Proposed Rules

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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 301

[REG–113515–25]

RIN 1545–BR75

Car Loan Interest Deduction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations regarding the deduction for certain taxpayers for an amount up to $10,000 of qualified passenger vehicle loan interest. This document also contains proposed 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. The proposed regulations would affect taxpayers that may deduct qualified passenger vehicle loan interest, and also persons subject to these information reporting requirements. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by February 2, 2026. The public hearing is being held on February 24, 2026, at 10 a.m. ET. Requests to speak and outlines of topics to be discussed at the public hearing must be received by February 2, 2026. If no outlines are received by February 2, 2026, the public hearing will be cancelled. Requests to attend the public hearing must be received by 5 p.m. ET on February 20, 2026.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically. Submit electronic submissions via the Federal eRulemaking Portal at *www.regulations.gov* (indicate IRS and REG–113515–25) by following the online instructions for submitting comments. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comments submitted electronically and comments submitted on paper to its public docket. Send hard copy submissions to: CC:PA:01:PR (REG–113515–25), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Riston Escher of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317–7003; concerning submissions of comments or the public hearing, please contact Publications and Regulations Section at (202) 317–6901 (not toll-free numbers) or by email at *publichearings@irs.gov* (preferred).

SUPPLEMENTARY INFORMATION:

Authority

This notice of proposed rulemaking contains proposed amendments that would 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 notice of proposed rulemaking also contains proposed 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 proposed 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 proposed 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 proposed 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. Additionally, 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. Further, section 70203(c) of the OBBBA added new section 6050AA to the Code to require 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. New section 6050AA provides that no information return is required under section 6050AA for any period to which new 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. 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 taxable years beginning after December 31, 2024, and before January 1, 2029. Section 163(h)(4)(B)(i) provides that ''QPVLI'' means any interest that is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle (APV) for personal use, 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 ''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. Section 163(h)(4)(E) provides the definition of ''final assembly'' and special rules on the treatment of a refinancing 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

New 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 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).

Section 6050AA(e) authorizes the Secretary to issue regulations or guidance necessary 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) 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 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.

Explanation of Provisions

I. Explanation of Proposed § 1.163–16

A. QPVLI Generally

Section 163(h)(4)(B)(i) provides the general rule that QPVLI means any interest that is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that

is secured by a first lien on, an APV for personal use. Proposed § 1.163–16(c)(1) would provide that interest is QPVLI only if the interest is paid or accrued on an SPVL that is secured by a first lien on the purchased APV at the time the taxpayer pays or accrues interest on that SPVL. A lender's release of a lien typically occurs following the borrower's final payment on the related indebtedness. Thus, at the time of the final payment, an SPVL would typically still be secured by a lien on the purchased APV. See parts I.C (*Interest paid or accrued*), I.E.1 (*SPVLs Generally*), and I.D (*QPVLI exceptions*) of this Explanation of Provisions.

B. 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.

Proposed § 1.163–16(a)(2)(i) would provide that only individuals, decedents' estates, and non-grantor trusts may deduct QPVLI. This is because only those taxpayers could be considered to have purchased an APV for personal use as described in part I.H.2 of this Explanation of Provisions (*Types of Taxpayers that May Satisfy the Personal Use Requirement*).

Under existing rules (for example, § 301.7701–3(b)), an entity may be disregarded as an entity separate from its owner for Federal tax purposes. Accordingly, for Federal income tax purposes (including for purposes of section 163(h)(4)), activities of a disregarded entity are treated as the activities of the owner. Additionally, a grantor or other person treated as owning any portion of a trust under sections 671 through 679 of the Code (a grantor trust) is treated as the owner of the trust property for Federal income tax purposes. See Revenue Ruling 85–13 (1985–1 C.B. 184). For example, if a grantor trust acquires an APV and incurs a secured loan for its purchase, the grantor trust's deemed owner is treated as the owner of the APV and the obligor of the loan, and eligibility of the grantor trust's deemed owner to deduct the interest paid by the grantor trust as QPVLI is determined by disregarding the grantor trust and instead looking to the deemed owner to test whether all of the requirements for deductible QPVLI have been satisfied. In this case, the modified adjusted gross income phaseout (as would be provided in proposed § 1.163–16(h)(2)) is determined based upon the modified adjusted gross income of the deemed owner of the grantor trust, rather than the modified adjusted gross income of the grantor trust or any other person.

Thus, similar to the deduction for qualified residence interest under section 163(h)(3), the proposed regulations would permit QPVLI to be deducted by an individual, decedent's estate, or non-grantor trust, including with respect to a grantor trust or disregarded entity deemed owned by the individual, decedent's estate, or non-grantor trust.

Section 63(b)(7) provides that the deduction for QPVLI is allowed for taxpayers who do not itemize deductions. Proposed § 1.163–16(a)(2)(ii) would clarify that the deduction for QPVLI may be taken by taxpayers who itemize deductions and taxpayers who take the standard deduction. For taxpayers who itemize deductions, the deduction is available under the general rule of section 63(a). For taxpayers who take the standard deduction, the deduction is available under section 63(b)(7).

C. Interest Paid or Accrued

Proposed § 1.163–16(c)(2)(i) would provide that interest on an SPVL accrues on a daily basis over the term of the SPVL, consistent with the accrual of interest on other debt instruments. The amount of QPVLI that is deductible by a taxpayer for the taxable year is determined by 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), QPVLI includes all interest payable with respect to the amount financed under an SPVL.

Proposed § 1.163–16(c)(2)(ii) would provide that 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. Proposed § 1.163–16(c)(2)(ii) would also make clear that, consistent with the foregoing, 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 is made. Under this simple interest calculation, interest accrues daily over the term of the SPVL based on the outstanding principal balance and the Annual Percentage Rate (APR) or stated interest rate provided in the retail installment sales contract or other contract evidencing the SPVL.

D. QPVLI Exceptions

1. In General

As discussed in part I.A of this Explanation of Provisions (*QPVLI Generally*), proposed § 1.163–16(c)(1) would provide that interest is QPVLI only if the interest is paid or accrued on an SPVL that is secured by a first lien on the purchased APV at the time the taxpayer pays or accrues interest on that SPVL.

Consistent with section 163(h)(4)(B)(ii), proposed § 1.163–16(c)(4) would provide that QPVLI does not include amounts paid or accrued on: (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; or (v) a loan to finance the purchase of a vehicle intended to be used for scrap or parts.

2. Non-Purchase Transactions

Proposed § 1.163–16(b)(6) would provide that 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. As stated in part I.F of this Explanation of Provisions (*Purchase of the APV*), proposed § 1.163–16(b)(11) would provide that ''purchase'' means an acquisition that is both (i) an acquisition of a vehicle for Federal income tax purposes and (ii) the acquisition of the title of the vehicle for purposes of State or other applicable law. Accordingly, because under proposed § 1.163–16(b)(6) a lease financing does not involve a purchase of an APV, it would not be considered an SPVL, and QPVLI would not include any amounts paid or accrued with respect to a lease financing, including any amounts payable under the lease financing that are attributable to the time value of money.

A transaction that is a lease financing under State or other applicable law would not be a purchase within the meaning of section 163(h)(4)(B)(i) and proposed § 1.163–16(b)(6) and (11), even if the transaction is properly viewed as a sale for Federal income tax purposes. Conversely, a transaction that is a purchase of an APV under State or other applicable law that is properly viewed as a lease for Federal income tax purposes also would not be a purchase within the meaning of section 163(h)(4)(B)(i) and proposed § 1.163–16(b)(11).

Proposed § 1.163–16(c)(6)(i) would provide an example that illustrates the application of proposed § 1.163–16(c)(1) and (4) to a non-purchase transaction.

3. Lien on APV Substitutes

Proposed § 1.163–16(c)(3)(ii) would provide an exception to the proposed general rule in proposed § 1.163–16(c)(1) and (c)(3)(i) that interest is QPVLI only if the interest is paid or accrued on an SPVL that is secured by a first lien on the purchased APV at the time the taxpayer pays or accrues interest on that SPVL. This proposed exception would permit the substitution of collateral on the SPVL in limited circumstances. Under this proposed exception, if an SPVL is secured by a first lien on an APV that is replaced with a substitute APV due to an unforeseen intervening event, and the lien is transferred to that substitute APV under the loan documentation terms, the indebtedness will continue to be treated as an SPVL. Unforeseen intervening events would include a defective APV required to be replaced under State or other applicable lemon law or an APV that is required to be replaced due to an insurance product.

This proposed exception would be limited to substitute vehicles for which original use commences with the taxpayer, and that otherwise meet the requirements to be an APV. Furthermore, this proposed exception would be intended to apply in situations in which the existing SPVL continues without change other than the substitution of the collateral for the SPVL, as if the unforeseen intervening event did not occur. If instead the lender in that situation treats the original SPVL as being satisfied and new indebtedness as being issued to the taxpayer for the substitute vehicle, the generally applicable rules would apply for determining if this new indebtedness for the vehicle is an SPVL.

