February 2, 2026

Department of U.S. Treasury
Internal Revenue Service
P.O. Box 7604
Room 5503
Ben Franklin Station
Washington, DC 20044

Re: Comments on Proposed Regulations Regarding Qualified Passenger Vehicle Loan Interest Deduction under IRC Section 163(h)(4) and Related Reporting Requirements under Section 6050AA [REG-113515-25]

To Whom It May Concern:

The California and Nevada Credit Union Leagues – also known as California's Credit Unions and Nevada's Credit Unions (collectively, "Leagues") – represent 257 credit unions serving over 14.8 million members across California and Nevada. The Leagues appreciate the opportunity to comment on the proposed regulations.

Background

In July 2025, H.R. 1, commonly known as the One, Big, Beautiful Bill Act,[1] amended the Internal Revenue Code ("IRC") to: (1) establish a temporary deduction for qualified passenger vehicle loan interest ("QPVLI") under section 163(h)(4); and (2) impose new third-party information reporting requirements relating to applicable passenger vehicle loan interest received in a trade or business from individuals under section 6050AA.[2] Applicable to interest paid in tax years 2025 through 2028, these provisions will extend federal information reporting into vehicle lending in a manner that is unprecedented and operationally complex, requiring lenders to collect, validate, and report data elements not previously required—or available—in the ordinary course of auto lending.

On December 31, 2025, the Internal Revenue Service ("IRS") issued guidance (IR-2025-129) acknowledging the novelty of these requirements and the significant implementation challenges created by the statute's accelerated effective dates. The IRS recognized that lenders were afforded limited time to modify systems, update processes, and establish controls necessary to comply with section 6050AA, and accordingly provided transitional relief and flexibility for early reporting periods. This reflects an important recognition that effective tax administration must account for operational realities to promote accurate reporting and mitigate systemic compliance risk.

The Leagues strongly support policies that promote the financial well-being of consumers, including targeted tax relief intended to reduce the cost of vehicle ownership. However, the proposed regulations contain requirements that are operationally unworkable and, in certain respects, technically infeasible for credit unions to implement within existing core banking and loan-servicing frameworks. Absent meaningful

[1] Public Law 119-21, 139 Stat. 72 (July 4, 2025).
[2] 26 U.S.C. §§163(h)(4) and 6050AA.

revisions, these requirements risk undermining the intended consumer benefits by increasing reporting errors, borrower confusion, and compliance risk for community-based financial institutions.

I. General Comments: *The Credit Union Difference*

Credit unions are member-owned, not-for-profit financial cooperatives established to promote thrift and expand access to affordable credit for their member-owners. Credit unions are community-based institutions formed to serve defined fields of membership, including geographic communities, employer groups, and underserved populations. As a result, credit unions have a direct and enduring interest in the financial well-being of the consumers they serve and prioritize responsible, low-cost lending over transactional volume.

This cooperative structure directly shapes how credit unions design and operate their lending and servicing systems. Credit unions generally rely on standardized core processing platforms, streamlined product offerings, and vendor-supported servicing environments that are designed to support prudent lending and consumer disclosures—not to perform bespoke tax eligibility determinations or granular forensic data analysis. These operational constraints are not a matter of institutional preference, but of scale, cost, and fiduciary responsibility to member-owners.

The Leagues strongly support the policy objective of providing meaningful tax relief to consumers through the qualified passenger vehicle loan interest deduction. However, the proposed regulations under sections 163(h)(4) and 6050AA assume that lenders can collect, validate, and report data elements—such as original use, first-in-service status, interest allocation across loan components, and definitive VIN-based eligibility determinations—that are not available to credit unions in the ordinary course of lending and cannot be reliably derived from existing systems or third-party sources.

Absent regulatory accommodations that reflect these realities, the proposed framework risks producing inconsistent reporting, increasing borrower confusion, and diverting limited institutional resources away from affordable credit offerings and member service. For community-based credit unions, these consequences ultimately fall on consumers, undermining the very policy objectives H.R. 1 was intended to advance.

