lending (522291)	8,100
Total	35,800

Notes: The table shows counts of tax year 2023 filers of forms 1065, 1120S, or 1120. NAICS codes appear in parentheses.
Source: Treasury Department analysis of confidential tax return data, October 24, 2025.

IV. Economic Effects of the Final Regulations

The final regulations clarify the statute and facilitate taxpayers claiming the QPVLI deduction. Consider, for example, a taxpayer who is purchasing a vehicle. For most people, a vehicle is a major purchase, and there are many elements to be considered along the way, including choices between a new versus used vehicle, a U.S.-assembled versus foreign-assembled vehicle, and a cash purchase versus a loan or a lease. With the introduction of the deduction for QPVLI, the taxpayer now faces questions about whether and how the statute interacts with the vehicle and financing choices they make. For instance, in the absence of guidance, the taxpayer may not know whether their expected personal use of the vehicle is sufficient to claim the deduction or whether a vehicle meets the standard for U.S.-final assembly.

The final rules assist the taxpayer in understanding and claiming the QPVLI deduction. For example, the final regulations direct taxpayers to the National Highway Traffic Safety Administration (NHTSA) VIN Decoder website to determine whether a vehicle underwent final assembly in the United States, a necessary condition for the vehicle loan interest to be eligible for the deduction. By facilitating taxpayers' understanding of which vehicles are American made and an APV under the statute, the final regulations reduce taxpayer compliance burden and, as a result, may also increase consumer demand for APVs and SPVLs, namely loans for new U.S.-assembled vehicles. The Treasury Department and the IRS do not have readily available parameters and models to quantify the extent of this increase in demand for U.S. assembled vehicles or debt financing. The following sections describe in further detail the potential economic impacts of specific elements of the final regulations.

a. Personal Use Standard

Section 163(h)(4) limits the deduction to vehicles purchased for personal use. The final regulations provide a standard for personal use. To meet the standard, the taxpayer must expect at the time of purchase that the APV will be used for personal use for more than 50 percent of the time the taxpayer expects to own the APV. An alternative standard of personal use could have required mostly or exclusively personal use of a vehicle for loan interest to be considered QPVLI.

The 50 percent personal use standard benefits taxpayers who debt-finance mixed-use vehicles who would be disallowed from taking the deduction for QPVLI under stricter, alternative standards. Interest on a vehicle loan that is properly allocable to a trade or business is generally deductible under section 163(a). Consider, for example, a taxpayer who finances the purchase of an APV expecting for 60 percent of use to be for personal use and 40 percent for use in a trade or business. Assume for a given tax year the taxpayer pays $3,500 in interest on the vehicle loan, drives the vehicle 55 percent for personal use and 45 percent for use in a trade or business, and meets all other requirements to deduct QPVLI and interest properly allocable to a trade or business. (Note that 55 percent personal use for this tax year differs somewhat from the taxpayer's expected 60 percent personal use over the cumulative time the taxpayer expects to own the vehicle.) Under a strict personal use standard for QPVLI, such as exclusive personal use, the taxpayer would be prohibited from deducting any interest as QPVLI, and would only be able to deduct the interest attributable to use in a trade or business ($1,575, equal to 45 percent of the $3,500 of interest paid during the year), provided all of the other requirements for deducting interest properly allocable to a trade or business are met. Under the 50 percent personal use standard, the taxpayer can potentially deduct all $3,500 in interest as QPVLI. Alternatively, the taxpayer would have discretion to deduct $1,575 (45 percent of $3,500) as interest properly allocable to a trade or business and $1,925 as QPVLI ($3,500 minus $1,575). The 50 percent personal use standard benefits taxpayers with mixed-use vehicles who, under a strict personal use standard, would be able to deduct only interest properly allocable to a trade or business.

The Treasury Department and the IRS examined public survey data and confidential tax records to assess the prevalence of mixed-use vehicles that may be affected by the personal use standard. Analysis of Panel Study of Income Dynamics (PSID) data suggests that, in 2023, 11 percent of personally owned vehicles were used for mixed personal and business purposes.[5] An alternative and narrower standard of personal use, such as exclusive personal use, would exclude roughly 700,000 loans (11 percent of the estimated 6 million total shown in Table A) from potential eligibility for the QPVLI deduction. See Table C.

TABLE C—ESTIMATED ANNUAL LOANS ON NEW U.S.-ASSEMBLED VEHICLES FOR MIXED PERSONAL AND BUSINESS USE

1. Estimated annual loans on new U.S.-assembled vehicles	6 million.
2. Share of personally owned vehicles used for mixed personal and business purposes	11 percent.
3. Estimated annual loans on new U.S.-assembled vehicles for mixed personal and business use	Approximately 700,000.

Notes: Row 3 is the rounded product of rows 1 and 2.

Sources: Row 2 is derived from the 2023 Panel Study of Income Dynamics, variable ER82936. Row 1 is derived in Table A, with data sourced from: ''Light vehicle retail sales in the United States from 1976 to 2024,'' Statista, last accessed October 27, 2025, *https://www.statista.com/statistics/199983/us-vehicle-sales-since-1951/; https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles;* ''New and used passenger car and light truck sales and leases,'' Bureau of Transportation Statistics, last accessed October 27, 2025, *https://www.bts.gov/content/new-and-used-passenger-car-sales-and-leases-thousands-vehicles;* ''State of the Automotive Finance Market Report: Q2 2025,'' Experian, last accessed October 27, 2025, *https://www.experian.com/automotive/auto-credit-webinar-form;* manufacturer vehicle model sales data.

Tax records also contain information on mixed personal and business use vehicles. Sole proprietors file Schedule C to record business income and expenses, including car or truck expenses. On part IV of Schedule C, certain taxpayers are required to enter information on their vehicle, including the date a vehicle was placed in service for business purposes; the number of miles driven for business, commuting, and other purposes; and whether the vehicle was available for personal use during off-duty hours.[6]

Schedule C data has several limitations for analysis of the personal use standard. First, Schedule C does not distinguish between new versus used cars, U.S.- versus foreign-assembled cars, or cars financed with loans versus cars that are leased or purchased with cash. Because sole proprietors will not have an SPVL as a result of the purchase of used cars or foreign-assembled cars, nor as a result of the cash purchase or lease of any cars, totals of mixed-use vehicles from part IV of Schedule C overstate the number of sole proprietors' vehicles that the personal use standard will affect. Second, the data available for analysis cover predominantly electronically filed returns of Schedule C rather than paper filed returns. Third, the Schedule C data do not include vehicle expenses that taxpayers may deduct on Schedules E and F. Fourth, the Schedule C data indicate when the car was placed into service for business use rather than when the individual first acquired the car. The available Schedule C data nonetheless provide insight on the prevalence of personal use of sole proprietors' business vehicles.

The Treasury Department and the IRS estimate that in tax year 2023, sole proprietors who filed electronically placed 5 million vehicles in service for business purposes.[7] See Table D. About 80 percent of these taxpayers indicated that the vehicle was also available for personal use during off-duty hours. Among filers for whom the vehicle was available for personal use, roughly 40 percent drove the vehicle more than 50 percent of its total mileage for personal use. The typical filer drove the vehicle for majority business use; the median share of total miles driven for business purposes was about 80 percent. These estimates suggest that a substantial share of taxpayers with vehicles for business use would benefit from the 50 percent personal use standard, relative to a strict alternative standard, such as exclusive personal use.

TABLE D—STATISTICS ON TAX YEAR 2023 SOLE PROPRIETOR VEHICLE USE FROM SCHEDULE C, PART IV

1. Sole proprietors' vehicles placed in business service in tax year 2023 *	5 million.
2. Of vehicles placed in business service in tax year 2023 (row 1), the share reported to be available for personal use	80 percent.
3. Of vehicles placed in business service in 2023 and available for personal use, the share reported with more than 50 percent of mileage for personal use.	40 percent.
4. Of vehicles placed in business service in 2023 and available for personal use, the median share of miles driven for business use.	80 percent.

* This total does not correspond to vehicles that are APVs; it includes used, leased, and foreign-assembled vehicles, which are not APVs. See the text for further detail on the Schedule C data and its limitations.

Source: Treasury Department analysis of confidential tax return data, October 24, 2025.

The personal use rules also benefit taxpayers by providing clarity. In the absence of a personal use standard, two taxpayers with otherwise similar tax situations would face uncertainty as to whether this deduction applies to their situation. Without guidance, these taxpayers might make different choices as to whether their vehicle loan interest qualifies for the deduction, and, therefore, face different tax liabilities. Consider, for example, two taxpayers who each buy an APV expecting for 75 percent of its use to be for personal use and 25 percent for business use (assume they meet all other requirements to claim the deduction). Taxpayer A interprets the section 163(h)(4) personal

[5] See variable ER82936 in the 2023 PSID. The survey language is: ''Not counting routine use to get to and from work, is this vehicle also used for business purposes?''

[6] Taxpayers are required to fill out part IV of Schedule C only if they claim car or truck expenses on Schedule C and are not required to file Form 4562, *Depreciation and Amortization,* for the business in question. Taxpayers who have ''listed property,'' including automobiles, are required to enter information on such automobiles in Section B of Part V of Form 4562.

[7] The 5 million total reflects sole proprietorship-vehicle pairs. A sole proprietor who placed the same vehicle in service for multiple businesses in 2023 would appear more than once in this total. Because Schedule C does not include a VIN or other unique vehicle identifier, Treasury and the IRS cannot distinguish these cases—the same vehicle placed in service for multiple businesses—from cases in which a sole proprietor placed multiple vehicles in service for multiple businesses.

use requirement to mean that interest on the loan is not QPVLI, because the vehicle is partly for business use. In contrast, Taxpayer B interprets the personal use requirement to mean that interest on the loan is QPVLI because a majority of the use of the vehicle is for personal use. The final regulations ensure that these two taxpayers use the same standard of personal use and are subject to the same tax treatment.