Proposed § 1.163–16(c)(6)(ii) would provide an example that illustrates the application of proposed § 1.163–16(c)(3).

4. Requirement To Report the VIN

Consistent with section 163(h)(4)(B)(iii), proposed § 1.163–16(c)(5) would provide that interest paid or accrued by a taxpayer during the taxable year on an SPVL is not deductible as QPVLI unless the taxpayer reports the VIN of the purchased APV on the Schedule 1–A (or successor) or other relevant form specified by the Secretary. Proposed § 1.163–16(b)(16) would provide that ''VIN'' means the series of Arabic numbers and Roman letters that is assigned to a motor vehicle for identification purposes under 49 CFR 565.13.

E. Specified Passenger Vehicle Loan (SPVL)

1. SPVLs Generally

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. Because section 163(h)(4)(B)(i) does not use a specific term for this indebtedness, proposed § 1.163–16(b)(15) refers to this indebtedness as a ''specified passenger vehicle loan'' or an ''SPVL,'' the term used in section 6050AA to reference this indebtedness.

Proposed § 1.163–16(b)(14) would provide that ''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. This exception would be intended to clarify that so-called springing liens that result due to the operation of State or other applicable law and that may be given a higher priority at a later date following the date of purchase, such as a tax lien arising due to the non-payment of State property taxes, do not prevent the APV from being secured by a first lien.

Section 163(h)(4)(E)(iii) provides that indebtedness between the taxpayer and a related party (within the meaning of section 267(b) or 707(b)(1) of the Code) is not an SPVL.

2. The SPVL Must Be Incurred for the Purchase of an APV

An APV may be sold under loan documentation referred to as a ''motor vehicle retail installment sales contract''. A typical motor vehicle retail installment sales contract indicates the total amount to be paid as part of the purchase transaction for the APV, which includes the purchase price of the vehicle and other fees and charges for property and services that are part of the purchase transaction. The total amount to be paid for the purchase transaction takes into account the value of any trade-in vehicle and any amounts paid by a taxpayer at the time of the purchase transaction for an APV, such as a down payment. In certain cases, 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 (so-called ''negative equity'') are rolled into the financing for the purchase of the APV and included in the total amount to be paid as part of the purchase transaction for the APV.

The ''amount financed'' consists of the total amount to be paid as part of the purchase transaction for the APV, including any negative equity, reduced by the value of any trade-in vehicle and any down payment. Under the typical terms of the contract, the APR is the cost of the buyer's credit as a yearly rate. The finance charge stated in the contract, which is the total dollar amount the credit will cost the buyer, is determined based on the APR, the amount financed, and the period over which the buyer will make payments.

Proposed § 1.163–16(d)(2)(i) would provide that indebtedness qualifies as an SPVL only to the extent the indebtedness is incurred for the purchase of an APV as well as for any other items or amounts customarily financed in an APV purchase transaction and that directly relate to the purchased APV (for example, vehicle service plans, extended warranties, sales taxes, and vehicle-related fees). For this purpose, whether an item or amount is customarily financed in an APV purchase transaction would be 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)(ii) would provide that to the extent any indebtedness is not described in proposed § 1.163–16(d)(2)(i), this indebtedness is not incurred by a taxpayer for the purchase of an APV, even if it is incurred as part of a purchase transaction for an APV, and, therefore, this indebtedness is not an SPVL. For example, an amount representing negative equity under an existing loan on a trade-in vehicle is not described in proposed § 1.163–16(d)(2)(i) because such negative equity is not an item or amount directly related to the purchased APV.

In addition, indebtedness is not incurred by a taxpayer for the purchase of an APV to the extent the indebtedness is incurred to purchase collision and liability insurance or to purchase any property or services not directly related to the purchased APV (for example, a trailer or a boat). Indebtedness is also not incurred by a taxpayer for the purchase of an APV to the extent the indebtedness relates to cash proceeds that the taxpayer receives from the lender.

In general, under proposed § 1.163–16(d)(2)(iii)(A), if a taxpayer incurs indebtedness attributable to more than the purchase of an APV and any items

or amounts customarily financed with the purchase of the APV that are directly related to the purchased APV, the portion of the indebtedness attributable to this excess amount (nonqualifying indebtedness) would not be an SPVL. Accordingly, none of the interest attributable to this portion of the indebtedness would be deductible as QPVLI. Proposed § 1.163–16(d)(2)(iii)(B) would provide that for purposes of determining the portion of the indebtedness that constitutes nonqualifying indebtedness, any down payment or other consideration supplied by the taxpayer 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 customarily financed in an APV purchase transaction and that directly relate to the purchase of the APV. This proposed rule would reduce the amount of indebtedness that otherwise would not qualify as an SPVL to the extent of any down payment or other consideration supplied by the taxpayer. For example, if a taxpayer incurred indebtedness totaling $50,000 to purchase an APV, made a down payment of $4,000, and traded in a car with $6,000 of negative equity, and all other amounts incurred by the taxpayer were for the purchase of the APV or for other items or amounts customarily financed in an APV purchase transaction that directly relate to the purchased APV, then $48,000 of the indebtedness would qualify as an SPVL and only $2,000 would not qualify as an SPVL.

Proposed § 1.163–16(d)(6)(i) and (ii) provide examples that would illustrate the application of proposed § 1.163–16(d)(2)(i) through (iii).

3. Refinanced SPVLs

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.

Proposed § 1.163–16(d)(4) would provide this rule and clarify 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 proposed § 1.163–16(d)(5)(i), which would provide that the SPVL would have to be originally incurred by the taxpayer, proposed § 1.163–16(d)(4) would provide 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). See part I.E.4 of this Explanation of Provisions (*SPVL Must Be Incurred by the Taxpayer*).

Proposed § 1.163–16(d)(6)(iii) would provide an example that illustrates the application of proposed § 1.163–16(d)(4).

4. The SPVL Must Be Incurred by the Taxpayer

Proposed § 1.163–16(d)(5) would provide additional guidance on the requirement in section 163(h)(4)(B)(i) that indebtedness be ''incurred by the taxpayer'' in order to qualify as an SPVL. Generally, section 163(h)(4) provides an exception to the disallowance of a deduction for personal interest in section 163(h)(1) that applies to certain taxpayers that incur SPVLs. Section 163(h)(4) does not provide that indebtedness owed by a taxpayer other than the taxpayer that originally incurred the indebtedness may qualify as an SPVL.

Accordingly, proposed § 1.163–16(d)(5)(i) would provide a proposed general rule that indebtedness is an SPVL only if that indebtedness was originally incurred by the taxpayer. For example, if individual A incurs an SPVL and subsequently is replaced by individual B as the obligor on the indebtedness, the indebtedness is no longer an SPVL.

However, the proposed regulations would contain an exception to this proposed general rule for a change in obligor by reason of the obligor's death. In the limited circumstance of the death of the original obligor, this rule would treat the obligor succeeding to the decedent's interest as stepping into the shoes of the original obligor for purposes of section 163(h)(4). Thus, proposed § 1.163–16(d)(5)(ii)(A) would provide that if a change in obligor on an SPVL occurs by reason of the death of the obligor, then the indebtedness remains an SPVL with respect to the new obligor.

Proposed § 1.163–16(d)(5)(ii)(B) would provide that a change in obligor by reason of death as described in proposed § 1.163–16(d)(5)(ii) would include a change in obligor (whether through a modification of the existing indebtedness or a refinancing) by reason of the following: the succession to ownership of an APV subject to an SPVL by the deceased obligor's estate, a surviving joint owner of the APV, or the surviving beneficiary designated by contract, a transfer on death provision, or by operation of law; and a distribution of an APV subject to an SPVL by a deceased obligor's estate to a legatee or heir or by a trust that is made to a trust beneficiary by reason of death.

Proposed § 1.163–16(d)(5)(ii)(C) would provide that a change in obligor by reason of death as described in proposed § 1.163–16(d)(5)(ii) would not include changes in the obligor resulting from the following: a sale, exchange, or other disposition of an APV by a decedent's estate or trust, other than certain distributions described in proposed § 1.163–16(d)(5)(ii)(B); or any disposition of an APV by an individual who received the APV by reason of death (unless that individual also dies and the change in obligor is described in proposed § 1.163–16(d)(5)(ii)(B)).

For example, assume D, an individual, incurs indebtedness that qualifies as an SPVL. Subsequently, D dies and D's APV, subject to the SPVL, then belongs to D's estate. Sometime thereafter, D's estate distributes the APV, subject to the SPVL, to H, a residuary legatee under D's will. Subsequently, H gifts the APV, subject to the SPVL, to G, an individual. Under proposed § 1.163–16(d)(5)(ii) the indebtedness remains an SPVL with respect to D, D's estate, and H, during such time as each person held the APV subject to the indebtedness, because each of these parties is the obligor on the indebtedness due to the death of D (an obligor of an SPVL). Accordingly, D, D's estate, and H each may deduct the amount of interest that each of D, D's estate, and H, respectively, paid or accrued on the SPVL as QPVLI, subject to the requirements of section 163(h)(4)(C) and proposed § 1.163–16(h). For example, it may be the case that D and H cannot deduct the interest because their respective modified adjusted gross incomes exceed the limits imposed by section 163(h)(4)(C)(ii), but that D's estate is able to deduct the interest. However, the indebtedness is not an SPVL with respect to G because G did not originally incur the indebtedness or become the obligor on the indebtedness by reason of D's death.