II. Specific Comments Pertaining to the Proposed Rule

- **Treatment of Negative Equity and Interest Allocation (Proposed §1.163-16(d)(2))**

Proposed §1.163-16(d)(2) would limit specified passenger vehicle loans ("SPVLs") to indebtedness incurred for the purchase of an applicable passenger vehicle ("APV") and items or amounts "customarily financed" in an APV purchase transaction and directly related to the purchased vehicle (e.g., vehicle service plans, extended warranties, sales taxes, vehicle-related fees, etc.). The proposed regulations further provide that indebtedness attributable to negative equity on a trade-in vehicle is not incurred for the purchase of an APV and therefore does not qualify as an SPVL.

Where a transaction includes both qualifying and non-qualifying amounts, the proposed regulation would treat the portion of the indebtedness attributable to non-qualifying amounts as non-SPVL indebtedness,

with the result that none of the interest attributable to that portion is deductible as QPVLI. The proposal further provides an ordering rule under which any down payment or other consideration supplied by the taxpayer is applied first against negative equity and other non-qualifying amounts.

Although these provisions establish a framework for determining the principal amount of indebtedness that qualifies as an SPVL, they do not provide a workable mechanism for determining the interest attributable to the qualifying and non-qualifying portions of a single loan over time. In practice, auto loans are originated, serviced, and amortized as a single obligation. Loan servicing systems accrue interest on the outstanding loan balance as a whole and do not track interest by reference to discrete components of principal once the loan is booked.

As a result, even where a lender can determine, at origination, the portion of a loan that constitutes nonqualifying indebtedness under the proposed rule, lenders lack the operational capability to allocate interest payments between qualifying and nonqualifying portions on an ongoing basis. Retrofitting servicing platforms to perform this allocation would require substantial system redevelopment, manual workarounds, and ongoing reconciliation, materially increasing error risk and undermining the accuracy and consistency of information reporting.

This issue is not cured by the ordering rule in proposed §1.163-16(d)(2)(iii)(B). While the proposal may reduce the principal amount treated as non-qualifying indebtedness, it does not address the fundamental challenge of tracing interest payments to portions of a loan that are indistinguishable for servicing and accounting purposes. As drafted, the proposed regulations would require lenders to perform interest-level tracing that is not supported by existing systems and is not feasible to implement at scale.

We therefore urge the IRS to modify the final regulations to adopt an administrable approach. In particular, where a loan otherwise qualifies as an SPVL and includes negative equity that is incidental to an APV purchase transaction, the IRS should permit the loan to be treated as an SPVL in its entirety for purposes of reporting QPVLI. Alternatively, the final regulations should provide a safe harbor under which lenders are not required to allocate interest between qualifying and non-qualifying portions of a single loan.

Absent such relief, the proposed rules would impose compliance obligations that lenders cannot reasonably satisfy, increasing the likelihood of inconsistent reporting and consumer confusion, contrary to the objectives of sections 163(h) and 6050AA.

- **Refinances: Customary Charges, Added Coverage, and Additional Obligors (Proposed §1.163-16(d)(4) and (5))**

IRC section 163(h)(4)(E)(ii) generally provides that a new loan resulting from the refinancing of an SPVL is treated as 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. The statute thus reflects a clear intent to preserve SPVL treatment for refinanced loans that remain economically tied to the original qualifying indebtedness.

Proposed §1.163-16(d)(4) would implement this statutory rule by limiting the amount of a refinanced loan that qualifies as an SPVL to the outstanding balance of the refinanced SPVL as of the date of refinancing.

While this approach provides clarity with respect to principal limitations, the proposed regulations do not address whether customary refinancing charges and common loan features may be included in a qualifying refinanced loan without disqualifying the excess amount.

In practice, borrowers frequently refinance dealership-originated loans, often entered into at higher interest rates for convenience, through their credit union to obtain more favorable terms. These refinance transactions routinely include title and registration fees, as well as optional consumer protection products such as GAP coverage or extended warranties that were not purchased at origination. These items are customary in vehicle financing and are directly related to the continued ownership and protection of the APV.

Absent clarification, proposed §1.163-16(d)(4) could be read to exclude these customary refinancing components from SPVL treatment solely because they were not part of the original loan balance. Such an interpretation would discourage borrowers from refinancing into lower-cost loans and would undermine the consumer protection objectives underlying section 163(h)(4)(E). We believe that customary refinancing charges and vehicle-related protection products should be treated consistently with items described in proposed §1.163-16(d)(2)(i) and permitted to be included in a qualifying refinanced loan, provided the loan otherwise satisfies the statutory requirements.