The personal use standard, relative to a stricter alternative standard, may change vehicle purchase patterns among taxpayers who use their vehicles for mixed personal and business purposes (vehicles on which loan interest would not be considered QPVLI under a strict personal use standard). For this population, the 50 percent personal use standard would increase the economic appeal of financing relative to cash purchases and would increase the economic appeal of new U.S.-assembled vehicles relative to used or foreign-assembled vehicles. The extent of consumption changes along these margins depends on several interacting factors, including: the extent to which increased demand for new U.S.-assembled vehicles driven by the deduction affects the prices of these vehicles; substitution elasticities between new and used vehicles and between vehicles assembled in the U.S. and assembled abroad; [8] the salience of the tax deduction at the time of purchase; [9] and the extent to which taxpayers perceive the deduction as temporary, as prescribed in statute, or likely to be extended by future policymakers. The Treasury Department and the IRS do not have readily available parameters and models to precisely assess the impact. House Budget Committee Report 119–106 expects the deduction to promote domestic manufacturing.

b. Personal Use Determined Soley by Taxpayer Expectation at Time Debt Is Incurred

The final regulations provide that personal use is determined only once, based on taxpayers' expectation at the time indebtedness is incurred. An alternative standard could have required taxpayers to evaluate their expected use each year or document personal use each year to continue to qualify for the deduction. A repeated certification requirement would result in considerable compliance burden to taxpayers, particularly among taxpayers whose vehicles will be exclusively for personal use. The final regulations would benefit taxpayers by simplifying the process of claiming the QPVLI deduction, relative to a requirement for annual certification of sufficient personal use.

c. Personal and Business Use Allocation

Under the final regulations, if a taxpayer meets the personal use standard (more than 50 percent of expected use of an APV for personal use), the vehicle loan may be considered an SPVL. Alternative guidance could have required taxpayers to allocate amounts of loan interest attributable to personal and business uses of the APV and allowed only interest directly linked to personal use to be deducted. The final rules streamline the process and reduce the compliance burden of deducting QPVLI for taxpayers and administering the deduction for the IRS. Many taxpayers with mixed personal and business use vehicles already track and allocate personal and business mileage for Federal income tax purposes. For these taxpayers, the final regulations promote flexibility by allowing taxpayers who meet the personal use standard and all other requirements to deduct vehicle loan interest solely as QPVLI or, to the extent the taxpayers have interest properly allocable to a trade or business, as a business expense.

d. Specified Passenger Vehicle Loan (SPVL) and Further Definitions

The final regulations clarify what constitutes an SPVL. Specifically, the final rules provide that indebtedness qualifies as an SPVL only if the indebtedness is incurred for the purchase of an APV and for items and amounts customarily financed in an APV purchase transaction that are directly related to the purchased APV. These items include vehicle service plans, extended warranties, and sales taxes and vehicle-related fees. Indebtedness incurred for collision and liability insurance or to purchase any property or services unrelated to the APV (for example, a trailer or a boat) is not considered an SPVL. The final regulations strengthen the incentive for debt financing of the items and amounts included in the SPVL definition (such as warranties and sales taxes), relative to a rule that excluded those items and amounts from the SPVL definition.

Alternative guidance could have prescribed that only debt directly attributable to the price of the vehicle is an SPVL and therefore that only interest on that portion of the loan is deductible. Such an alternative standard could result in substantial compliance costs to taxpayers and to lenders and interest recipients in requiring allocations of indebtedness and associated interest. For amounts customarily financed together, such as the price of the vehicle itself and sales taxes and warranties on the vehicle, identifying and allocating which interest is attributable to which portion of total indebtedness would be difficult and costly to administer. The guidance benefits taxpayers by removing uncertainty and reduces burden relating to what taxpayers may consider an SPVL. According to Autotrader, for financed vehicle purchases, ''taxes and dealer fees are almost always included in the payment.'' [10] A substantial share of taxpayers with QPVLI would therefore benefit from the SPVL definition, relative to an alternative definition that would require taxpayers to identify separately interest attributable to the price of the vehicle and items and amounts customarily financed with the vehicle. Relatedly, an SPVL definition limited strictly to the price of the vehicle may also require additional information reporting that burdens interest recipients and lenders. The SPVL definition benefits entities subject to information reporting requirements because taxpayers can determine their QPVLI without needing information on interest amounts related to the price of the vehicle separate from interest amounts related to items and amounts customarily financed with the vehicle.

II. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (PRA) generally requires that a Federal agency obtain the approval of the Office of Management and Budget (OMB) before collecting information from the public, whether that collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the OMB.

[8] There is limited evidence on elasticities relating directly to the country of vehicle assembly. See Grieco et al. (2024) for estimates on consumer responsiveness to price changes across vehicle manufacturers. Grieco, Paul L.E., Charles Murry, and Ali Yurukoglu. 2024. ''The Evolution of Market Power in the U.S. Automobile Industry.'' *The Quarterly Journal of Economics* 139 (2): 1201–1253, *https://academic.oup.com/qje/article-abstract/139/2/1201/7276495?redirectedFrom=fulltext.*

[9] Chetty, Raj, Adam Looney, and Kory Kroft. 2009. ''Salience and Taxation: Theory and Evidence.'' *American Economic Review* 99 (4): 1145–77, *https://www.aeaweb.org/articles?id=10.1257/aer.99.4.1145.*

[10] ''Are taxes and fees included in car financing?'', Autotrader, last accessed October 28, 2025, *https://www.autotrader.com/car-shopping/financing-a-car-are-taxes-and-fees-included-in-financing-222154.*

The collection of information in these regulations contains reporting and recordkeeping requirements. The recordkeeping requirements mentioned in the final regulations are considered general tax records under § 1.6001–1(e). These records are required for the IRS to validate that taxpayers have met the regulatory requirements and are entitled to the deduction for QPVLI under section 163(a) and (h)(4) and to verify the amount of the deduction claimed. For PRA purposes, general tax records are already approved by the OMB under 1545–0074 for individuals and 1545–0092 for trust and estate filers.

The final regulations also mention reporting requirements related to claiming the deduction for QPVLI under section 163(a) and (h)(4). These collections will be made by eligible taxpayers as part of filing a return (such as the appropriate Form 1040 or 1041), including filling out the relevant schedules. These forms are approved by the OMB under 1545–0074 for individuals and 1545–0092 for trust and estate filers.

The final regulations also include reporting, third-party disclosure, and recordkeeping requirements required under section 6050AA as set forth in § 1.6050AA–1. These collections of information will be used by the IRS for tax compliance purposes and by taxpayers to help calculate their deduction. The burden associated with these information collections is included within the Form and Instructions for Form 1098–VLI. The Form 1098–VLI has been approved by the OMB, in accordance with 5 CFR 1320.10, under OMB control number 1545–2334.

No public comments were received by the IRS directed specifically at the PRA, but comments were received by the IRS on the proposed information collection and proposed reporting requirements and the burdens associated with the documentation requirements contained in the proposed regulations. As described in the relevant portions of this preamble, the Treasury Department and the IRS have determined that the documentation requirements are necessary to administer section 163(h)(4) and related information reporting and penalty provisions.

Many commenters requested that the Treasury Department and the IRS consider the time and cost for interest recipients to make adjustments to their systems to capture required data. The Treasury Department and the IRS acknowledge and appreciate that interest recipients may need to make adjustments to their systems and current processes to capture the required data. However, as a result of the interaction between sections 6050AA and 163(h)(4), certain information such as determining whether a vehicle is an APV and whether the interest is received on an SPVL, is required by statute. See parts III.B.1 and III.B.5 of the Summary of Comments and Explanation of Revisions (*Applicable Passenger Vehicle (APV)* and *Specified Passenger Vehicle Loan (SPVL),* respectively) for a discussion of these requirements. The Treasury Department and the IRS have not changed the estimated burden of this reporting because commenters did not provide information relating to the additional costs associated with this reporting.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by section 6103 of the Code.

III. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) (RFA) imposes certain requirements with respect to Federal rules that are subject to the notice and comment requirements of section 553(b) of the Administrative Procedure Act (5 U.S.C. 551 *et seq.*) and that are likely to have a significant economic impact on a substantial number of small entities. Unless an agency determines that a proposal will not have a significant economic impact on a substantial number of small entities, section 604 of the RFA requires the agency to present a final regulatory flexibility analysis (FRFA) of the final regulations.

The Treasury Department and the IRS have determined the final regulations will likely have a significant impact on a substantial number of small entities. Accordingly, an FRFA is provided in the final regulations.

A. Need for and Objectives of the Rule

The final regulations provide the eligibility rules and key definitions regarding the QPVLI deduction, the deduction allowed by section 163(h)(4), to allow taxpayers to determine whether their interest is QPVLI. In addition, the final regulations provide the operational, administrative, and definitional rules for persons in a trade or business to comply with the statutory information reporting requirements under section 6050AA with interest received on an SPVL.

Congress intended the OBBBA provision regarding the QPVLI deduction to ease the financial burden of car ownership for individuals and promote domestic manufacturing. See House Budget Committee report on the OBBBA, H. Rept. 119–106, at 1510 (2025). The final regulations are intended to facilitate the easing of the financial burden of car ownership by providing the information necessary for taxpayers to claim the deduction. Additionally, the final regulations are consistent with the promotion of domestic manufacturing. The rules direct taxpayers to the NHTSA VIN lookup tool to help taxpayers and interest recipients determine whether a vehicle had undergone final assembly in the United States, a necessary condition for the vehicle to be an APV. Because the final regulations assist taxpayers claiming the deduction, the rules may also increase consumer demand for vehicles with final assembly in the United States. Over time, this may lead manufacturers to increase production and assembly of vehicles in the United States in order to meet demand for vehicles that are eligible to be APVs. Thus, the Treasury Department and the IRS intend and expect that the final regulations will deliver benefits across the economy that will favorably impact individuals, vehicle dealers, and the domestic manufacturing industry, including vehicle manufacturers.

Section 6050AA establishes information reporting requirements with respect to interest received on an SPVL. Information reporting under section 6050AA will provide taxpayers with information needed to claim the QPVLI deduction. The final regulations are expected to facilitate the preparation of tax returns and reduce the number of inadvertent errors by taxpayers who claim the deduction. The Treasury Department and the IRS also intend and expect that the final regulations will provide certainty to interest recipients required to comply with the statutory reporting requirements under section 6050AA.