F. Purchase of the APV

Section 163(h)(4)(B)(i) requires that the indebtedness incurred by the taxpayer be for the purchase of an APV. Proposed § 1.163–16(b)(11) would provide that ''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. A purchase results

in the taxpayer being listed as the owner on the title or registration of the APV under State or other applicable law, with the lender listed on the title as the first lienholder. The fact that a lender may physically hold this title until the indebtedness is repaid would not affect whether the transaction is considered a purchase.

G. Applicable Passenger Vehicle (APV)

1. In General

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 gross vehicle weight rating 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.

Proposed § 1.163–16(e)(1) would provide that a vehicle is an APV only if it satisfies the requirements set forth in section 163(h)(4)(D). Proposed § 1.163–16(b)(13) would define car, minivan, van, sport utility vehicle, pickup truck, and motorcycle by reference to existing, well-established vehicle classification standards used by the Environmental Protection Agency (EPA), consistent with the reference in section 163(h)(4)(D)(v) to the Clean Air Act that the EPA administers. Proposed § 1.163–16(e)(2) and (3), respectively, would provide rules for determining whether original use commences with the taxpayer and final assembly occurred in the United States.

2. Original Use

Proposed § 1.163–16(e)(2)(i) would provide that original use commences with the first person that takes delivery of a vehicle after the vehicle is sold, registered, or titled. In the case of a dealer, proposed § 1.163–16(e)(2)(i) would also provide that original use of a vehicle does not commence with the dealer unless the dealer registers or titles the vehicle to itself (for example, in the case of certain demonstrator vehicles or loaner vehicles). Proposed § 1.163–16(e)(2)(i) would recognize that dealers may operate vehicles prior to the sale to retail purchasers in a manner that does not require the vehicle to be registered or titled under State or other applicable law, and that operation of the vehicle in this manner would not result in original use commencing with the dealer. For example, if a dealer uses a vehicle for test drives or as a demonstrator vehicle, and State or other applicable law does not require the dealer to register or title the vehicle, original use of that vehicle would not commence with the dealer. In this case, a subsequent retail purchaser of that vehicle could satisfy the original use requirement for the vehicle. On the other hand, dealer operation that requires the vehicle to be registered or titled under State or other applicable law would cause original use to commence with the dealer. For example, if a dealer uses a vehicle as a courtesy car loaned to customers in connection with servicing or the repair of vehicles and State or other applicable law requires the dealer to register or title the vehicle, original use of that vehicle would commence with the dealer. In this case, a subsequent retail purchaser of that vehicle cannot satisfy the original use requirement for the vehicle, and therefore the vehicle would not be an APV when purchased by the retail purchaser. Although a dealer's requirement to register or title vehicles may vary under State or other applicable law, this proposed standard would be straightforward for taxpayers to apply and administrable for the IRS.

The proposed approach to original use for retail purchasers recognizes that prior use of a vehicle by the dealer that would prevent the vehicle from being sold as a new vehicle under the associated loan documentation to a retail purchaser generally would suffice to cause the original use to commence with the dealer. Accordingly, under proposed § 1.163–16(e)(2)(i), for retail purchasers that incur indebtedness to purchase a vehicle, original use would commence with that purchaser only if the loan documentation treats the vehicle as a new vehicle.

Proposed § 1.163–16(e)(2)(ii) would provide an exception to the original use requirement. Under this exception, if a retail purchaser returns a vehicle within 30 days after the purchaser took delivery of that vehicle, the original use of that vehicle would not be considered to have commenced with that purchaser. In this case, the original use of that vehicle may commence with a subsequent retail purchaser of that vehicle if that subsequent purchaser's loan documentation treats the vehicle as a new vehicle. The Treasury Department and the IRS understand that dealers may have return policies that range from several days up to 30 days, and these proposed rules are intended to reflect industry practice.

Proposed § 1.163–16(e)(2)(iii) would provide examples that illustrate the application of proposed § 1.163–16(e)(2)(i) and (ii), including the application of the proposed original use requirement to dealer demonstrator vehicles, a vehicle that was previously the subject of a cancelled sale, a vehicle that was previously leased and was purchased by the lessee after the lease was terminated, and a vehicle that was previously returned by a retail purchaser.

3. Final Assembly

Section 163(h)(4)(D) provides that an APV does not include any vehicle the final assembly of which did not occur within the United States. The final assembly point is listed on the vehicle information label attached to each vehicle on a dealer's premises. Proposed § 1.163–16(e)(3) would provide 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). Taxpayers can 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.*

These proposed reliance standards are intended to allow taxpayers to determine whether a vehicle meets the final assembly requirement in a straightforward manner, such that a taxpayer may more clearly make informed purchase decisions that consider the potential applicability of section 163(h)(4) at the time of the purchase of a vehicle.

H. Personal Use of the APV

1. Definition of Personal Use

The definition of QPVLI in section 163(h)(4)(B) requires that the indebtedness is incurred by the taxpayer for the purchase of an APV for personal use, as contrasted with the purchase of a vehicle for use in a trade or business, for investment, or for other non-personal use. Accordingly, proposed § 1.163–16(b)(10) would define ''personal use'' to mean use by an individual other than in any trade or business (except for use in the trade or business of performing services as an employee), or for the production of income. Costs of commuting between an individual's home and the individual's main or regular place of work are

personal expenses. See Revenue Ruling 99–7 (1999–1 C.B. 361) and § 1.262–1(b)(5).

2. Types of Taxpayers That May Satisfy the Personal Use Requirement

Inherent in section 163(h)(4)(B)(i) of the Code and the proposed definition of personal use in proposed § 1.163–16(b)(10) is that individuals may satisfy the personal use requirement. For example, an individual that incurs indebtedness for the purchase of an APV may satisfy the personal use requirement with the individual's own use of the car.

Ordinary trusts are generally formed for the purpose of protecting or conserving property for one or more beneficiaries, and this property may be property for the personal use of one or more individual beneficiaries. Decedents' estates are generally formed to hold a deceased owner's property for one or more legatees or heirs and then distribute that property to one or more legatees or heirs. Less commonly, a decedent's estate may purchase property for the personal use of one or more individual legatees or heirs. Thus, some decedents' estates and non-grantor trusts that incur indebtedness to purchase APVs may qualify to deduct QPVLI. Other non-grantor trusts might never be able to satisfy the personal use test (for example, qualified funeral trusts as defined in section 685(b) of the Code) and thus would not be able to deduct QPVLI.

In contrast to decedents' estates and non-grantor trusts, business entities generally are formed for the purpose of carrying on profit-making activities. Business entities cannot satisfy the personal use requirement of section 163(h)(4)(B)(i) and proposed § 1.163–16(f)(1) and therefore would not qualify to deduct QPVLI under proposed § 1.163–16(a)(2).

3. Determination of Personal Use Based on Intent at the Time Indebtedness Is Incurred

Many taxpayers purchase a vehicle and expect to use it partially for personal use and partially for non-personal use. Section 163(h)(4)(B) does not require that a vehicle be purchased exclusively for personal use. Taxpayers may not be able to estimate with precision the relative proportions of these different types of uses at the time of purchase, and requiring taxpayers to make a determination regarding the exact amount of expected personal use and non-personal use is not administrable and may result in a considerable burden to taxpayers. Additionally, section 163(h)(4) does not require that the person incurring indebtedness for the purchase of the vehicle be the same person that satisfies the personal use requirement. One member of a family may purchase a vehicle for personal use by another member of the family, and such purchase would satisfy the personal use requirement of section 163(h)(4).

Proposed § 1.163–16(f)(1) would provide that a taxpayer is considered to purchase that 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 that incurred the indebtedness, or by certain members of that taxpayer's family and household, for more than 50 percent of the time. The proposed 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. The Treasury Department and the IRS understand that automotive retail installment sales contracts often indicate whether the purchased vehicle is for personal use or business use. Therefore, at the time a vehicle loan is incurred, the taxpayer financing the vehicle may have contemplated the intended use of a vehicle in a way that would facilitate evaluating this 50 percent personal use standard. In evaluating whether a taxpayer meets this personal use standard, it is intended that the IRS may consider information relating to the expected usage of the vehicle, such as information contained in the loan documentation and the type of collision and liability insurance held with respect to a vehicle.

