Trump's Car Loan Interest Deduction Plan Generates Skepticism

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By Alexander Rifaat

Tax policy watchers are questioning the potential effectiveness and fiscal consequences of former President Trump's pledge to make payments of interest on car loans tax deductible.

The Republican presidential nominee announced his car loan interest proposal in Detroit October 10, arguing that it would ignite a surge in car sales and production.

However, observers have pointed out that key questions remain on the structure of the plan that could affect the larger tax debate set to take place next year.

Garrett Watson of the Tax Foundation said there's one obvious question that needs to be addressed.

"The big policy design question is, will this just go to itemizers, or will this be available to everyone?" Watson told *Tax Notes*, noting that only about 10 to 15 percent of taxpayers itemize their deductions.

Watson added that while Trump's proposal may provide some relief if he makes the deductibility available to all taxpayers, the actual effect would be marginal, given that interest payments make up a small percentage of the estimated $1.6 trillion in overall auto loan debt in the United States.

"It's unclear that this would move the dial in terms of affordability for American families," Watson said.

Also not known is whether the proposal would be available only to owners of domestic cars, with the American Enterprise Institute pointing out that imported cars account for almost half of all U.S. car sales.

Shifting Into Reverse?

Another point of contention is the potential cost of Trump's plan.

The Budget Lab at Yale University estimates that making car loan interest payments tax deductible would cost $71 billion over 10 years if it was simply itemized, or $173 billion if made available to everyone.

While those figures aren't as high as estimates for some of Trump's other policy proposals, Brendan Duke of the Center for American Progress believes the accumulation of various new tax cuts could lead to a fiscal crisis that affects the wider economy.

"All of these unpaid-for tax cuts will actually put more upward pressure on interest rates," Duke told *Tax Notes*. "It also undermines his own rationale for the 2017 [Tax Cuts and Jobs Act], which was supposedly meant to simplify taxes and limit deductions."

Adam Michel of the Cato Institute agrees that Trump's plan would add more complexity to the tax code, and he added that it speaks to a larger question regarding the deductibility of interest payments.

"The way that interest is currently treated in our tax code is relatively schizophrenic," Michel said, noting that taxpayers can deduct interest payments on only a handful of items, such as mortgages and student loans.

Michel believes Trump's pattern of offering specific tax giveaways to targeted constituencies on the campaign trail will undermine negotiations over extending the TCJA tax provisions that expire at the end of next year.

"All of these proposals are poking new holes in the tax base, which will make keeping rates low and the 2025 tax debate even more challenging," Michel said.

The cost of extending the TCJA tax provisions is set to be a major contributor to the ever-increasing fiscal deficit of the United States, with the nonpartisan Committee for a Responsible Federal Budget estimating that Trump's plan to fully extend the TCJA measures and potentially raise the state and local tax deduction cap would widen the deficit by $5.4 trillion over 10 years. The committee estimates that Vice President Kamala Harris's plan to extend the TCJA provisions only for those earning less than $400,000 would increase the deficit by $3 trillion over the same period.