B. Significant Issues Raised by Public Comments in Response to the Initial Regulatory Flexibility Analysis

No public comments were received by Treasury and the IRS that directly addressed the initial regulatory flexibility analysis of the proposed regulations, but comments were received by the IRS on the general burdens associated with the proposed information collection, proposed reporting requirements, and documentation requirements contained in the proposed regulations. Some commenters referenced the entity size of specific interest recipients, including credit unions, and stated that these interest recipients do not currently track all the information necessary to comply with the proposed regulations. As described in the relevant portions of this preamble, the Treasury Department and the IRS have determined that the requirements included in the final regulations are necessary to administer section 163(h)(4) and related information reporting and penalty provisions. The Treasury Department and the IRS also have determined that the statutory language does not authorize or support separate information reporting requirements for small entities.

C. Affected Small Entities

The RFA directs agencies to provide a description of, and if feasible, an estimate of, the number of small entities that may be affected by the final regulation. The Small Business Administration estimates in its 2023 Small Business Profile that 99.9 percent of United States businesses meet its definition of a small business. The applicability of the final regulations does not depend on the size of the business, as defined by the Small Business Administration. Small Business Administration regulations provide small business size standards by NAICS Industry. See 13 CFR 121.201.

As described more fully in this preamble to the final regulations and in this FRFA, these rules may affect a variety of different businesses across several different industries but will primarily affect dealers of new vehicles and financial entities that would be required to file and furnish information returns under section 6050AA. The NAICS includes dealers of new vehicles and financial entities in NAICS codes for new car dealers (code 441110), motorcycle dealers (code 441227), car loan lenders (code 522220), and consumer lending (code 522291).

Based on confidential tax return data, the Treasury Department and the IRS expect approximately 36,000 businesses to issue information returns under section 6050AA. See part I.III of this Special Analysis (*Affected Entities and Taxpayers*). This total does not include used car dealers because the statute and final regulations only apply to loans for new vehicles. Of the estimated 36,000 car and motorcycle loan lenders, the Treasury Department and the IRS expect 24,600 would likely be considered a small entity.

D. Impact of the Rules

The final regulations will increase the recordkeeping and reporting requirements for businesses that provide loans for new cars and motorcycles. Although the Treasury Department and the IRS do not have sufficient data to precisely determine the likely extent of the increased costs of compliance, the estimated burden of complying with the recordkeeping and reporting requirements are described in part II of this Special Analyses (*Paperwork Reduction Act*). Based on the estimated number of responses (8,000,000) and the estimated time to respond of 0.25 hours, the estimated burden is 2,000,000 total annual burden hours.

E. Alternatives Considered for Small Businesses

The Treasury Department and the IRS considered several alternatives to the final regulations that would have reduced the burden on small businesses. For example, the Treasury Department and the IRS considered a delay for reporting by small businesses. Although this would ease the burden on small businesses, it would increase the burden on individuals who need the information reported under section 6050AA to accurately claim the deduction for QPVLI on their Federal income tax returns. Accordingly, as discussed in part III.H of the Summary of Comments and Explanation of Revisions (*Transition Relief*), the Treasury Department and the IRS decided not to delay reporting under section 6050AA.

Another alternative considered was whether interest recipients should not be required to furnish a written statement to the payor of record and be permitted instead to provide this information to the payor of record either on a monthly statement or via an online portal. However, as discussed in part III.G of the Summary of Comments and Explanation of Revisions (*Requirement to Furnish a Written Statement*), the requirement to furnish a statement to the payor of record is expressly required by sections 6050AA(c) and 6724(d)(2)(MM).

IV. Section 7805(f)

Pursuant to section 7805(f), the proposed regulations (REG–113515–25) preceding this final regulation were submitted to the Chief Counsel for the Office of Advocacy of the Small Business Administration for comment on its impact on small business, and no comments were received.

V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 (UMRA) requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million (updated annually for inflation). The final regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

VI. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. The final regulations do not have federalism implications and do not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive order.

VII. Congressional Review Act

Pursuant to the Congressional Review Act (5 U.S.C. 801 *et seq.*), the Office of Information and Regulatory Affairs designated this rule as a major rule, as defined by 5 U.S.C. 804(2).

Statement of Availability of IRS Documents

Guidance cited in this preamble is published in the Internal Revenue Bulletin and is available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at *https://www.irs.gov.*

Drafting Information

The principal author of these regulations is Riston Escher, Office of the Associate Chief Counsel (Income Tax & Accounting), IRS. However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 301

Employment taxes, Excise taxes, Income taxes, Penalties, Reporting and recordkeeping requirements.

Amendments to the Regulations

Accordingly, the Treasury Department and IRS amend 26 CFR parts 1 and 301 as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 is amended by adding an entry in numerical order for § 1.6050AA–1 to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

* * * * *

Section 1.6050AA–1 is also issued under 26 U.S.C. 6050AA(e).

* * * * *

■ **Par. 2.** Section 1.163–16 is added to read as follows:

§ 1.163–16 Qualified passenger vehicle loan interest.

(a) *Overview*—(1) *In general.* In computing the taxable income for a taxable year beginning after December 31, 2024, and before January 1, 2029, of a taxpayer described in paragraph (a)(2) of this section, for purposes of the deduction allowable under section 163(a) of the Internal Revenue Code (Code), section 163(h)(4) excludes qualified passenger vehicle loan interest (QPVLI), from the definition of *personal interest* paid or accrued during the taxable year for which a deduction would be disallowed under section 163(h)(1). See paragraph (b) of this section for definitions of terms used in section 163(h)(4) and this section.

(2) *Taxpayers that may deduct QPVLI*—(i) *In general.* Only a taxpayer that is an individual, decedent's estate, or non-grantor trust may deduct QPVLI in computing the taxpayer's taxable income.

(ii) *Deduction available without regard to whether the taxpayer itemizes deductions.* Under section 63(b)(7) of the Code, the deduction for QPVLI allowable under section 163(h)(4) may be taken by a taxpayer without regard to whether the taxpayer itemizes deductions or takes the standard deduction.

(b) *Definitions.* The following definitions apply for purposes of section 163(h)(4) and this section:

(1) *Applicable passenger vehicle (APV).* The term *applicable passenger vehicle* or *APV* means a vehicle that satisfies the requirements of paragraph (e)(1) of this section.

(2) *Dealer.* The term *dealer* means a person licensed by a State, the District of Columbia, the Commonwealth of Puerto Rico, any other territory or possession of the United States, an Indian Tribal government (as defined in section 7701(a)(40) of the Code), or an Alaska Native Corporation (as defined in section 3 of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)) to engage in the sale of vehicles. This term includes a dealer licensed by any jurisdiction that makes sales at sites outside of the jurisdiction in which it is licensed.

(3) *Final assembly.* The term *final assembly* means 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 the component parts are permanently installed in or on the vehicle.

(4) *Grantor trust.* A *grantor trust* is any portion of a trust that is treated as being owned by one or more persons under sections 671 through 679 of the Code.

(5) *Independently deductible interest.* The term *independently deductible interest* means interest that satisfies the requirements of paragraph (g)(1) of this section.

(6) *Items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV.* The term *items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV* means any item or amount that is customarily financed in an APV purchase transaction, and that is directly related to the purchase of the APV, as determined on an industry-wide basis and not by reference to the financing terms of a particular financing entity.

(7) *Lease financing.* The term *lease financing* means a transaction that is not a purchase of an APV, and under which a taxpayer has usage rights with respect to an APV but is not considered the owner of the APV under State or other applicable law.

(8) *Modified adjusted gross income*—(i) *Individuals.* The term *modified adjusted gross income,* in the case of an individual, means adjusted gross income (as defined in section 62 of the Code) increased by any amount excluded from gross income under sections 911, 931, or 933 of the Code.

(ii) *Decedents' estates and non-grantor trusts.* The term *modified adjusted gross income,* in the case of a decedent's estate or non-grantor trust, means adjusted gross income as defined in section 67(e) of the Code.

(9) *Negative equity.* The term *negative equity* means existing indebtedness on a vehicle traded in as part of a purchase transaction for an APV, to the extent such indebtedness exceeds the vehicle's trade-in value specified by the contract for the purchase of the APV.

(10) *Non-grantor trust.* The term *non-grantor trust* means a trust (or the portion of a trust) that is not a grantor trust.

(11) *Personal use.* The term *personal use* means use by an individual other than in any trade or business (except for the use in the trade or business of performing services as an employee), or for the production of income.

(12) *Purchase.* The term *purchase* means an acquisition that is both an acquisition of a vehicle for Federal income tax purposes and the acquisition of the title of the vehicle for purposes of State or other applicable law.

(13) *Qualified passenger vehicle loan interest (QPVLI).* The term *qualified passenger vehicle loan interest* or *QPVLI* means any interest that satisfies the requirements of paragraph (c)(1) of this section.

(14) *Qualified vehicle type*—(i) *In general.* The term *qualified vehicle type* means one of the following vehicle types:

(ii) *Car.* The term *car* means a vehicle classified in one of the classes of passenger automobiles listed in 40 CFR 600.315–08(a)(1).

(iii) *Minivan.* The term *minivan* means a minivan as defined under 40 CFR 600.002.

(iv) *Van.* The term *van* means a van as defined under 40 CFR 600.002.

(v) *Sport utility vehicle.* The term *sport utility vehicle* means a sport utility vehicle as defined under 40 CFR 600.002.

(vi) *Pickup truck.* The term *pickup truck* means a pickup truck as defined under 40 CFR 600.002.

(vii) *Motorcycle.* The term *motorcycle* means a motorcycle as defined under 49 CFR 571.3(b).