Section 163(h)(4)(B)(i) of the Code could be read to require the personal use standard to be met only by reference to use by the taxpayer that incurred indebtedness to purchase the APV. However, the House Budget Report for Public Law 119–21 states that section 163(h)(4) was intended to ''ease the financial burden of car ownership for working and growing families'' (H.R. Rep. No. 119–106, at 1510 (2025)). As a result, such a narrow standard would appear contrary to Congressional intent in enacting section 163(h)(4) and contrary to common practices of the purchase and use of vehicles by families. Accordingly, proposed § 1.163–16(f)(1) would adopt a broader standard to allow usage by the taxpayer that incurred the indebtedness, that 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 to qualify.

Additionally, proposed § 1.163–16(f)(2) would provide that, for purposes of determining whether a decedent's estate or non-grantor trust expects that an APV will be used for personal use, the determination is based on the expected personal use of the vehicle by the legatees or heirs, or beneficiaries, respectively, who have a present or future interest in such decedent's estate or non-grantor trust; the spouse of such legatees, heirs, or beneficiaries; or an individual that is related to such legatees, heirs, or beneficiaries within the meaning of section 152(c)(2) or (d)(2), or a combination of these individuals.

The personal use requirement in section 163(h)(4) is a requirement that must be satisfied in connection with the incurrence of indebtedness, as opposed to an ongoing requirement. As a result, a taxpayer is not required to reevaluate personal and non-personal use in taxable years after the indebtedness is incurred. Differences between expected use and later actual use do not affect the taxpayer's eligibility to deduct QPVLI, nor the amount of the taxpayer's QPVLI. The taxpayer must evaluate and determine that the personal use requirement is met at the time the indebtedness is incurred.

Under proposed § 1.163–16(f)(1), an individual, decedent's estate, or non-grantor trust that receives an APV subject to an SPVL by reason of an obligor's death would not be required to evaluate whether it satisfies the personal use requirement; instead, the indebtedness would be an SPVL if it was an SPVL in the hands of the decedent (meaning, among other things, that the decedent satisfied the personal use requirement).

See part I.I of this Explanation of Provisions (*Non-personal use and independently deductible interest*) that discusses certain proposed rules relating to vehicles used for non-personal use and independently deductible interest.

Proposed § 1.163–16(f)(3) would provide examples that illustrate the application of proposed § 1.163–16(f).

I. Non-Personal Use and Independently Deductible Interest

Under section 163(a), taxpayers may deduct interest that is QPVLI as a different type of interest in certain circumstances. For example, taxpayers paying interest attributable to a vehicle used in a trade or business may be able to deduct that interest as a business interest expense. The Treasury Department and the IRS understand that some taxpayers may prefer to deduct

QPVLI as a different type of interest. Further, section 163(h)(4) does not affect the ability of a taxpayer to deduct interest that is otherwise able to be deducted under section 163(a) or a different section of the Code. Accordingly, the proposed regulations would provide certain rules with respect to interest that is both QPVLI and interest otherwise deductible under section 163(a) or a different section of the Code. These proposed rules are intended to provide clarity for taxpayers and to prevent taxpayers from claiming duplicative interest deductions.

Proposed § 1.163–16(g)(1) would provide that independently deductible interest means interest paid or accrued that is QPVLI (prior to the application of the dollar limitation in section 163(h)(4)(C)(i) of the Code and in proposed § 1.163–16(h)(1) and determined without regard to proposed § 1.163–16(g)) and that also is deductible as a different type of interest under section 163(a) or a different section of the Code.

Proposed § 1.163–16(g)(2) would provide that all independently deductible interest may be deductible as QPVLI or may be deductible as a different type of interest described in proposed § 1.163–16(g)(1) (non-QPVLI). In addition, proposed § 1.163–16(g)(2) would provide that the amount of independently deductible interest that may be deductible as QPVLI (before the application of the $10,000 limitation in section 163(h)(4)(C)(i)) is reduced dollar for dollar to the extent the taxpayer deducts that interest as non-QPVLI. These proposed provisions are intended to make clear that taxpayers may take any available interest deductions permitted under section 163(a) or a different section, while clarifying that a taxpayer may not deduct more total interest than otherwise is allowable. To ensure no amount of interest is deducted both as QPVLI and as some other type of deductible interest, proposed § 1.163–16(g)(3) would provide that a taxpayer must report any amount of independently deductible interest that is deducted in a taxable year as non-QPVLI on Form 1040 Schedule 1–A (or successor) or other relevant form.

Non-interest vehicle expenses deducted by a taxpayer would not affect the taxpayer's treatment of independently deductible interest or require any additional reporting. For example, non-interest vehicle expenses deducted by a taxpayer under section 162(a) as trade or business expenses have no effect on interest deducted as QPVLI for that taxable year. These amounts would not be subject to any of the proposed provisions relating to independently deductible interest.

Proposed § 1.163–16(g)(4) would provide examples that illustrate the application of proposed § 1.163–16(g), including examples in which a taxpayer chooses to deduct independently deductible interest as QPVLI, and alternatively in which the taxpayer chooses to deduct independently deductible interest as non-QPVLI.

J. Limitations of QPVLI

Section 163(h)(4)(C)(i) provides that the deduction allowed for QPVLI by a taxpayer for any taxable year cannot exceed $10,000. Section 163(h)(4)(C)(i) does not provide a different amount for joint filers (in contrast to section 163(h)(4)(C)(ii), discussed in the immediately following paragraph). Accordingly, proposed § 1.163–16(h)(1) would clarify that this $10,000 limitation applies per Federal tax return. Thus, the maximum deduction allowed on a joint Federal income tax return is $10,000. If two taxpayers have a Federal income tax return filing status of married filing separately, the $10,000 limitation would apply separately to each taxpayer's return.

Section 163(h)(4)(C)(ii) provides 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 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 that this reduction begins after the taxpayer's modified adjusted gross income exceeds $200,000.

With respect to the deduction of QPVLI by a decedent's estate or non-grantor trust (as would be defined in proposed § 1.163–16(b)(9)), the modified adjusted gross income threshold of $100,000 would be applied to the decedent's estate or non-grantor trust, and not with respect to the beneficiaries of the decedent's estate or non-grantor trust. In the case of a decedent's estate or non-grantor trust, proposed § 1.163–16(b)(7)(ii) would provide that the term ''modified adjusted gross income'' means adjusted gross income (as defined in section 67(e) of the Code).

Proposed § 1.163–16(h)(3) would provide examples that illustrate the application of proposed § 1.163–16(h).

II. Explanation of Proposed § 1.6050AA–1

A. In General

The proposed regulations under section 6050AA would provide the operational, administrative, and definitional rules for persons in a trade or business who receive interest on an SPVL to comply with the statutory information reporting requirements with respect to receipt of interest to which section 163(h)(4) and proposed § 1.163–16 would apply.

In general, under section 6050AA and proposed § 1.6050AA–1(a), if the interest recipient receives from any individual at least $600 of interest on an SPVL for a calendar year, the interest recipient would be required to file an information return with the IRS and furnish a statement to the payor of record on the SPVL.

B. Definitions

1. Applicable Passenger Vehicle (APV)

Proposed § 1.6050AA–1(b)(1) would provide that the term ''applicable passenger vehicle'' or ''APV'' has the meaning provided in section 163(h)(4)(D) and proposed § 1.163–16(b)(1). See part I.G of this Explanation of Provisions (*Applicable passenger vehicle* (*APV)*).

2. Calendar Year

Proposed § 1.6050AA–1(b)(2) would provide that 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. In order to account for certain payments occurring near year end, the proposed regulations would also permit an interest recipient to report in the current calendar year prepaid interest accruing shortly after year-end. Proposed § 1.6050AA–1(b)(2)(ii) would permit an interest recipient to report as interest received during the current calendar year prepaid interest properly accruing by the following January 15. An interest recipient that reports as interest received during the current calendar year prepaid interest properly accruing by the following January 15 would not report that prepaid interest in the following calendar year. These proposed rules are consistent with the rules for reporting mortgage interest under section 6050H.

3. Interest Recipient

Proposed § 1.6050AA–1(b)(3) would provide 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 that, in the course of that trade or business, receives interest on an SPVL.

The Treasury Department and the IRS understand that, in some situations, a person collects interest on an SPVL on behalf of another (for example, the lender of record). The proposed rules provide that, in that situation, 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, an initial recipient would not be required to report interest received on behalf of the person on whose behalf the interest recipient received the interest 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. In this situation, 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.

4. Lender of Record

Proposed § 1.6050AA–1(b)(4) would provide that the term ''lender of record'' means the person who, at the time the loan is made, 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. The proposed regulations would also provide that 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 would not affect the determination of who is the lender of record. As a result of the interaction between proposed § 1.6050AA–1(b)(4) and (a)(2), a lender of record would be required to file an information return with the IRS and furnish a statement to the payor of record on the SPVL if they receive at least $600 of interest on an SPVL for a calendar year, even if they intend to transfer the loan to a third party.

