4 types of interest expense you may be able to deduct

Personal interest expense generally can't be deducted for federal tax purposes. There are, however, exceptions. Here are four, one of which is a new break under the One Big Beautiful Bill Act (OBBBA), which was signed into law in 2025.

1. Mortgage interest

Perhaps the most well-known interest expense deduction, home mortgage interest may be deductible if you itemize deductions rather than claiming the standard deduction. You generally can deduct interest on mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your principal residence also may be deductible.

The OBBBA made permanent the Tax Cuts and Jobs Act's (TCJA's) reduction of the mortgage debt limit from $1 million to $750,000 for debt incurred after December 15, 2017, with some limited exceptions. But the OBBBA also generally made mortgage insurance premiums deductible as mortgage interest — though not until the 2026 tax year. So you can't deduct these premiums on your 2025 return.

2. Auto loan interest

The OBBBA allows eligible individuals — whether or not they itemize — to deduct some or all of the interest paid on a loan taken out after 2024 to purchase a qualifying new car, minivan, van, SUV, pickup truck or motorcycle with a gross vehicle weight rating

under 14,000 pounds. For 2025 through 2028, you can potentially deduct up to $10,000 each year. But various requirements and limits apply.

One of the most significant requirements is that the vehicle's "final assembly" must occur in the United States. An important limit to be aware of is that the deduction is phased out starting at $100,000 of modified adjusted gross income (MAGI) or $200,000 for married couples filing jointly. The deduction is completely phased out when MAGI reaches $150,000 ($250,000 for joint filers).

3. Student loan interest

If you have student loan debt, you may be able to deduct the interest, subject to various rules and limits. You don't have to itemize to claim the deduction, and the maximum deduction is $2,500. The interest must be for a "qualified education loan," which means a debt incurred to pay tuition, room and board, and related expenses to attend a post-high-school educational institution, including certain vocational schools. Post-graduate programs may also qualify.

For 2025, the deduction begins to phase out for single taxpayers when MAGI exceeds $85,000 ($175,000 for joint filers). The deduction is unavailable for single taxpayers with MAGI of more than $100,000 ($205,000 for joint filers). Married taxpayers must file jointly to claim this deduction. Taxpayers who can be claimed as a dependent on another tax return aren't eligible.

4. Investment interest

Investment interest — interest on debt used to buy assets held for investment, such as margin debt used to buy securities — may be deductible. But you can't deduct interest you incurred to produce tax-exempt income. For example, if you borrow money to invest in municipal bonds, which are exempt from federal income tax, you can't deduct the interest.

Perhaps more significant, your investment interest deduction is limited to your net investment income, which, for the purposes of this deduction, generally includes taxable interest, *non*qualified dividends and net *short*-term capital gains, reduced by other investment expenses. In other words, *qualified* dividends and *long*-term capital gains aren't included (unless you elect to treat them as nonqualified dividends or short-term capital gains subject to the higher tax rates that apply to those types of income). Any disallowed interest is carried forward. You can then deduct the disallowed interest in a later year if you have excess net investment income.

What interest can *you* deduct?

If you're wondering whether you can claim any interest expense deductions on your 2025 return, please contact us. We can calculate your potential deductions and help you determine if there are steps you can take this year to maximize your deductions when you file your 2026 return next year.

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