(15) *Secured by a first lien.* The term *secured by a first lien* means a valid and enforceable security interest under State or other applicable law in an APV that is the first voluntary security interest recorded against the vehicle, regardless of subsequent involuntary liens such as tax liens or other similar security interests that may be given temporary higher priority at a later date following the date of purchase. An APV may be considered to be secured by a first lien as long as there is a lending agreement evidencing a security interest under State or other applicable law, even if that lien has not yet been perfected or recorded due to processing times or other similar delays arising under State or other applicable law. An APV may also be treated as secured by a first lien in limited circumstances in which a lien is removed in connection with the taxpayer no longer owning the vehicle but the taxpayer continues to be liable for a specified passenger vehicle loan (SPVL), such as a repossession of the

vehicle or insurance payout following a total loss claim.

(16) *Specified passenger vehicle loan (SPVL).* The term *specified passenger vehicle loan* or *SPVL* means indebtedness that satisfies the requirements of paragraph (d)(1) of this section.

(17) *Vehicle identification number (VIN).* The term *vehicle identification number* or *VIN* means a series of Arabic numbers and Roman letters that is assigned to a motor vehicle for identification purposes under 49 CFR 565.13.

(c) *Qualified passenger vehicle loan interest (QPVLI)*—(1) *In general.* Interest is QPVLI only if the interest is paid or accrued during the taxable year on indebtedness that is an SPVL secured by a first lien on an APV and is not excluded from the definition of QPVLI (as described in paragraphs (c)(4) and (5) of this section).

(2) *Determining the amount of interest paid or accrued during a taxable year*—(i) *In general.* Interest on an SPVL accrues on a daily basis over the term of the SPVL. The amount of QPVLI that is deductible by a taxpayer for the taxable year is determined under the taxpayer's overall method of accounting for Federal income tax purposes (either the cash receipts and disbursements method or an accrual method) or an applicable special method of accounting. For purposes of section 163(h)(4), the amount of QPVLI includes all interest payable with respect to the amount financed under an SPVL (that is, the amount of indebtedness that qualifies for purposes of determining whether indebtedness is an SPVL under paragraph (d)(2) of this section), including prepaid interest in the form of points and deferred or capitalized interest. QPVLI includes origination-related or financing-related charges, prepayment penalties, late payment charges, default-related charges, and similar fees, in each case if such charge, penalty, or fee is characterized as interest expense for Federal income tax purposes and included in the amount reported as interest received for the calendar year in the statement furnished by the interest recipient under section 6050AA(c) of the Code and § 1.6050AA–1(h).

(ii) *Allocation of payments.* In general, a payment on an SPVL is treated first as a payment of interest to the extent interest has accrued and remains unpaid on the SPVL as of the date the payment is due, and second, to the extent of any excess, as a payment of principal. See §§ 1.446–2(e) and 1.1275–2(a) for rules on allocating payments between interest and principal. However, for purposes of this paragraph (c)(2), the amount of interest for a calendar year is determined consistently with § 1.6050AA–1(f)(2) (special rule for interest accrued by January 15). For purposes of this paragraph (c)(2)(ii), a simple interest calculation may be used to determine the amount of interest that has accrued and remains unpaid on an SPVL when a payment on the SPVL is made. Under this simple interest calculation, interest accrues daily over the term of the SPVL based on its outstanding principal balance and the annual percentage rate or interest rate provided in the retail installment sales contract or other contract evidencing the SPVL.

(3) *Determining whether the SPVL is secured by a first lien on an APV*—(i) *In general.* In order for interest paid or accrued on an SPVL to be QPVLI, the SPVL must be secured by a first lien on the APV financed by the SPVL at the time the interest is paid or accrued. For example, the purchase of an APV with a credit card would generally not result in an SPVL secured by a first lien on an APV, because such indebtedness generally is not secured by the APV.

(ii) *Exception for a substitute vehicle due to an unforeseen intervening event.* In the case of an SPVL secured by a first lien on an APV that is replaced at a later time with a substitute vehicle that is an APV due to an unforeseen intervening event (for example, a defective APV is required to be replaced under State or other applicable law or an APV is required to be replaced under an insurance product), and as a result the SPVL is secured by a first lien on that substitute vehicle, the substitute vehicle is considered the initially purchased APV for purposes of this paragraph (c)(3), and for purposes of paragraphs (c)(5) and (d)(4) of this section.

(4) *Interest that is not QPVLI.* QPVLI does not include any amount paid or accrued on any of the following:

(i) A loan to finance fleet sales.

(ii) A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes.

(iii) Any lease financing.

(iv) A loan to finance the purchase of a vehicle with a salvage title.

(v) A loan to finance the purchase of a vehicle intended to be used for scrap or parts.

(5) *VIN requirement.* Interest paid or accrued by the taxpayer during the taxable year on an SPVL is not treated as QPVLI and may not be deducted as QPVLI under section 163(a) unless the taxpayer reports the VIN of the purchased APV on the Federal tax return for the taxable year in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions.

(6) *Examples.* The rules of paragraphs (c)(1), (c)(3), and (c)(4)(iii) of this section are illustrated by the following examples:

(i) *Example 1: Lease financing*—(A) *Facts.* Dealer is located in State Y. Dealer purchases an APV from the manufacturer and sells the car to Leasing Company. Leasing Company leases the car to A for a 120-month period in a transaction that is a lease for State Y purposes. At the end of the lease term, A has the option to purchase the car for a nominal amount. For Federal income tax purposes, the lease agreement is properly viewed as a sale. A makes lease payments during the taxable year.

(B) *Analysis.* A's lease payments are made under a lease financing transaction and do not qualify as QPVLI. Additionally, notwithstanding that the lease agreement is properly viewed as a sale for Federal income tax purposes, the transaction is not a purchase as defined in paragraph (b)(12) of this section and therefore the lease is not an SPVL. Accordingly, no amounts paid under the lease are QPVLI.

(ii) *Example 2: Defective vehicle replaced*—(A) *Facts.* A, a resident of State X, incurs an SPVL to purchase Vehicle 1. The SPVL is secured by a first lien on Vehicle 1. After purchase, A discovers Vehicle 1 is defective. Under State X law that requires the replacement of new vehicles with serious defects, the manufacturer replaces defective Vehicle 1 with Vehicle 2. As a result, the SPVL is secured by a first lien on Vehicle 2. Vehicle 2 is an APV with respect to A, as the original use of Vehicle 2 commences with A, and the vehicle meets all other requirements of an APV as described in paragraph (e) of this section. The SPVL continues to be in effect with no changes other than the substitution of Vehicle 1 for Vehicle 2 occurring under State X law. A continues making payments under the terms of the SPVL.

(B) *Analysis.* The interest paid or accrued on the SPVL that is now secured by Vehicle 2 is QPVLI. The SPVL is secured by a first lien on the APV that was purchased as a result of the incurred SPVL at the time that interest is paid or accrued. As Vehicle 1 was replaced with Vehicle 2, an APV, due to an unforeseen intervening event and the SPVL is secured by a first lien on Vehicle 2, Vehicle 2 is considered the initially purchased APV.

(d) *Specified passenger vehicle loan (SPVL)*—(1) *In general.* Indebtedness is an SPVL only if the indebtedness is incurred by the taxpayer after December 31, 2024, for the purchase of an APV for personal use, and is secured by a first lien on that APV.

(2) *Indebtedness incurred for the purchase of an APV*—(i) *In general.* For purposes of paragraph (d)(1) of this section, indebtedness is an SPVL only to the extent the indebtedness is incurred for the purchase of an APV and, if part of the same purchase transaction, for any other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV. Items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV include, but are not limited to, vehicle service or repair plans (for example, mechanical repair coverage), vehicle protection products (including tire, wheel, paint, and interior protection products), key fob replacement plans, warranties or extended warranties, guaranteed asset protection (GAP) waiver or insurance that covers the difference between an APV's value and the outstanding balance of the indebtedness in the event of a total loss, credit insurance products (including credit-related accident, health, and life products), sales taxes, vehicle-related fees (including title and registration fees), and vehicle-related accessories that are components of the APV purchased as part of the APV transaction.

(ii) *Indebtedness that is not incurred for the purchase of an APV.* To the extent any indebtedness is not incurred by a taxpayer for the purchase of an APV or for any other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV, such indebtedness is not an SPVL even if it is incurred as part of a purchase transaction for an APV. For example, indebtedness incurred for the repayment of negative equity on a loan secured by a trade-in vehicle, to purchase collision and liability insurance that is not a credit insurance product, or to purchase any property or services unrelated to an APV (for example, a trailer or a boat) is not incurred by a taxpayer for the purchase of an APV or for any other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV, and as a result is not an SPVL. In addition, indebtedness is not incurred by a taxpayer for the purchase of an APV or for any other items or amounts customarily financed that are directly related to the purchase of the APV in an APV purchase transaction to the extent the indebtedness relates to cash proceeds that the taxpayer receives from the lender.

(iii) *Allocation of indebtedness*—(A) *In general.* Except as provided in paragraph (d)(2)(iii)(B) of this section, if a taxpayer incurs indebtedness described in both paragraphs (d)(2)(i) and (ii) of this section as part of the same transaction, the indebtedness must be allocated between the indebtedness described in paragraph (d)(2)(i) of this section and the indebtedness described in paragraph (d)(2)(ii) of this section. Only the portion of the indebtedness allocated to the indebtedness described in paragraph (d)(2)(i) of this section is an SPVL. In such cases, payments of interest and principal are allocated to the portion of the indebtedness described in paragraph (d)(2)(i) of this section and the portion of the indebtedness described in paragraph (d)(2)(ii) of this section on a pro rata basis.

(B) *Allocation of a down payment.* For purposes of determining the portion of the indebtedness described in paragraph (d)(2)(ii) of this section, any down payment (or other consideration provided by the taxpayer at the time of the APV purchase transaction) is applied first against any negative equity and any other amounts that are not incurred for the purchase of the APV or for other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV.

(3) *Related party indebtedness.* Any indebtedness owed to a person who is related to the taxpayer within the meaning of section 267(b) or section 707(b)(1) of the Code is not an SPVL.