5. Payor of Record

The Treasury Department and the IRS understand that interest recipients maintain books and records regarding loans but do not necessarily track the identity of the party actually making the payments on a particular loan. The Treasury Department and the IRS also understand that some interest recipients provide SPVLs as well as home mortgage loans and these interest recipients have an established practice for determining the payor of record with respect to such mortgage loans. Accordingly, the Treasury Department and the IRS are proposing a definition of the term ''payor of record'' that is similar to the definition of payor of record in § 1.6050H–1(b)(3). Proposed § 1.6050AA–1(b)(5) would define 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. To prevent the duplicate reporting of information, if the books and records of the interest recipient do not indicate which borrower is the principal borrower, the proposed regulations would provide the interest recipient must designate a borrower as the principal borrower. 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).

As described in part I.B of this Explanation of Provisions (*Taxpayers that may deduct QPVLI*), proposed § 1.163–16(a)(2)(i) would provide that only individuals, decedents' estates, and non-grantor trusts may deduct interest under section 163(h)(4). Because only these persons would need the information reported under section 6050AA to complete their income tax returns, proposed § 1.6050AA–1(b)(5) would also provide the term ''person'' means any individual, decedent's estate, or non-grantor trust.

6. Secretary

Proposed § 1.6050AA–1(b)(6) would provide that the term ''Secretary'' has the meaning provided in section 7701(a)(11) of the Code.

7. 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) would adopt this definition and would provide that the term ''specified passenger vehicle loan'' or ''SPVL'' has the meaning provided in proposed § 1.163–16(b)(15). See part I.E of this Explanation of Provisions (*Specified passenger vehicle loan (SPVL)*).

C. Reporting by Foreign Person

The Treasury Department and the IRS are aware that some foreign persons may receive interest on SPVLs. Individual borrowers may not be aware that the interest recipient is 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. For example, a foreign bank with a branch located in the United States would be required to report with respect to interest received on an SPVL received at their U.S. branch. 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)) 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. This proposed 50-percent figure would be calculated based on the three-year period ending with the close of the taxable year preceding the receipt of interest. These rules are similar to the rules applicable to foreign persons that receive home mortgage interest in § 1.6050H–1(d)(1).

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

Proposed § 1.6050AA–1(d)(1) would provide that the reporting requirement of section 6050AA would not apply if the payor of record is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust. Proposed § 1.6050AA–1(d)(2) would provide the documentation rules that the interest recipient would be required to follow to determine whether the payor of record is a nonresident alien individual, foreign decedent's estate, or foreign non-grantor trust. These rules are similar to the rules applicable to nonresident alien individuals that receive home mortgage interest in § 1.6050H–1(d)(2).

E. Determining if a Loan Is an SPVL

The Treasury Department and the IRS understand that interest recipients will often not be the person listed on the loan documents as the lender of record but that these interest recipients are instead listed on subsequent loan documents as assignees whose right to receive payment from the payor of record is secured by a lien on the payor of record's APV. Regarding the ability of these assignees to determine whether a loan is an SPVL, the Treasury Department and the IRS understand that these assignees typically receive

information as part of the loan assignment process that should largely enable them to determine whether reporting is required for the assigned loan. In particular, the Treasury Department and the IRS understand these assignees typically receive a copy of the retail installment sales contract, which generally includes relevant information, including the VIN, which these interest recipients can use to determine whether the vehicle's plant of manufacture is located in the United States, and information regarding the items and amounts financed in connection with the purchase of the vehicle. Accordingly, the Treasury Department and the IRS expect that assignees will have most of the information needed based on current business practices.

One piece of relevant information that assignees may not have as result of receiving a copy of the retail installment sales contract is whether the personal use requirement is met. The Treasury Department and the IRS understand that while retail installment sales contracts often include some indication of whether a vehicle is purchased for personal or business use, this is not true of all such contracts and, for those that include some indication, the information in the contract may not be sufficient for the assignee to determine if the personal use requirement is met. If the information in the contract is sufficient for an assignee of the loan to determine that the personal use requirement is met, then, in the absence of conflicting information, the assignee may rely on that information for purposes of satisfying its information reporting obligations. The assignee may choose to make arrangements to obtain information regarding personal use from the obligor, from the lender of record, or by some other means.

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

Section 6050AA(a) provides that the information return relates to interest received on an SPVL. Accordingly, 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. An interest recipient would not be required to report interest of less than $600 received on an SPVL, even if it receives a total of $600 or more of interest on SPVLs from different vehicles from the same payor of record during a calendar year.

The Treasury Department and the IRS are aware that it might be burdensome for interest recipients to determine which SPVLs require reporting under section 6050AA in a given year based on the amount of interest received. To alleviate this burden and because the information may be useful to taxpayers claiming a deduction for QPVLI of less than $600, proposed § 1.6050AA–1(a)(3) would permit, but not require, an interest recipient to report its receipt of less than $600 of interest on an SPVL for a calendar year. To provide taxpayers with accurate information to claim the deduction, an interest recipient that chooses to file an information return under section 6050AA of less than $600 would be subject to the requirements of proposed § 1.6050AA–1.

G. Requirement To File 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 contain certain information. Accordingly, under proposed § 1.6050AA–1(f)(2), 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.

These items generally follow the items prescribed in section 6050AA(f)(2). In addition, because the Treasury Department and the IRS understand SPVLs may be sold or otherwise transferred to a new lender of record, proposed § 1.6050AA–1(f)(2)(vii) would require the lender of record to include the date it acquired the loan on the form.

H. Requirement To Furnish Written Statement

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. For rules regarding electronic delivery of these written statements, see Revenue Procedure 2025–22 (2025–30 IRB 200) (or its successor), republished as Publication 1179, ''General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, and Certain Other Information Returns).''

For purposes of tax administration, the proposed requirement to furnish written statements would require that those with a reporting obligation must provide statements to certain recipients containing the information reported to the IRS and, in some cases, additional information. 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 must include a legend that would identify the statement as important tax information that is being furnished to the IRS and would state that penalties may apply if the payor of record overstated a deduction for interest reported on the statement. To minimize the risk of recipients claiming an interest deduction that is limited by section 163(h)(4)(C) or otherwise ineligible, 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 interest reported on the statement.

I. Due Dates

Section 6050AA(a) provides that the information return must be filed at such time as the Secretary may prescribe. Further, under section 6050AA(c), the written statement must be furnished to the recipient on or before January 31 of the year following the calendar year for which the information return was required to be made. Under proposed § 1.6050AA–1(f)(3), the interest recipient would be required to file the information return on or before February 28 (March 31 if filed electronically) of the year following the calendar year in which it receives the interest. To ensure the payor of record has the information necessary to prepare the payor's income tax return, and as directed by section 6050AA(c), proposed § 1.6050AA–1(g)(5) would require the interest recipient to furnish to the payor of record the written statement on or before January 31 of the year following the calendar year for which it receives the interest on the SPVL.

III. Explanation of Proposed Amendments to § 301.6011–2

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. On February 23, 2023, the Secretary published final regulations

implementing this 10-return threshold. TD 9972, 88 FR 11754 (February 23, 2023). Section 301.6011–2(b) prescribes the information returns that must be filed electronically once the ten-return threshold set out in § 301.6011–2(c)(1) is met. Consistent with section 6011(e)(5) and the existing regulations, proposed § 301.6011–2(b)(1) would add the return required under section 6050AA to the list of returns that must be filed electronically. Recipients of interest on SPVLs must file the information return required by section 6050AA and these regulations electronically if they are required to file at least 10 returns that calendar year. Any interest recipients required to file fewer than 10 returns during a calendar year may choose to make the information return reporting the interest electronically.

IV. Explanation of Proposed Amendments to § 301.6721–1

As amended by the OBBBA, section 6724(d)(1)(B)(xxix) defines an information return for purposes of the penalty imposed by section 6721 as including a return required by section 6050AA(a). Consistent with section 6724(d)(1)(B)(xxix), proposed § 301.6721–1(h)(3)(xxviii) would add returns required by section 6050AA to the list of information returns included in § 301.6721–1 (Failure to furnish correct information returns).

V. Explanation of Proposed Amendments to § 301.6722–1

As amended by the OBBBA, section 6724(d)(2)(MM) defines a payee statement for purposes of the penalty imposed by section 6722 as including a statement required by section 6050AA(c). Consistent with section 6724(d)(2)(MM), proposed § 301.6722–1(e)(2)(xxxix) would add returns required by section 6050AA to the list of payee statements included in § 301.6722–1 (Failure to furnish correct payee statements).

Proposed Applicability Dates

The regulations under section 163 are proposed to apply to taxable years in which taxpayers may deduct QPVLI pursuant to section 163(h)(4). The regulations under section 6050AA are proposed to apply to calendar years in which taxpayers may deduct QPVLI pursuant to section 163(h)(4). A taxpayer may rely on the proposed regulations under section 163 with respect to indebtedness incurred for the purchase of an APV after December 31, 2024, and on or before the date these regulations are published as final regulations in the **Federal Register**, provided that the taxpayer follows these proposed regulations in their entirety and in a consistent manner. Similarly, interest recipients may rely on the proposed regulations under section 6050AA with respect to indebtedness incurred for the purchase of an APV after December 31, 2024, and on or before the date these regulations are published as final regulations in the **Federal Register**, provided that the taxpayer follows these proposed regulations in their entirety and in a consistent manner.

