STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Tangipa

Sponsor:

Bill Number: AB 490

Related Bills: See Legislative History

Introduced: February 10, 2025

SUBJECT

Deduction for Car Loan Interest Payments

SUMMARY

This bill, under the Personal Income Tax Law (PITL), would allow an above-the-line deduction for interest paid by a taxpayer on a qualified motor vehicle loan for each taxable year beginning on or after January 1, 2026, and before January 1, 2031.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for this bill is to assist Californians in affording the cost of a vehicle by allowing a deduction for interest paid on a qualified motor vehicle loan.

ANALYSIS

Under the PITL, for each taxable year beginning on or after January 1, 2026, and before January 1, 2031, this bill would allow an above-the line-deduction to calculate adjusted gross income (AGI) for an amount equal to the interest paid by a taxpayer on a qualified motor vehicle loan.

The bill defines “qualified motor vehicle loan” as a loan obtained by the taxpayer for a personal use vehicle.

Additionally, the deduction is limited to interest payments on one qualified motor vehicle loan per taxpayer.

The bill includes Revenue and Taxation Code section 41 requirements that would provide that the measurement of effectiveness of the deduction would be the number of taxpayers receiving the deduction and the average dollar amount of the deductions. The Franchise Tax Board (FTB) would be required to annually report to the Legislature the deduction data no later than December 1, 2027, and each year thereafter. The FTB would be required to file this report in compliance with Government Code section 9795.

The Section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

This deduction would be repealed on December 1, 2031.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

Federal/State Law

Existing federal and state laws allow for the deduction of certain expenses, from gross income, when calculating AGI, such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, retirement savings. Thus, all taxpayers with these types of expenses receive the benefit of the deduction, regardless of whether the taxpayer itemizes their deductions or uses the standard deduction. These are known as above-the-line deductions.

There is no comparable deduction for the interest paid on a qualified motor vehicle loan in federal or state law.

Implementation Considerations

FTB has identified the following considerations and is available to work with the author’s office to resolve these and other considerations that may be identified.

“Qualified motor vehicle loan” is defined as a loan for a personal use vehicle loan. A personal use vehicle loan could include all types of vehicles, such as luxury or recreational vehicles. If this is contrary to the author's intent, the author may wish to amend the bill to provide a provision limiting the amount of the deduction. Alternatively, the author could clarify what type of vehicles are included in the term personal use vehicle.

The deduction would be allowed for one vehicle per taxpayer, which could mean only one vehicle during the taxpayer's lifetime. If that is contrary to the author's intent, the author may want to clarify whether the deduction would be allowed for one vehicle per taxpayer per taxable year.

This bill requires the FTB to prepare a report detailing the number of taxpayers allowed a deduction and the average dollar value of deductions allowed by December 1, 2027, and annually thereafter. If the author's intent is to be able to review a report that contains complete information for the 2026 taxable year, it is recommended that the report due date be extended later in the year to July 1, 2028, (or due annually starting in 2028 and each year thereafter). For instance, the due date for the 2026 personal income tax return is April 15, 2027, and with extension individuals may file as late as October 15, 2027. The FTB needs approximately six months to complete return processing and to finalize and submit the report. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

Technical Considerations

For clarity, the following changes are recommended:

- In Section 17205(a), replace "for each taxable year…" with "for taxable years..."
- In Section 17205(a), "interest paid…" should include "during the taxable year..."
- In Section 17205(d)(2)(A), replace "dollar value…" with "dollar amount..."

Policy Considerations

This bill does not limit the amount of the deduction that may be claimed. Deductions that could potentially be costly are sometimes limited either on a per-project or income basis. This bill would allow a 100% deduction, which would be unusual. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 232 (Calderon, Gipson, and Valencia 2025/2026), under the PITL, would allow homeowners to establish a catastrophe savings account (CSA) to pay for insurance deductibles and other uninsured losses resulting from a Governor-declared emergency. This bill would provide both a deduction for amounts contributed by an individual homeowner to a CSA and a gross income exclusion for interest amounts earned for taxable years beginning on or after January 1, 2025, and before January 1, 2030. AB 232 has been referred to the Assembly Revenue and Taxation Committee.

AB 1867 (Sanchez, 2023/2024), under the PITL, would have allowed an income tax deduction for amounts paid or incurred by a taxpayer for premiums on a homeowner's insurance policy on the taxpayer's primary residence. AB 1867 did not pass out of the Assembly Revenue and Taxation Committee by the constitutional deadline.

AB 1026 (Ta, 2023/2024), under the PITL, would have allowed a qualified taxpayer a deduction from gross income for contributions made to a California qualified tuition program. AB 1026 did not pass out of the Assembly Revenue and Taxation Committee by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 490 as Introduced February 10, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$600
2026-2027	-$1,100
2027-2028	-$1,200

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Based on available data from the California Policy Lab, Experian, and LendingTree, it is estimated that California taxpayers would owe about $270 billion in motor vehicle loans in the 2026 taxable year. After adjusting for households with more vehicle loans than qualified taxpayers, loan defaults, and use of personal vehicles for business purposes, it is estimated there would be about $176 billion in qualified vehicle loans. Based on a review of car loan statistics, it is estimated the average motor vehicle loan interest rate would be 8.6%, resulting in estimated interest payments of about $15 billion. Because the deduction would be used in the calculation of AGI, taxpayers are expected to claim $15 billion vehicle loan deductions in the 2026 taxable year. Applying the average tax rate of 7%, the estimated revenue loss would be roughly $1.0 billion in the 2026 taxable year.

The taxable year estimates are then converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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