(4) *Refinancing of an SPVL.* If a taxpayer refinances an SPVL (refinanced loan), the resulting indebtedness (new loan) is an SPVL if the new loan is secured by a first lien on the APV with respect to which the refinanced loan was incurred. The amount of the new loan that is an SPVL is limited to the outstanding balance of the refinanced loan as of the date of the refinancing. A taxpayer allocates principal and interest between the amount of the new loan that is an SPVL and the remaining portion of the indebtedness on a pro rata basis. For purposes of this paragraph (d)(4), if there is a change in obligor as part of the refinancing, the new loan is not an SPVL with regard to any subsequent obligor unless the refinancing is in connection with a change in obligor by reason of the obligor's death within the meaning of paragraph (d)(5)(ii) of this section.

(5) *Whether the SPVL was incurred by the taxpayer*—(i) *In general.* Except as provided in paragraph (d)(5)(ii) of this section, indebtedness is an SPVL only if that indebtedness was originally incurred by the taxpayer. For example, if an individual incurs an SPVL and subsequently ceases to be an obligor and another individual becomes the obligor on the indebtedness, the indebtedness is not an SPVL with respect to the other individual.

(ii) *Exception for a change in obligor by reason of the death of an obligor*—(A) *In general.* If a change in obligor is by reason of the death of an obligor of an SPVL, then the indebtedness is treated as an SPVL with respect to the new obligor.

(B) *Change in obligor by reason of the death of an obligor.* For purposes of paragraph (d)(5)(ii)(A) of this section, a change in obligor by reason of death includes the following:

(*1*) The succession to ownership of an APV subject to an SPVL by—

(*i*) The deceased obligor's estate;

(*ii*) A surviving joint owner of the APV; or

(*iii*) The surviving beneficiary designated by contract, a transfer on death provision, or by operation of law.

(*2*) A distribution of an APV subject to an SPVL by—

(*i*) A deceased obligor's estate to a legatee or heir; or

(*ii*) A trust that is made to a trust beneficiary by reason of death as described in this paragraph (d)(5)(ii).

(*3*) Any refinancing of an SPVL in connection with a transfer by reason of death as described in this paragraph (d)(5)(ii).

(C) *Not a change in obligor by reason of the death of an obligor.* A change in obligor by reason of death as described in this paragraph (d)(5)(ii) does not include a change resulting from the following:

(*1*) A sale, exchange, or other disposition of an APV by a decedent's estate or trust, other than a distribution described in paragraph (d)(5)(ii)(B)(*2*) of this section.

(*2*) Any disposition of an APV by an individual who received the APV by reason of death (unless that disposition is by reason of that individual's death and the change in obligor is described in paragraph (d)(5)(ii)(B) of this section).

(6) *Examples.* The rules of paragraphs (d)(2) and (4) of this section are illustrated by the following examples in which A is an individual who incurs indebtedness after December 31, 2024, to purchase an APV for personal use:

(i) *Example 1: Vehicle-related purchases*—(A) *Facts.* A finances the purchase of an APV for personal use by incurring a loan. The loan is secured by a first lien on the APV. The retail installment sales contract, which evidences the loan, indicates that the total amount financed is equal to the sum of the APV purchase price, the cost for an extended warranty, sales tax, title and registration fees, and a dealer document fee.

(B) *Analysis.* All of the amount financed under the loan is incurred for the purchase of an APV and for other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV. Accordingly, the loan is an SPVL and all of the interest on the loan may be deductible as QPVLI.

(ii) *Example 2: Non-vehicle-related purchase*—(A) *Facts.* A incurs indebtedness to finance the purchase of both an APV and a trailer. The indebtedness is secured by a first lien on the APV. The price of the trailer is added to the amount financed as part of the retail installment sales contract that includes the purchase price of the APV. A does not make a down payment.

(B) *Analysis.* The indebtedness attributable to the purchase price of the trailer included in the amount financed under the retail installment sales contract is not incurred for the purchase of an APV or for any other items or amounts customarily financed in an APV purchase transaction that are directly related to the purchase of the APV and therefore this indebtedness is not an SPVL under paragraph (d)(2)(ii) of this section. In accordance with the allocation rules in paragraph (d)(2)(iii) of this section, A must allocate the portion of the indebtedness that is allocable to the purchase price of the trailer to indebtedness described in paragraph (d)(2)(ii) of this section that is not an SPVL. Thus, none of the interest that is attributable to that portion of the indebtedness is QPVLI. The remaining portion of the indebtedness is allocated to indebtedness described in paragraph (d)(2)(i) of this section that is an SPVL.

(iii) *Example 3: Vehicle refinanced*—(A) *Facts.* A incurs indebtedness (Loan 1) to finance the purchase of an APV, and in a subsequent taxable year in which A is eligible to deduct QPVLI, A refinances Loan 1 by incurring new indebtedness of $38,000 (Loan 2), which is secured by a first lien on the APV. At the time of refinancing, the APV has a fair market value of $38,000 and Loan 1 has an outstanding balance of $30,000. The Loan 2 proceeds of $38,000 are used to first repay the $30,000 Loan 1 balance, with the remaining $8,000 going to A as cash proceeds.

(B) *Analysis.* Of the $38,000 amount financed by Loan 2, $8,000 is the amount of the resulting indebtedness that exceeds the amount of such refinanced indebtedness within the meaning of paragraph (d)(4) of this section. Only $30,000 of the $38,000 balance of Loan 2 is an SPVL per the rule in paragraph (d)(4) of this section. Thus, none of the interest attributable to the $8,000 portion of Loan 2 is interest that is deductible as QPVLI.

(iv) *Example 4: Negative equity and a down payment*—(A) *Facts.* A finances the purchase of an APV that costs $40,000, and trades in a previously owned vehicle subject to an existing vehicle loan with $6,000 of negative equity. A makes a down payment of $4,000 as part of the APV purchase transaction, incurring indebtedness of $42,000 ($40,000 plus $6,000 minus $4,000).

(B) *Analysis.* The $6,000 of negative equity is not an item or amount customarily financed in an APV purchase transaction that directly relates to the purchase of the APV. See paragraph (d)(2)(ii) of this section. In accordance with the allocation rules in paragraph (d)(2)(iii) of this section, A must allocate the $42,000 of indebtedness between indebtedness described in paragraph (d)(2)(i) of this section and indebtedness described in paragraph (d)(2)(ii) of this section. For purposes of determining the portion of the indebtedness described in paragraph (d)(2)(ii) of this section, the down payment of $4,000 is allocated against the $6,000 of negative equity. As a result, of the $42,000 of indebtedness incurred by A, $40,000 of the indebtedness incurred is indebtedness incurred for the purchase of an APV as described in paragraph (d)(2)(i) of this section and $2,000 is indebtedness not incurred for the purchase of an APV as described in paragraph (d)(2)(ii) of this section.

(v) *Example 5: Method of allocating interest*—(A) *Facts.* A finances the purchase of an APV for personal use by incurring a loan of $40,000, of which $36,000 was for amounts described in paragraph (d)(2)(i) of this section and of which $4,000 was for amounts described in paragraph (d)(2)(ii) of this section. A did not make a down payment.

(B) *Analysis.* Under paragraph (d)(2)(iii) of this section, the loan must be allocated between indebtedness that is an SPVL and indebtedness that is not an SPVL. The percentage of the loan that is described in paragraph (d)(2)(i) of this section and is an SPVL is 90 percent ($36,000/$40,000) and the percentage of the loan that is described in paragraph (d)(2)(ii) of this section and is not an SPVL is 10 percent ($4,000/$40,000). As a result, only 90 percent of each interest payment on the loan may be QPVLI. The remaining 10 percent of each interest payment on the loan is not QPVLI.

(e) *Applicable passenger vehicle (APV)*—(1) *In general.* A vehicle is an APV only if—

(i) The original use of the vehicle commences with the taxpayer (as described in paragraph (e)(2) of this section);

(ii) The vehicle is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails);

(iii) The vehicle has at least 2 wheels;

(iv) The vehicle is a qualified vehicle type;

(v) The vehicle is treated as a motor vehicle for purposes of title II of the Clean Air Act;

(vi) The vehicle has a gross vehicle weight rating of less than 14,000 pounds; and

(vii) The final assembly of the vehicle occurs within the United States (as described in paragraph (e)(3) of this section).

(2) *Determining whether original use commences with the taxpayer*—(i) *In general.* Original use of a vehicle commences with the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled (taking into account paragraphs (e)(2)(ii) and (iii) of this section). In the case of a purchaser that incurs indebtedness for the vehicle purchase, original use of the vehicle does not commence with that purchaser unless the loan documentation treats the vehicle as a new vehicle.

(ii) *Dealers.* Original use of a vehicle held by a dealer does not commence with the dealer if the vehicle is held primarily for sale to customers in the ordinary course of its trade or business, and as a result the dealer is not considered to be the first person that takes delivery of the vehicle after it is sold, registered, or titled as described in paragraph (e)(2)(i) of this section. However, original use of a vehicle may commence with a dealer if the vehicle is held by the dealer for any purpose other than primarily for sale to customers in the ordinary course of its trade or business.

(iii) *Original use for joint purchasers.* If more than one person purchases a vehicle and one of these purchasers is the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled, then each of these purchasers is considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled as described in paragraph (e)(2)(i) of this section.

(iv) *Vehicle return exception.* If a purchaser that is not a dealer returns a vehicle to a seller within 30 days of taking delivery of the vehicle, then that purchaser will not be considered the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled for purposes of paragraph (e)(2)(i) of this section, and, accordingly, original use of the vehicle does not commence with that purchaser.

(v) *Examples.* The rules of this paragraph (e) are illustrated by the following examples:

(A) *Example 1: Demonstrator vehicles*—(*1*) *Facts.* Dealer purchases and takes delivery of a vehicle from the manufacturer. Dealer has always held the vehicle primarily for sale to customers in the ordinary course of Dealer's trade or business and also uses the vehicle as a demonstrator vehicle. Dealer titles and registers the vehicle in its name prior to use as a demonstrator vehicle in accordance with State law requirements.