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 proposed 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 proposed 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 proposed regulations have been reviewed by OMB.

This proposed rule, if finalized, 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 [1] 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.

The proposed regulations would 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 a 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 and 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 Proposed 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 to the Code, section 163(h)(4). 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.

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

The proposed regulations would provide definitions and clarifications of terms related to QPVLI in section 163(h)(4) and section 6050AA. The proposed regulations would clarify that individuals, decedents' estates, and non-grantor trusts may deduct QPVLI. The proposed regulations would 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 proposed regulations would adopt a standard for personal use that would provide 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 that incurred the indebtedness, that taxpayer's spouse, or an individual that is related to the taxpayer within the meaning of sections 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 proposed 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 proposed regulations, the taxpayer would not be required to reevaluate compliance with the personal use standard in taxable years after the indebtedness is incurred. The proposed regulations also would 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 proposed regulations would 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 and 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 regulations describe certain items and services that are considered customarily financed in an APV purchase transaction and 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 and that are directly related to the purchased APV, 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 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 and may not be deducted under section 163(h)(4).

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 proposed regulations would clarify that this limit applies regardless of the taxpayer's filing status for that taxable year. Additionally, under section 163(h)(4)(C), 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) 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. The proposed regulations would 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).

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 proposed regulations would 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 commences with the first person that takes delivery of a vehicle after the vehicle is sold, registered, or titled. For purchasers that are not dealers, original use does not commence with the taxpayer unless the loan documentation treats the vehicle as a new vehicle. For dealers, original use does not commence with the dealer unless the dealer registers or titles the vehicle. The proposed regulations would 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 proposed regulations would clarify that for refinanced loans, the amount of the new loan on which interest is 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 proposed regulations would 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 QPVLI. Any person who, in the course of a trade or business, receives from any individual more than $600 in a calendar year on a SPVL must provide an information return to the IRS and furnish a statement to the payor of record. The proposed regulations would provide operational definitions and rules for complying with the information reporting requirements. The 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 proposed regulations also would 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 proposed regulations relative to a no-action baseline reflecting anticipated Federal income tax-related behavior in the absence of these proposed regulations.

III. Affected Entities and Taxpayers

The proposed regulations would affect individuals, decedents' estates, and non-grantor trusts that may deduct QPVLI, and also would 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 proposed regulations, interest recipients receiving less than $600 of interest on an SPVL would 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; [2] roughly 60 percent of new vehicle purchases are financed with loans; [3] 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 estates and non-grantor trusts that are obligors on auto 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.
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 proposed 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 statue 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 Proposed Regulations

The proposed regulations would clarify the statute and facilitate taxpayers claiming the auto loan interest 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 qualified vehicle loan interest, 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 intended personal use of the vehicle is sufficient to claim the deduction or whether a vehicle meets the standard for U.S.-final assembly.

The proposed rules would assist the taxpayer in understanding and claiming the qualified vehicle loan interest deduction. For example, the 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 to be

[2] ''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.

[3] ''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.*

eligible for the deduction. By facilitating taxpayers' understanding of which vehicles are American made and eligible for the deduction under the statute, the proposed regulations would reduce taxpayer compliance burden and, as a result, may also increase consumer demand for vehicles and financing that are eligible for the deduction, 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 proposed regulations

a. Personal Use Standard

Section 163(h)(4) limits the deduction to vehicles purchased for personal use. The proposed regulations would 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(h)(2)(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.[4] An alternative and narrower definition 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.[5]

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 used cars, foreign-assembled cars, and cars that are leased or purchased with cash are not eligible for the QPVLI deduction, 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.

[4] 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?''

[5] 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.

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.[6] 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), share reported to be available for personal use.	80 percent.
3. Of vehicles placed in business service in 2023 and available for personal use, 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, median share of miles driven for business use.	80 percent.

* This total does not correspond to vehicles eligible for the QPVLI deduction; it includes used, leased, and foreign-assembled vehicles, which are not eligible for the QPVLI deduction. See 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 proposed 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 auto loan interest qualifies for the deduction, and, therefore, face different tax liability. 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 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 personal use. The proposed regulations would ensure that these two taxpayers use the same standard of personal use and are subject to the same tax treatment.

The proposed 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;[7] the salience of the tax deduction at the time of purchase;[8] 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 Intent at Time Debt Is Incurred

The proposed regulations would provide that personal use is determined only once, based on taxpayers' intent 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 proposed 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 proposed regulations, if a taxpayer meets the personal use standard (more than 50 percent of expected use of an APV for personal use), interest on the SPVL is considered QPVLI. 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 proposed 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 proposed regulations promote flexibility by allowing taxpayers who meet the

[6] 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.

[7] 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 prices 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.*

[8] 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.*

personal use standard and all other requirements to deduct vehicle 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 proposed regulations would clarify what constitutes a SPVL. Specifically, the proposed rules provide that indebtedness qualifies as a 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 and 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 a SPVL. The proposed 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 a SPVL and therefore that only interest on that portion of a 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 proposed guidance benefits taxpayers by removing uncertainty and reduces burden relating to what taxpayers may consider a SPVL. According to Autotrader, for financed vehicle purchases, ''taxes and dealer fees are almost always included in the payment.'' [9] A substantial share of taxpayers with QPVLI would therefore benefit from the proposed 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 proposed 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.

[9] ''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.*

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.

The general recordkeeping requirements mentioned in these proposed regulations are considered general tax records under § 1.6001–1(e). A taxpayer would use these records to establish its eligibility for the section 163(h)(4) deduction and the amount of the deduction claimed. The recordkeeping requirements would include that individuals keep records about the SPVL, the APV, and the amount of interest paid or accrued. For PRA purposes, general tax records are already approved by OMB under 1545–0074 for individuals and 1545–0092 for trust and estate filers.

These proposed regulations also mention reporting requirements related to claiming deductions as set forth in proposed § 1.163–16. 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 OMB under 1545–0074 for individuals and 1545–0092 for trust and estate filers.

These proposed regulations also include reporting, third-party disclosure and recordkeeping requirements required under section 6050AA as set forth in proposed § 1.6050AA–1. The collections will be used by the IRS for tax compliance purposes and by taxpayers to calculate their deduction. The burden associated with these information collections will be included in Form 1098–VLI and its instructions and approved with OMB control number 1545–XXXX in accordance with PRA procedures under 5 CFR 1320.10. The Treasury Department and the IRS request comments on all aspects of information collection burdens related to the proposed regulations. In addition, when available, drafts of IRS forms are posted for comment at *www.irs.gov/draftforms.*

The likely respondents are corporations and partnerships. The estimated burden for these requirements is as follows:

Estimated number of respondents: 35,800 respondents.

Estimated number of responses: 6,000,000 responses.

Estimated frequency of responses: Annually.

Estimated average time per response: 0.25 hours.

Estimated total annual burden hours: 1,500,000 hours.

Estimated total annual burden cost: $130,785,000.

The collections of information contained in this notice of proposed rulemaking has been submitted to the OMB for review in accordance with the PRA. Commenters are strongly encouraged to submit public comments electronically. Written comments and recommendations for the proposed information collection should be sent to *www.reginfo.gov/public/do/PRAMain,* with copies to the Internal Revenue Service. Find this particular information collection by selecting ''Currently under Review—Open for Public Comments'' then by using the search function. Submit electronic submissions for the proposed information collection to the IRS via email at *pra.comments@irs.gov* (indicate REG–113515–25 on the Subject line). Comments on the collection of information should be received by March 3, 2026.

Comments are specifically requested concerning: Whether the proposed collection of information is necessary for the proper performance of the functions of the IRS, including whether the information will have practical utility. The accuracy of the estimated burden associated with the proposed collection of information. How the quality, utility, and clarity of the information to be collected may be enhanced. How the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology. Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

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.

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 603 of the RFA requires the agency to present an initial regulatory flexibility analysis (IRFA) of the proposed regulations. The Treasury Department and the IRS have not determined whether the proposed regulations, when finalized, will have a significant economic impact on a substantial number of small entities. This determination requires further study. However, because there is a possibility of a significant economic impact on a substantial number of small entities, these proposed regulations include an IRFA. The Treasury Department and the IRS invite comments on both the number of entities affected by these proposed regulations and the economic impact of these proposed regulations on small entities.

A. Need for and Objectives of the Rule

The proposed regulations would provide the eligibility rules and key definitions regarding the section 163(h)(4) deduction to allow taxpayers to determine whether their interest is QPVLI eligible for the section 163(h)(4) deduction. In addition, the proposed regulations would 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 a SPVL.

The proposed rules are expected to clarify the OBBBA provision regarding the car loan interest deduction, which Congress intended 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 proposed rules 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 proposed rules are consistent with the promotion of domestic manufacturing. The rules direct taxpayers to the National Highway Traffic Safety Administration VIN lookup tool to help taxpayers determine whether a vehicle had final assembly in the United States, a necessary condition for the vehicle to be eligible for the deduction. Because the proposed rules assist taxpayers in 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 for the deduction. Thus, the Treasury Department and the IRS intend and expect that the proposed rules will deliver benefits across the economy that will favorably impact individuals, vehicle dealers, and the domestic manufacturing industry, including vehicle manufacturers.