The proposed regulations also impose significant limitations related to changes in obligor. Proposed §1.163-16(d)(4), read in conjunction with proposed §1.163-16(d)(5)(i), would provide that if there is a change in obligor as part of a refinancing, the new loan is not an SPVL with respect to any obligor other than the original obligor, except in the case of a refinancing connected with the obligor's death within the meaning of proposed §1.163-16(d)(5)(ii).

This restriction extends beyond what is necessary to implement section 163(h)(4)(E)(ii) and does not reflect common refinancing practices. In many refinance transactions, borrowers add a co-obligor, often a spouse, to improve credit terms and reduce borrowing costs. This change does not alter the economic substance of the loan, does not increase the lender's reporting burden, and does not introduce abuse risk. However, under the proposed rule, the addition of a co-obligor could result in partial or complete loss of SPVL treatment, effectively penalizing borrowers for engaging in prudent financial behavior.

We urge the IRS to revise the final regulations to clarify that:

1) Customary refinancing charges and vehicle-related consumer protection products may be included in a refinanced loan without disqualifying SPVL treatment; and
2) The addition of a co-obligor in connection with a refinance does not, by itself, disqualify the loan from treatment as an SPVL, provided the loan otherwise satisfies the requirements of section 163(h)(4)(E)(ii).

Without such clarifications, the proposed regulations would restrict refinancing activity in a manner not compelled by the statute and would create unnecessary barriers to borrowers seeking lower-cost, safer vehicle financing.

- **Inability to Verify Original Ownership in Refinance Transactions (Proposed §1.163-16(e)(2))**

IRC section 163(h)(4)(D)(i) limits the term "applicable passenger vehicle" to those where the "original use... commences with the taxpayer." While this determination is straightforward at the point of a dealer-originated purchase, it becomes an evidentiary "black hole" during the refinance transactions that are a cornerstone of credit union auto lending.

Proposed §1.163-16(e)(2)(i) provides that, "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 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." However, refinance transactions do not involve the re-execution of original purchase, sale, or registration documents that would establish "first use."

As a practical matter, lenders have no reliable or automated means to determine whether a borrower was the original owner of the vehicle or whether the vehicle was first placed in service within the applicable statutory window. State motor vehicle title and registration systems are not always designed to surface original-use or first-in-service data to refinancing lenders and commonly used third-party vehicle data sources do not provide a complete or authoritative substitute. As a result, verification of original ownership in the refinance context is not feasible in the ordinary course of lending operations.

Furthermore, IRC section 6050AA requires lenders to report interest on a "specified passenger vehicle loan," yet the statute provides no safe harbor for lenders who cannot verify the "original use" status of the underlying collateral. Forcing credit unions to act as forensic title investigators would materially increase processing times, operational costs, and borrower friction — costs that will ultimately be borne by the consumer.

The final regulations must acknowledge the systemic lack of data in the refinance market. We urge the IRS to clarify that for purposes of section 6050AA reporting, lenders may rely on a signed borrower certification of original ownership. The ultimate burden of proof for the "original use" requirement should rest where it belongs: with the taxpayer claiming the deduction, not the financial institution servicing the debt.

- **Vehicle Identification Number Accuracy and Assembly Determinations (Proposed §1.163-16(e)(3))**

IRC §163(h)(4)(D)(vii) mandates that a vehicle must undergo "final assembly... within the United States" to be deemed an "applicable passenger vehicle." Proposed §1.163-16(e)(3) identifies the 17-character Vehicle Identification Number (VIN) as the primary data point for lenders to verify this assembly location and for taxpayers to claim the deduction.

However, the reliance on VIN accuracy for definitive tax reporting creates a significant systemic risk. In the standard lifecycle of an auto loan, a VIN is manually transcribed across multiple paper documents, from the dealer's invoice to the state's registration, and eventually into the lender's core system. This manual chain of custody provides a substantial opportunity for clerical errors. Even a single character transposition,

which is common in high-volume lending environments, would lead to a "mismatch" against National Highway Traffic Safety Administration ("NHTSA") databases, incorrectly signaling that a qualifying vehicle is ineligible.