(*2*) *Analysis.* Original use of the vehicle does not commence with Dealer. Although Dealer titled and registered the vehicle as required by State law, the vehicle was always held by Dealer primarily for sale to customers in the ordinary course of Dealer's trade or business. Accordingly, Dealer is not considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. Original use of the vehicle may commence with a subsequent purchaser of the vehicle.

(B) *Example 2: Cancelled sale*—(*1*) *Facts.* A enters into a contract to purchase a special-order vehicle from Dealer that is estimated to be delivered in one month. When Dealer purchases the vehicle from the manufacturer, Dealer holds the vehicle primarily for sale to customers in the ordinary course of Dealer's trade or business. A cancels the order under the sales contract prior to the delivery occurring.

(*2*) *Analysis.* Original use of the vehicle does not commence with Dealer. The vehicle was always held by Dealer primarily for sale to customers in the ordinary course of Dealer's trade or business. Thus, Dealer is not considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. Original use of the vehicle does not commence with A because A cancelled the order. A is not the first person that takes delivery of the vehicle after it is sold, registered, or titled. Original use of the vehicle may commence with a subsequent purchaser of the vehicle.

(C) *Example 3: Vehicle purchase following a lease*—(*1*) *Facts.* Dealer is engaged in the business of purchasing vehicles to sell to vehicle leasing companies. Dealer only holds these vehicles primarily for sale to customers in the ordinary course of Dealer's trade or business. Dealer sells a vehicle purchased from the manufacturer to Leasing Company. Leasing Company is not a dealer. Leasing Company takes delivery of the vehicle after titling and registering the vehicle in its name. Leasing Company immediately leases the vehicle to A. At the end of the lease term, A exercises its option under the lease agreement to purchase the vehicle.

(*2*) *Analysis.* Original use of the vehicle does not commence with Dealer. The vehicle was always held by Dealer primarily for sale to customers in the ordinary course of Dealer's trade or business. Thus, Dealer is not considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. Original use of the vehicle commences with Leasing Company. Leasing Company is the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. Accordingly, the original use of the vehicle does not commence with A as A is not the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled.

(D) *Example 4: Returned vehicle*—(*1*) *Facts.* A, who is not a dealer, purchases a vehicle from Dealer. Dealer purchased the vehicle from the manufacturer and has always held the vehicle primarily for sale to customers in the ordinary course of Dealer's trade or business. A returns the car to Dealer 15 days after taking delivery of the vehicle.

(*2*) *Analysis.* Original use of the vehicle does not commence with Dealer. The vehicle was always held by Dealer for sale to customers in the ordinary course of Dealer's trade or business. Thus, Dealer is not considered to be the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. Original use of the vehicle does not commence with A. A is not considered to be the first person that takes delivery of the vehicle after it is sold, registered, or titled as A returned the vehicle to Dealer within 30 days of taking delivery of the vehicle. Original use of the vehicle may commence with a subsequent purchaser of the vehicle.

(3) *Determining whether final assembly has occurred within the United States.* To determine whether the final assembly of a vehicle occurred within the United States, a taxpayer may rely on—

(i) The vehicle's plant of manufacture as reported in the VIN; or

(ii) The final assembly point reported on the label affixed to the vehicle as described in 49 CFR 583.5(a)(3).

(f) *Determination of personal use*—(1) *In general.* A taxpayer that incurs indebtedness to purchase an APV is considered to purchase that APV for personal use if, at the time the indebtedness is incurred, that taxpayer expects that the APV will be used for personal use by the taxpayer, the taxpayer's spouse, or an individual that is related to the taxpayer within the meaning of section 152(c)(2) or (d)(2) of the Code, or any combination of these individuals, for more than 50 percent of the time. The determination of whether the taxpayer purchased the APV for personal use is based on the expected use during the period the taxpayer expects to own the APV.

(2) *Special rules for decedents' estates and non-grantor trusts.* For purposes of determining whether a decedent's estate or non-grantor trust that incurs indebtedness to purchase an APV expects that the APV will be used for personal use under paragraph (f)(1) of this section, the determination is based on the expected personal use by one or more of the legatees or heirs, or beneficiaries, respectively, who have a present or future interest in that decedent's estate or non-grantor trust; the spouse of a legatee, heir, or beneficiary; or an individual that is related to a legatee, heir, or beneficiary within the meaning of section 152(c)(2) or (d)(2).

(3) *Examples.* The rules of this paragraph (f) are illustrated by the following examples in which A is an individual:

(i) *Example 1: Predominant personal use*—(A) *Facts.* At the time A incurs indebtedness to purchase an APV, A expects to use the APV for A's personal use for 85 percent of the time. A expects to use the APV to earn income as a driver for a rideshare service for the remaining 15 percent of the time.

(B) *Analysis.* A is considered to have purchased the APV for personal use. At the time A purchases the APV, A expects that the APV will be used for personal use more than 50 percent of the time. A's expectation that A will use the APV to earn income as a driver for a rideshare service for 15 percent of the time does not preclude A from being considered to have purchased the APV for personal use.

(ii) *Example 2: Predominant business use*—(A) *Facts.* At the time A incurs indebtedness to purchase an APV, A expects to use the APV in A's contracting business that is a sole proprietorship for 60 percent of the time. A expects to use the APV for A's personal use for the remaining 40 percent of the time.

(B) *Analysis.* A is not considered to have purchased the APV for personal use. At the time A purchases the APV, A does not expect that the APV will be used for personal use more than 50 percent of the time.

(iii) *Example 3: Personal use by an individual related to the taxpayer*—(A) *Facts.* At the time A incurs indebtedness to purchase an APV, A expects the APV to be used exclusively for personal use by A's child B.

(B) *Analysis.* A is considered to have purchased the APV for personal use. At the time A purchases the APV, A expects that the APV will be used for personal use more than 50 percent of the time by B, an individual that is related to A within the meaning of section 152(c)(2) or (d)(2).

(g) *Independently deductible interest*—(1) *In general.* Independently deductible interest is limited to interest that is QPVLI determined under section 163(h)(4)(B)(i) (prior to the application of the dollar limitation of section 163(h)(4)(C)(i) described in paragraph (h)(1) of this section and determined without regard to this paragraph (g)) and that is otherwise deductible by the taxpayer as a different type of interest under section 163(a) or a different section of the Code.

(2) *Deducting independently deductible interest.* A taxpayer may deduct independently deductible interest paid or accrued by the taxpayer during the taxable year as QPVLI (subject to the application of the dollar limitation of section 163(h)(4)(C)(i) described in paragraph (h)(1) of this section), or alternatively, as a different type of interest described in paragraph (g)(1) of this section (non-QPVLI), subject to any applicable limitations. The amount of independently deductible interest that may be deductible as QPVLI for a taxable year (before the application of the dollar limitation of section 163(h)(4)(C)(i) described in paragraph (h)(1) of this section) is reduced to the extent that the taxpayer deducts that independently deductible interest as non-QPVLI.

(3) *Reporting independently deductible interest.* If a taxpayer deducts independently deductible interest in a taxable year as non-QPVLI under paragraph (g)(2) of this section, the taxpayer must report information relating to that independently deductible interest in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions.

(4) *Examples.* The rules of this paragraph (g) regarding independently deductible interest are illustrated by the following examples in which A is an individual:

(i) *Example 1: Independently deductible interest*—(A) *Facts.* During the taxable year, A paid $1,000 of interest on an SPVL. During the taxable year, 40 percent of the use of the APV is attributable to A's trade or business. A may deduct the full $1,000 as QPVLI after considering the application of the modified adjusted gross income phaseout in paragraph (h)(2) of this section as A's modified adjusted gross income is less than $100,000.

(B) *Analysis.* $400 (40% of $1,000) is independently deductible interest because this amount is deductible as QPVLI and as business interest under section 163(a). Assume A may deduct the full $400 as business interest after considering any applicable limitations. A may deduct the interest paid on the SPVL in multiple ways including—

(*1*) A may deduct this $400 of interest as QPVLI. In this case, A would deduct all $1,000 of interest as QPVLI; or

(*2*) A may deduct this $400 as business interest. In this case, A would deduct $600 as QPVLI and $400 as business interest, because A must reduce its $1,000 of QPVLI by the $400 of interest deducted as business interest to determine the amount A can deduct as QPVLI. Additionally, A must report information relating to that independently deductible interest in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions.

(ii) *Example 2: QPVLI limited by the dollar limitation*—(A) *Facts.* During the taxable year, A paid $12,000 of interest on an SPVL. During the taxable year, 30 percent of the use of the APV is attributable to A's trade or business. A may deduct up to $10,000 of the interest as QPVLI after considering the application of the dollar limitation and the modified adjusted gross income phaseout in paragraphs (h)(1) and (2) of this section as A's modified adjusted gross income is less than $100,000.

(B) *Analysis.* $3,600 (30% of $12,000) is independently deductible interest because this amount is deductible as QPVLI and as business interest under section 163(a). Assume A may deduct the full $3,600 as business interest after considering any applicable limitations. A may deduct the interest paid on the SPVL in multiple ways including—

(*1*) A may maximize QPVLI deducted. A may deduct $10,000 of interest as QPVLI, and deduct the remaining $2,000 as business interest. Additionally, A must report information relating to that independently deductible interest in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions; or

(*2*) A may maximize business interest deducted. A may deduct $3,600 of business interest, and the remaining $8,400 as QPVLI. A has $12,000 of interest paid on an SPVL and must reduce that by the amount of independently deductible interest A deducts as business interest ($3,600). Additionally, A must report information relating to that independently deductible interest in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions.

(iii) *Example 3: QPVLI limited by the dollar limitation*—(A) *Facts.* During the taxable year, A paid $15,000 of interest on an SPVL. During the taxable year, 20 percent of the use of the APV is attributable to A's trade or business. A may deduct up to $10,000 of the interest as QPVLI after considering the application of the dollar limitation and the modified adjusted gross income phaseout in paragraphs (h)(1) and (2) of this section as A's modified adjusted gross income is less than $100,000.

