Federal Update: P.L. 119-21
Car Loan Interest Subtraction
Individual Income Tax

	FY 2026	FY 2027	FY 2028	FY 2029
		($000s)		
General Fund	($63,400)	($65,600)	($69,900)	($72,100)

Assumed to be effective for tax years 2025 through 2028.

Public Law 119-21 created a temporary deduction for interest paid on certain new vehicles made in America.

The deduction is effective for tax years 2025 through 2028 and is limited to $10,000 per new vehicle loan. The deduction is available to both itemizers and non-itemizers and phases out for taxpayers with modified adjusted gross income over $100,000 for single filers and $200,000 for joint filers. Taxpayers must provide the vehicle identification number (VIN) on their tax return for vehicles purchased after December 31, 2024 to qualify for the deduction. Additionally, the loan must be secured by a lien on the new vehicle.

The deduction does not affect adjusted gross income, the starting point for calculating Minnesota taxable income, and will not have an impact on Minnesota tax liability.

The proposal is to create a Minnesota subtraction equal to the federal deduction.

- The estimate is based on estimates prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025.
- The estimate was apportioned to Minnesota based on Minnesota's share of the United States population. The estimate was adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- The first fiscal year impact will depend on the timing of enactment. This estimate assumes that the proposal would be enacted before the tax year 2025 filing season begins. If it were enacted later than that, some or all of the fiscal year 2026 impact would shift into fiscal year 2027.

Minnesota Department of Revenue
Tax Research Division
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