B. Affected Small Entities

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 these proposed regulations does not depend on the size of the business, as defined by the Small Business Administration. As described more fully in the preamble to these proposed regulations and in this IRFA, 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 Treasury Department and the IRS currently estimate 35,800 businesses may be impacted by these proposed regulations because they are car and motorcycle loan lenders. Of the estimated 35,800 car and motorcycle loan lenders that may be impacted by these proposed regulations, the Treasury Department and the IRS expect 24,600 would likely be considered a small business entity. To prepare these estimates, the Treasury Department and IRS reviewed tax return filings for relevant industry codes for prior taxable years.

1. Impact of the Rules

The recordkeeping and reporting requirements would increase for businesses that provide loans on 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 the Paperwork Reduction Act section of the preamble. Based on the estimated number of responses (6,000,000) and an estimate time to respond of 0.25 hours, the estimated burden is 1,500,000 total burden hours.

2. Alternatives Considered

The Treasury Department and the IRS considered alternatives to the proposed regulations. For example, the Treasury Department and the IRS considered a delay to reporting for 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, the Treasury Department and the IRS decided not to delay reporting for small businesses.

The Treasury Department and the IRS also considered whether reporting should be required for each person from whom interest was received. However, the Treasury Department and the IRS understand that interest recipients do not necessarily track the identity of the person making payments. Therefore, in order to reduce the reporting burden for small businesses that may find this additional tracking burdensome, these proposed regulations would define a payor of record on an SPVL as any person carried on the books and records of the interest recipient as the principal borrower of the SPVL.

Another alternative considered was whether reporting under section 6050AA should be limited to QPVLI. However, the Treasury Department and the IRS understand that interest recipients do not necessarily have the information necessary to determine whether interest on a SPVL is QPVLI for an individual. Accordingly, to reduce the reporting burden for small businesses that do not routinely ask individuals for information such as the expected amount of personal use of the vehicle, these proposed regulations propose that interest recipients report receipt of interest received on a SPVL.

3. Duplicative, Overlapping, or Conflicting Federal Rules

The proposed regulations would not duplicate, overlap, or conflict with any relevant Federal rules. As discussed in

the Explanation of Provisions, the proposed regulations would merely provide requirements, procedures, and definitions related to the section 163(a) deduction for QPVLI and section 6050AA. The Treasury Department and the IRS invite input from interested members of the public about identifying and avoiding overlapping, duplicative, or conflicting requirements.

IV. Section 7805(f)

Pursuant to section 7805(f) of the Code, these proposed regulations will be submitted to the Chief Counsel for the Office of Advocacy of the Small Business Administration for comment on its impact on small business.

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 in 1995 dollars, updated annually for inflation. These proposed 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 (entitled ''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. This proposed rule does not have federalism implications and does not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive order.

Comments and Public Hearing

Before the proposed regulations are adopted as final regulations, consideration will be given to comments regarding this notice of proposed rulemaking that are submitted timely to the IRS as prescribed in this preamble under the **ADDRESSES** section. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. All comments submitted will be available at *www.regulations.gov*. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn.

A public hearing has been scheduled for February 24, 2026, beginning at 10 a.m. ET, in the Auditorium at the Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Due to building security procedures, visitors must enter at the Constitution Avenue entrance. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. Participants may alternatively attend the public hearing by telephone.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit an outline of the topics to be discussed and the time to be devoted to each topic by February 2, 2026. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing. If no outline of the topics to be discussed at the hearing is received by February 2, 2026, the public hearing will be cancelled. If the public hearing is cancelled, a notice of cancellation of the public hearing will be published in the **Federal Register**.

Individuals who want to testify in person at the public hearing must send an email to *publichearings@irs.gov* to have your name added to the building access list. The subject line of the email must contain the regulation number REG–113515–25 and the language TESTIFY In Person. For example, the subject line may say: Request to TESTIFY in Person at Hearing for REG–113515–25.

Individuals who want to testify by telephone at the public hearing must send an email to *publichearings@irs.gov* to receive the telephone number and access code for the hearing. The subject line of the email must contain the regulation number REG–113515–25 and the language TESTIFY Telephonically. For example, the subject line may say: Request to TESTIFY Telephonically at Hearing for REG–113515–25.

Individuals who want to attend the public hearing in person without testifying must also send an email to *publichearings@irs.gov* to have your name added to the building access list. The subject line of the email must contain the regulation number REG–113515–25 and the language ATTEND In Person. For example, the subject line may say: Request to ATTEND Hearing In Person for REG–113515–25. Requests to attend the public hearing must be received by 5:00 p.m. ET on February 20, 2026.

Individuals who want to attend the public hearing by telephone without testifying must also send an email to *publichearings@irs.gov* to receive the telephone number and access code for the hearing. The subject line of the email must contain the regulation number REG–113515–25 and the language ATTEND Hearing Telephonically. For example, the subject line may say: Request to ATTEND Hearing Telephonically for REG–113515–25. Requests to attend the public hearing must be received by 5:00 p.m. ET on February 20, 2026.

Hearings will be made accessible to people with disabilities. To request special assistance during a hearing, please contact the Publications and Regulations Section of the Office of Associate Chief Counsel (Procedure and Administration) by sending an email to *publichearings@irs.gov* (preferred) or by telephone at (202) 317–6901 (not a toll-free number) by February 19, 2026.

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 proposed 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.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and the IRS propose to 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) for interest paid or accrued within the taxable year on indebtedness, section 163(h)(4) excludes qualified passenger vehicle loan interest (QPVLI) (as defined in section 163(h)(4)(B) and paragraph (b)(12) of this section) 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 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) *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.

(7) *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.

(8) *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.

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

(10) *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.

(11) *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.

(12) *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.

(13) *Qualified vehicle classification*—(i) *In general.* The term *qualified vehicle classification* means one of the following vehicle classifications:

(ii) *Car.* The term *car* means a vehicle classified in one of the classes of passenger vehicles listed in 40 CFR 600.315–08(a)(1), or otherwise so classified by the Administrator of the EPA under 40 CFR 600.315–08(a).

(iii) *Minivan.* The term *minivan* means a vehicle classified as a minivan under 40 CFR 600.315–08(a)(2)(iv), or otherwise so classified by the Administrator of the EPA under 40 CFR 600.315–08(a).

(iv) *Van.* The term *van* means a vehicle classified as a van under 40 CFR 600.315–08(a)(2)(iii), or otherwise so classified by the Administrator of the EPA under 40 CFR 600.315–08(a).

(v) *Sport utility vehicle.* The term *sport utility vehicle* means a vehicle classified as a small sport utility vehicle or standard sport utility vehicle under 40 CFR 600.315–08(a)(2)(v) and (vi), or otherwise so classified by the Administrator of the EPA under 40 CFR 600.315–08(a).

(vi) *Pickup truck.* The term *pickup truck* means a vehicle classified as a small pickup truck or standard pickup truck under 40 CFR 600.315–08(a)(2)(i) and (ii), or otherwise so classified by the Administrator of the EPA under 40 CFR 600.315–08(a).

(vii) *Motorcycle.* The term *motorcycle* means a vehicle classified as a motorcycle under 40 CFR 86.402–78, or otherwise so classified by the Administrator of the EPA.

(14) *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 with status 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.

(15) *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.

(16) *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).

(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. 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 (as defined in paragraph (b)(14) of this section) on the APV financed by the SPVL at the time the interest is paid or accrued.

(ii) *Exception for substitute vehicle due to 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 paragraph (c)(5) 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 under section 163(h)(4) 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)(11) 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 and that are directly related to the purchased APV. Items or amounts customarily financed in an APV purchase transaction and that are directly related to the purchased APV include, for example, vehicle service plans, extended warranties, sales taxes, and vehicle-related fees.

(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 purchased 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, 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 purchased 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 in an APV purchase transaction and that are directly related to the purchased APV 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 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 purchase transaction for an APV) 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 customarily financed in an APV purchase transaction and that directly relate 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 changes 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 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 and that directly relate to the purchased APV within the meaning of paragraph (d)(2)(i) of this section. 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.

(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 and that directly relate to the purchased APV within the meaning of paragraph (d)(2)(i) of this section and therefore this indebtedness is not included in 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 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 is directly related to the purchased APV within the meaning of paragraph (d)(2)(i) 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.

(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)(i) 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 in a qualified vehicle classification (as defined in paragraph (b)(13) of this section);

(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 (as defined in paragraph (b)(3) of this section) 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. In the case of a dealer, 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, original use of the vehicle does not commence with that purchaser unless the vehicle is treated as a new vehicle under the loan documentation.

(ii) *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.