(B) *Analysis.* $3,000 (20% of $15,000) is independently deductible interest because this amount is deductible as QPVLI and as business interest under section 163(a). Assume A may deduct the full $3,000 as business interest after considering any applicable limitations. Therefore, the $3,000 is deductible as business interest or as QPVLI. If A were to deduct the $3,000 of independently deductible interest as QPVLI, the application of the dollar limitation in paragraph (h)(1) of this section would limit A's deduction of QPVLI to $10,000 of the $15,000. Instead, A may deduct $3,000 of interest as business interest and deduct $10,000 as QPVLI as the modified adjusted gross income phaseout in paragraph (h)(2) of this section does not reduce A's QPVLI deduction amount. Additionally, A must report information relating to that independently deductible interest in the manner prescribed by the Internal Revenue Service in guidance published in the Internal Revenue Bulletin or in forms and instructions.

(h) *Limitations*—(1) *Dollar limitation.* The amount taken into account as QPVLI by a taxpayer for any taxable year may not exceed $10,000 per

Federal tax return regardless of filing status.

(2) *Modified adjusted gross income phaseout.* The amount taken into account as QPVLI (after the application of the dollar limitation in paragraph (h)(1) of this section) is reduced (but not below zero) by $200 for each $1,000 (or portion thereof) by which the modified adjusted gross income of the taxpayer for the taxable year exceeds $100,000 or, in the case of a joint Federal income tax return, by which the modified adjusted gross income exceeds $200,000.

(3) *Examples.* The rules of this paragraph (h) are illustrated by the following examples:

(i) *Example 1: Dollar limitation*—(A) *Facts.* A and B are married and file a joint Federal income tax return. A incurs an SPVL to purchase Vehicle 1. B incurs an SPVL to purchase Vehicle 2. During the taxable year, A paid $6,000 of interest on the SPVL for Vehicle 1. B paid $5,000 of interest on the SPVL for Vehicle 2.

(B) *Analysis.* A and B can deduct no more than $10,000 as QPVLI on their joint Federal income tax return because of the dollar limitation described in paragraph (h)(1) of this section.

(ii) *Example 2: Modified adjusted gross income phaseout*—(A) *Facts.* A is an individual that paid $7,000 of QPVLI on an SPVL during the taxable year and files a Federal income tax return with a filing status as single. A has a modified adjusted gross income of $124,200 for the taxable year.

(B) *Analysis.* The maximum amount of QPVLI that A can deduct for the taxable year is $2,000. A's modified adjusted gross income is greater than $100,000. Therefore, the amount of QPVLI that can be taken into account as QPVLI after the application of the dollar limitation ($7,000) must be reduced by $200 for each $1,000 (or portion thereof) that A's modified adjusted gross income exceeds $100,000. A's modified adjusted gross income exceeds $100,000 by $24,200. Thus, the $7,000 amount must be reduced by $5,000, which is equal to $200 × 25 ($24,200/$1,000 = 24.2 (which is then rounded up to 25)).

(i) *Applicability date.* This section applies to taxable years beginning after December 31, 2024, and before January 1, 2029.

■ **Par. 3.** Section 1.6050AA–1 is added to read as follows:

§ 1.6050AA–1 Information reporting of applicable passenger vehicle loan interest received in a trade or business from an individual.

(a) *Information reporting requirement*—(1) *Overview.* The information reporting requirements of section 6050AA of the Internal Revenue Code (Code) and this section apply to an interest recipient who receives at least $600 of interest on a specified passenger vehicle loan (SPVL) from a payor of record for a calendar year for which interest is received. See paragraph (b) of this section for definitions of terms used in section 6050AA and this section.

(2) *Reporting requirement.* Except as otherwise provided in this section, an interest recipient that receives at least $600 of interest on an SPVL for a calendar year must—

(i) File an information return, as described in paragraph (g) of this section, with the Internal Revenue Service (IRS); and

(ii) Furnish a statement to the payor of record, as described in paragraph (h) of this section, on the SPVL.

(3) *Optional reporting.* An interest recipient may, but is not required to, report its receipt of less than $600 of interest on an SPVL for a calendar year. An interest recipient that chooses to file a return as provided in this section and to furnish a statement as provided in this section is subject to the requirements of this section.

(b) *Definitions.* The following definitions apply for purposes of section 6050AA and this section:

(1) *Applicable passenger vehicle (APV).* The term *applicable passenger vehicle* or *APV* has the meaning provided in § 1.163–16(b)(1).

(2) *Calendar year for which interest is received.* Except as provided in paragraph (f)(2) of this section, the *calendar year for which interest is received* is the later of the calendar year in which the interest is received or the calendar year in which the interest properly accrues.

(3) *Interest recipient.* An *interest recipient* is a person that is engaged in a trade or business (whether or not the trade or business of lending money) and that, in the course of that trade or business, receives from any payor of record interest on an SPVL. For purposes of this paragraph (b)(3), if a person holds an SPVL that was originated or acquired in the course of a trade or business, the interest on the SPVL is considered to be received in the course of that trade or business. The rules of this paragraph (b)(3) are illustrated by the following examples:

(i) *Example 1: Financing entity*—(A) *Facts.* Car manufacturer finance subsidiary A lends money to individual B to enable B to purchase an APV. B makes a payment to A of interest on the SPVL.

(B) *Analysis.* Under the rules of this paragraph (b)(3), A is an interest recipient for purposes of section 6050AA and is subject to the reporting requirements of section 6050AA.

(ii) *Example 2: Interest not in the course of the trade or business*—(A) *Facts.* C, a person engaged in the trade or business of being a physician, lends money to individual D to enable D to purchase an APV from car dealer A. D makes a payment to C of interest on the SPVL.

(B) *Analysis.* C is not an interest recipient for purposes of section 6050AA and this paragraph (b)(3) because C will not receive the interest in the course of the trade or business of being a physician. C does not need to file an information return reporting the interest received from D.

(iii) *Example 3: Dealer direct lending*—(A) *Facts.* E, a corporation, is a car dealer operating under the "buy here, pay here" model. E sells vehicles to customers and, as part of its ordinary course of business, extends financing directly to the purchasers. Customer F buys a vehicle from E and enters into an SPVL with E for the amount necessary to buy the vehicle. F pays E $1,200 of stated interest on the SPVL during the calendar year.

(B) *Analysis.* Because E is engaged in the trade or business of selling automobiles and receives interest on the SPVL in the course of that trade or business, E is an interest recipient for purposes of section 6050AA and must file an information return reporting the interest received from F.

(4) *Lender of record.* The *lender of record* is the person who, at the time the loan is originated, is named as the lender on the loan documents and whose right to receive payment from the payor of record is secured by a lien on the payor of record's APV. An intention by the lender of record to sell or otherwise transfer the loan to a third party subsequent to the close of the transaction does not affect the determination of who is the lender of record.

(5) *Payor of record.* The *payor of record* on an SPVL is the person specified on the books and records of the interest recipient as the principal borrower on the SPVL. If the books and records of the interest recipient do not indicate which borrower is the principal borrower, the interest recipient must designate a borrower as the principal borrower. The term *person* for purposes of this paragraph (b)(5) means any individual, decedent's estate, or trust that is not a grantor trust within the meaning of § 1.163–16(b)(10) (non-grantor trust).

(6) *Secretary.* The term *Secretary* has the meaning provided in section 7701(a)(11) of the Code.

(7) *Specified passenger vehicle loan (SPVL).* The term *specified passenger vehicle loan* or *SPVL* has the same meaning given by § 1.163–16(b)(16).

(c) *Interest received on behalf of another person*—(1) *In general.* A person that, in the course of its trade or business, receives or collects interest on an SPVL on behalf of another person (for example, the lender of record) is the interest recipient (initial recipient) for purposes of paragraph (b)(3) of this section with respect to the SPVL. In this case, the reporting requirement of paragraph (a) of this section does not apply to the transfer of interest from the initial recipient to the person for which the initial recipient receives or collects the interest. For example, if financial institution A collects interest on behalf of financial institution B, A is the initial recipient of interest for the SPVL and is subject to the reporting requirements of section 6050AA. B is not required to report the interest received on the SPVL from A.

(2) *Exception.* Paragraph (c)(1) of this section does not apply for any period for which—

(i) An initial recipient does not possess the information needed to comply with the reporting requirement of paragraph (a) of this section; and

(ii) The person for which the interest is received or collected would receive the interest in the course of its trade or business if the interest were paid directly to that person.

(3) *Application of the exception.* If the exception provided by paragraph (c)(2) of this section applies, the person for which the interest is received or collected is the interest recipient with respect to interest received or collected on the SPVL.

(4) *Presumption.* For purposes of this paragraph (c), if interest is received or collected on behalf of a person other than an individual, that person is presumed to receive interest in the course of its trade or business.

(5) *Examples.* The rules of this paragraph (c) are illustrated by the following examples:

(i) *Example 1: Servicer has the information needed to comply with the reporting requirement*—(A) *Facts.* Bank A lends money to individual B to purchase an APV. Bank A forms a securitization trust and sells securities that are backed by SPVLs. Securitization Servicer C is the loan servicer and collects interest on the SPVLs in the trust on behalf of Bank A. Securitization Servicer C has the initial information regarding loans in the trust (for example, loan amount details and VINs corresponding to the SPVLs), as well as information regarding the amounts of interest paid on the SPVLs, such that Securitization Servicer C has the information needed to comply with the reporting requirement of paragraph (a) of this section.

(B) *Analysis.* Securitization Servicer C is the initial recipient of interest for the SPVL and is subject to the reporting requirements of section 6050AA. Bank A is not required to report the interest received on the SPVL from Securitization Servicer C.

(ii) *Example 2: Servicer does not have the information needed to comply with the reporting requirement*—(A) *Facts.* Bank D lends money to individual E to purchase an APV. Bank D forms a securitization trust and sells securities that are backed by SPVLs. Payment Agent F collects interest on the SPVLs in the trust on behalf of Bank D, but Bank D otherwise acts as the loan servicer. Payment Agent F does not have the information needed to comply with the reporting requirement of paragraph (a) of this section.

(B) *Analysis.* Payment Agent F collects interest on behalf of Bank D. However, because Payment Agent F does not have the information needed to comply with the reporting requirement of paragraph (a) of this section, Payment Agent F is not the initial recipient of interest for the SPVL. Bank D is subject to the reporting requirements of section 6050AA.

(d) *Reporting by a foreign person.* An interest recipient that is not a United States person, as defined in section 7701(a)(30), must report interest received on an SPVL only if it receives the interest—

(1) At a location in the United States; or

(2) At a location outside the United States and—

(i) The interest recipient is a controlled foreign corporation, within the meaning of section 957(a) of the Code; or

(ii) 50 percent or more of the gross income of the interest recipient from all sources for the three-year period ending with the close of the taxable year preceding the receipt of interest (or for that part of the period for which the person was in existence) was effectively connected with the conduct of a trade or business in the United States.

(e) *Reporting with respect to a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust*—(1) *In general.* The reporting requirement of paragraph (a) of this section does not apply if the payor of record is a nonresident alien individual, a decedent's estate that is a foreign estate within the meaning of section 7701(a)(31)(A), or a non-grantor trust that is a foreign trust within the meaning of section 7701(a)(31)(B).

(2) *Nonresident alien individual, foreign decedent's estate, and foreign non-grantor trust.* For purposes of paragraph (e)(1) of this section, an interest recipient must apply the following documentation rules to determine whether a payor of record is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust—

(i) If interest is paid outside the United States, the interest recipient must satisfy the documentary evidence standard provided in § 1.6049–5(c) with respect to the payor of record; and

(ii) If interest is paid within the United States, the interest recipient must secure from the payor of record an applicable Form W–8 (or a substitute form) that meets the validity and reliance requirements described in § 1.1441–1(e)(4).

(3) *Place of payment.* For purposes of paragraph (e)(2) of this section, the place of payment is the place where the payor of record completes the acts necessary to effect payment. An amount paid by transfer to an account maintained by an interest recipient in the United States or by mail to a United States address is considered to be paid within the United States.

(f) *Amount of interest received on an SPVL for calendar year*—(1) *De minimis rule for interest of less than $600.* Whether an interest recipient receives $600 or more of interest on an SPVL for a calendar year is determined on an SPVL-by-SPVL basis. An interest recipient need not aggregate the interest received on all of the SPVLs of a payor of record held by the interest recipient to determine whether the $600 threshold is met. Therefore, an interest recipient need not report interest of less than $600 received on an SPVL, even though it receives a total of $600 or more of interest on all of the SPVLs of the payor of record for a calendar year.

(2) *Interest accrued by January 15.* An interest recipient may treat interest received during the current calendar year that properly accrues by January 15 of the subsequent calendar year as interest received for the current calendar year. For example, if an interest recipient receives a monthly interest payment on December 31, Year 1, that includes interest accruing for the period December 5, Year 1, to January 5, Year 2, the interest recipient may treat the entire interest payment as received in Year 1. If a portion of the interest for which a payment received in a calendar year accrues after January 15 of the subsequent calendar year, an interest recipient must report as interest

received for the current calendar year only the portion that properly accrues by the end of the current calendar year. For example, if an interest recipient receives a monthly payment that includes interest accruing for the period December 20, Year 1, through January 20, Year 2, the interest recipient may not report as interest received for Year 1 any interest accruing after December 31, Year 1. The interest recipient must report the interest accruing after December 31, Year 1, as received for calendar Year 2.

(g) *Requirement to file a return*—(1) *Form of the return.* An interest recipient must file a return required by paragraph (a) of this section on the form specified by the Secretary for this purpose, with Form 1096, *Annual Summary and Transmittal of U.S. Information Returns.* An interest recipient may use forms containing provisions substantially similar to those in the forms specified by the Secretary for this purpose if it complies with applicable revenue procedures relating to those forms. An interest recipient must file a separate return for each SPVL for which it receives $600 or more of interest for a calendar year.

(2) *Information included on the return.* An interest recipient must include on the form specified by the Secretary for this purpose—

(i) The name, address, and taxpayer identification number of the payor of record;

(ii) The name, address, and taxpayer identification number of the interest recipient;

(iii) The amount of interest received for the calendar year;

(iv) The amount of outstanding principal on the SPVL as of the beginning of the calendar year;

(v) The date of the origination of the SPVL;

(vi) The year, make, model, and vehicle identification number of the APV that secures the SPVL;

(vii) The date the SPVL was acquired; and

(viii) Any other information required by the form specified by the Secretary for this purpose or its instructions.

(3) *Time and place for filing the return; cross-references to penalty and electronic filing requirements.* An interest recipient must file a return required by paragraph (a) of this section on or before February 28 (March 31 if filed electronically) of the year following the calendar year for which it receives the interest. An interest recipient must file the return required by paragraph (a) of this section with the IRS office designated in the instructions for the form. For provisions relating to the penalty provided for the failure to file a correct information return required by paragraph (a) of this section, see § 301.6721–1 of this chapter. See § 301.6724–1 of this chapter for the waiver of a penalty if the failure is due to reasonable cause and not due to willful neglect. See § 301.6011–2(b) of this chapter for the requirement to submit the information returns required by this section electronically.

(h) *Requirement to furnish a statement*—(1) *In general.* An interest recipient that must file a return under paragraph (a) of this section must furnish a statement to the payor of record.

(2) *Information included on the statement.* An interest recipient must include on the statement that it furnishes to the payor of record—

(i) The name, address, and phone number of the information contact of the person required to make such return;

(ii) The information required under paragraph (g)(2) of this section;

(iii) A legend that—

(A) Identifies the statement as important tax information that is being furnished to the IRS; and

(B) Notifies the payor of record that if the payor of record is required to file a return, a negligence penalty or other sanction may be imposed if the IRS determines that an underpayment of tax results because the payor of record overstated a deduction for this interest (if any) on the payor of record's return; and

(iv) A legend stating that the payor of record may be unable to deduct the full amount of SPVL interest reported on the statement; that limitations based on the payor of record's modified adjusted gross income may apply; and that the payor of record may deduct QPVLI only to the extent the SPVL was incurred by, and the QPVLI was actually paid by, the payor of record.

(3) *Copy of the form determined by the Secretary to the payor of record.* An interest recipient will satisfy the requirement of paragraph (h)(1) of this section by furnishing to a payor of record a copy of the form determined by the Secretary (or substitute statement that complies with applicable revenue procedures) containing all the information filed with the IRS and all the legends required by paragraph (h)(2) of this section.

(4) *Furnishing the statement with other information returns.* An interest recipient may transmit the statement required by paragraph (h)(1) of this section to the payor of record with other information, including other information returns, as permitted by applicable revenue procedures.

(5) *Time and place for furnishing the statement.* An interest recipient must furnish a statement required by paragraph (h)(1) of this section to the payor of record on or before January 31 of the year following the calendar year for which it receives the interest. The interest recipient will be considered to have furnished the statement to the payor of record if it mails the statement to the payor of record's last known address.

(i) *Applicability date.* This section applies to calendar years beginning after December 31, 2024, and before January 1, 2029.

PART 301—PROCEDURE AND ADMINISTRATION

■ **Par. 4.** The authority citation for part 301 continues to read in part as follows:

Authority: 26 U.S.C. 7805.

* * * * *

■ **Par. 5.** Section 301.6011–2 is amended by revising paragraph (b)(1) to read as follows:

§ 301.6011–2 Required use of electronic form.

* * * * *

(b) * * *

(1) If the use of Form 1042–S, Form 1094 series, Form 1095–B, Form 1095–C, Form 1097–BTC, Form 1098, Form 1098–C, Form 1098–E, Form 1098–Q, Form 1098–T, Form 1098–VLI, Form 1099 series, Form 3921, Form 3922, Form 5498 series, Form 8027, or Form W–2G is required by the applicable regulations or revenue procedures for the purpose of making an information return, the information required by the form must be submitted electronically, except as otherwise provided in paragraph (c) of this section. Returns filed electronically must be made in accordance with applicable revenue procedures, publications, forms, or instructions.

* * * * *

■ **Par. 6.** Section 301.6721–1 is amended by:

■ 1. Revising paragraphs (h)(3)(xxvi) and (xxvii);

■ 2. Adding paragraph (h)(3)(xxviii); and

■ 3. Adding paragraph (j)(2)(iii).

The additions and revision read as follows:

§ 301.6721–1 Failure to file correct information returns.

* * * * *

(h) * * *

(3) * * *

(xxvi) Section 6050Y (relating to returns relating to certain life insurance contract transactions);

(xxvii) Section 6050Z (relating to reports relating to long-term care premium statements); or

(xxviii) Section 6050AA (relating to returns relating to qualified passenger vehicle loan interest received in trade or business from individuals).

* * * * *

(j) * * *

(2) * * *

(iii) Paragraph (h)(3)(xxviii) of this section applies with respect to information returns required to be filed after December 31, 2024.

■ **Par. 7.** Section 301.6722–1 is amended by:

■ 1. Revising paragraphs (e)(2)(xxxvii) and (xxxviii);

■ 2. Adding paragraph (e)(2)(xxxix); and

■ 3. Adding paragraph (g)(2)(iii).

The additions and revision read as follows:

§ 301.6722–1 Failure to furnish correct payee statements.

* * * * *

(e) * * *

(2) * * *

(xxxvii) Section 6226(a)(2) (regarding statements relating to alternative to payment of imputed underpayment by a partnership) or under any other provision of this title 26 that provides for the application of rules similar to section 6226(a)(2);

(xxxviii) Section 6050Z (relating to reports relating to long-term care premium statements); or

(xxxix) Section 6050AA (relating to returns relating to qualified passenger vehicle loan interest received in trade or business from individuals).

* * * * *

(g) * * *

(2) * * *

(iii) Paragraph (e)(2)(xxxix) of this section applies with respect to payee statements required to be furnished after December 31, 2024, and before January 1, 2029.

Frank J. Bisignano,

Chief Executive Officer.

Approved: July 27, 2026.

Kevin M. Salinger,

Acting Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. 2026–18219 Filed 9–4–26; 8:45 am]

BILLING CODE 4831–GV–P