(iii) *Examples.* The rules of paragraphs (e)(1)(i) and (e)(2) of this section are illustrated by the following examples:

(A) *Example 1: Demonstrator vehicles registered and titled in dealer's name*—(*1*) *Facts.* Dealer operates in State X. Dealer purchases and takes delivery of a new vehicle from the manufacturer and designates this vehicle as a demonstrator vehicle. State X law requires a dealer to title and register the vehicle in its name. Accordingly, Dealer titles and registers the vehicle in its name and uses the vehicle as a demonstrator vehicle.

(*2*) *Analysis.* Original use of the vehicle commences with Dealer. Dealer is the first person that takes delivery of the vehicle after it is sold, registered, or titled. Accordingly, the vehicle will not be considered an APV by a subsequent purchaser of the vehicle, and interest paid or accrued by a subsequent purchaser on indebtedness incurred for the purchase of the vehicle is not QPVLI.

(B) *Example 2: Demonstrator vehicles not registered and titled in dealer's name*—(*1*) *Facts.* The facts are the same as in paragraph (e)(2)(iii)(A) of this section (*Example 1*), except that Dealer operates in State Y. State Y law does not require a dealer to title and register a demonstrator vehicle in its name. Accordingly, Dealer does not title and register the vehicle in its name and uses the vehicle as a demonstrator vehicle.

(*2*) *Analysis.* Original use of the vehicle does not commence with Dealer. Dealer 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 if the vehicle is treated as a new vehicle under the loan documentation for the loan incurred by that subsequent purchaser to purchase the vehicle.

(C) *Example 3: Cancelled sale*—(*1*) *Facts.* A, an individual, enters into a contract to purchase a special-order vehicle from a dealer in State Z that is estimated to be delivered in one month. State Z law provides that the vehicle is not required to be titled and registered until A takes delivery of the vehicle. A cancels the order under the sales contract prior to the delivery occurring.

(*2*) *Analysis.* Original use of the vehicle does not commence with A. 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 if the vehicle is treated as a new vehicle under the loan documentation for the loan incurred by that subsequent purchaser to purchase the vehicle.

(D) *Example 4: Vehicle purchase following a lease*—(*1*) *Facts.* Dealer purchases and takes delivery of a new vehicle from the manufacturer for resale. Dealer does not register or title the vehicle and sells the vehicle to Leasing Company. After taking delivery of the vehicle, Leasing Company titles and registers the vehicle in its name. Leasing Company leases the car to A, an individual. At the end of the lease term, A exercises its option to purchase the car under its lease agreement.

(*2*) *Analysis.* Original use of the vehicle does not commence with A. Original use of the vehicle commences with Leasing Company. Leasing Company is the first person that takes delivery of the vehicle after it is sold, registered, or titled. Original use does not commence with Dealer because Dealer did not register or title the vehicle.

(E) *Example 5: Returned vehicle*—(*1*) *Facts.* A is a retail purchaser that purchases a vehicle from Dealer. 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 A. Because A returned the vehicle to Dealer within 30 days of taking delivery of the vehicle, A is not considered to be the first person that takes delivery of the vehicle after it is sold, registered, or titled and therefore original use does not commence with A. Original use of the vehicle may commence with a subsequent purchaser of the vehicle if the vehicle is treated as a new vehicle under the loan documentation for the loan incurred by that subsequent purchaser to purchase 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 taxpayer's intent is determined 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 intention to use the APV to earn income as a driver for a rideshare service for 15% 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% of the time.

(B) *Analysis.* A is not considered to have purchased the APV for personal use. At the time A purchases an 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 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 that may be deductible by A as $1,000 of QPVLI. 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 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 of the taxpayer 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 guidance published in the Internal Revenue Bulletin or in forms and instructions.

(iii) *Example 3: QPVLI limited by 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 to $10,000 of the $15,000 as QPVLI. 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 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. *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 (f) of this section, with the Internal Revenue Service (IRS); and

(ii) Furnish a statement to the payor of record, as described in paragraph (g) 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*—(i) *In general.* Except as provided in paragraph (b)(2)(ii) 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.

(ii) *De minimis rule.* 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.

(3) *Interest recipient*—(i) *Trade or business requirement.* 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 interest on an SPVL. For purposes of this paragraph (b)(3)(i), 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)(i) are illustrated by the following examples:

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

(*2*) *Analysis.* Under the rules of this paragraph (b)(3), A is an interest recipient for purposes of section 6050AA and must file an information return reporting the interest received from B.

(B) *Example 2: Interest not in the course of the trade or business*—(*1*) *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.

(*2*) *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.

(C) *Example 3: Dealer direct lending*—(*1*) *Facts.* E, a corporation, operates a car dealership under the ''buy here, pay here'' model. E sells vehicles to retail 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 a loan agreement with E for the amount necessary to buy the vehicle. F pays E $1,200 of stated interest on the indebtedness during the calendar year.

(*2*) *Analysis.* Because E is engaged in the trade or business of selling automobiles and receives interest 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.

(ii) *Interest received on behalf of another person*—(A) *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 this paragraph (b)(3) 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.

(B) *Exception.* Paragraph (b)(3)(ii)(A) of this section does not apply for any period for which—

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

(*2*) 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.

(C) *Application of exception.* If the exception provided by paragraph (b)(3)(ii)(B) 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.

(D) *Presumption.* For purposes of this paragraph (b)(3)(ii), 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.

(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)(9) (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)(15).

(c) *Reporting by 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.

(d) *Reporting with respect to 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 (d)(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 (d)(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.

(e) *Amount of interest received on SPVL for calendar year.* 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.

(f) *Requirement to file return*—(1) *Form of 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 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 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 requirement to submit the information returns required by this section electronically.

(g) *Requirement to furnish 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 statement.* An interest recipient must include on the statement that it must furnish to the payor of record—

(i) The information required under paragraph (f)(2) of this section;

(ii) 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

(iii) 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 actually paid by, the payor of record.

(3) *Copy of form determined by the Secretary to payor of record.* An interest recipient will satisfy the requirement of paragraph (g)(2)(i) 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 (f)(2) of this section.

(4) *Furnishing statement with other information returns.* An interest recipient may transmit the statement required by paragraph (g)(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 statement.* An interest recipient must furnish a statement required by paragraph (g)(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.

(h) *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, a Form to report information required under section 6050AA, 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. Revising paragraph (j)(2).

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 QPVLI received in trade or business from individuals).

* * * * *

(j) * * *

(2) *Exceptions.*

(i) Paragraph (h)(2)(xii) of this section applies with respect to information returns required to be filed after September 17, 2024.

(ii) Paragraph (h)(2)(xxviii) of this section applies with respect to information returns required to be filed for taxable years beginning after December 31, 2024, and before January 1, 2029.

■ **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. Revising paragraph (g)(2).

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 QPVLI received in trade or business from individuals).

* * * * *

(g) * * *

(2) *Exceptions.*

(i) Paragraph (e)(2)(xxxv) of this section applies with respect to payee statements required to be furnished after September 17, 2024.

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

Frank J. Bisignano,

Chief Executive Officer.

[FR Doc. 2025–24154 Filed 12–31–25; 8:45 am]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 51

[REG–103430–24]

RIN 1545–BR16

Statutory Updates to Branded Prescription Drug Fee Regulations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document proposes amendments to regulations regarding the annual fee imposed on covered entities engaged in the business of manufacturing or importing certain branded prescription drugs. In response to the replacement of the Coverage Gap Discount Program with the new Manufacturer Discount Program by the Inflation Reduction Act of 2022, the proposed regulations would make updates regarding the discounts, rebates, and other price concessions used to determine branded prescription drug sales under Medicare Part D and would update for prior statutory changes. These proposed regulations would affect persons engaged in the business of manufacturing or importing certain branded prescription drugs.

DATES: Written or electronic comments and requests for a public hearing must be received by March 3, 2026. Requests for a public hearing must be submitted as prescribed in the ''Comments and Requests for a Public Hearing'' section.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically via the Federal eRulemaking Portal at *https://www.regulations.gov* (indicate IRS and REG–103430–24) by following the online instructions for submitting comments. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comments submitted to the IRS's public docket. Send paper submissions to: CC:PA:01:PR (REG–103430–24), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. A plain language summary of the proposed regulations will be made available at *https://www.regulations.gov.*

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, contact Julia Barlow at (202) 317–6855 (not a toll-free number); concerning the submission of comments and requests to participate in the public hearing, contact the Publications and Regulations Section by phone at (202) 317–6901 (not a toll-free number) or by email at *publichearings@irs.gov* (preferred).

SUPPLEMENTARY INFORMATION:

Authority

This document contains proposed amendments to the Branded Prescription Drug Fee Regulations (26 CFR part 51).

The proposed regulations are issued under the express delegation of authority under section 9008(i) of the Patient Protection and Affordable Care Act, Public Law 111–148, 124 Stat. 119 (2010), as amended by section 1404 of the Health Care and Education Reconciliation Act of 2010, Public Law 111–152, 124 Stat. 1029 (2010). These acts are collectively referred to in this preamble as the ''ACA.'' All references in this preamble to ''section 9008'' are