Under section 6050AA, lenders are now tasked with reporting this VIN as a condition of the taxpayer's deduction. Given the manual nature of data entry in the automotive industry, lenders cannot consistently ensure the level of VIN "perfection" required to make definitive eligibility determinations, particularly in refinance scenarios where the lender did not receive the data directly from the manufacturer's original invoice.

We urge the IRS to provide a safe harbor for minor clerical errors in VIN reporting. Furthermore, we recommend that the final regulations allow lenders to fulfill their obligation by reporting the VIN as it exists in their records without requiring the lender to cross-reference that VIN against assembly databases to verify the "final assembly" requirement. That verification is more appropriately handled through taxpayer certification or IRS-level validation against manufacturer data.

- **Responsibility for Determining Loan Eligibility (Proposed §1.6050AA-1)**

The Leagues strongly urge the IRS to clarify that section 6050AA does not deputize financial institutions as tax eligibility auditors. As currently drafted, proposed §1.6050AA-1 places an impossible "due diligence" burden on credit unions to verify facts that exist entirely outside their control.

Eligibility for the deduction under IRC section 163(h)(4) hinges on several factors that a lender cannot verify through a standard loan application, including:

- **The Taxpayer's Income:** The deduction phases out under proposed §1.163-16(h)(2) based on Modified Adjusted Gross Income ("MAGI") thresholds that a lender has no way of knowing at the time of reporting.

- **Personal Use Intent:** Lenders can confirm a vehicle is not titled to a business, but they cannot monitor whether a borrower actually uses the vehicle for "personal use" per proposed §1.163-16(a)(2) or if they later convert it to a business asset (e.g., for ride-sharing or delivery services).

- **The "Related Party" Exclusion:** Under IRC section 163(h)(4)(E)(iii), interest on loans between related parties is non-deductible under proposed §1.163-16(d)(3). Lenders cannot be expected to conduct genealogy or corporate-ownership audits to ensure a borrower isn't purchasing a vehicle from a related party.

By requiring lenders to file Form 1098-VLI only for "specified passenger vehicle loans," the IRS is implicitly requiring lenders to make a definitive legal determination on these points. This is a significant departure from other reporting regimes, such as Form 1098 for mortgage interest, where the lender reports the interest paid and the taxpayer determines the deduction's validity on their own return.

We recommend that the final regulations adopt a "Notice-Only" safe harbor. Lenders should be permitted to provide interest statements to any borrower who paid $600 or more in interest on a vehicle-secured loan, accompanied by a standard IRS-approved disclaimer.

Failure to provide this safe harbor under proposed §1.6050AA-1 could lead to "defensive under-reporting," where lenders, fearing penalties for "incorrect" 1098-VLI filings, choose not to report interest for any loan where 100% of the criteria cannot be forensically proven. This outcome would ultimately harm the very consumers the H.R. 1 was designed to assist.

III. Conclusion

The Leagues reiterate our strong support for the underlying goal of providing targeted tax relief to American families and reducing the cost of vehicle ownership. However, the proposed regulations, as currently drafted, impose compliance expectations that are fundamentally misaligned with the operational realities of vehicle lending—particularly in the refinance market that is predominantly served by credit unions.

By requiring lenders to allocate interest across loan components that are serviced as a single obligation, verify “original use” data that is not available in refinance transactions, and guarantee the accuracy of manually captured 17-character VINs for tax eligibility purposes, the proposed regulations establish a standard of precision that cannot be achieved through reasonable, automated, and good-faith processes. The proposed rule would effectively deputize financial institutions as tax eligibility auditors without providing the authority, data access, or statutory safe harbors necessary to perform that role.

Without meaningful revisions, credit unions will be placed in the untenable position of choosing between inaccurate reporting and defensive under-reporting to mitigate penalty risk. That outcome would disproportionately harm consumers—particularly those in California and Nevada who rely on credit unions for lower-cost refinancing—by creating regulatory barriers that limit access to the deduction Congress intended them to receive.

We respectfully urge the Treasury and the IRS to finalize regulations that honor both the letter and the spirit of H.R. 1 by placing eligibility determinations with the taxpayer and permitting lenders to satisfy their reporting obligations through administrable, good-faith, and system-supported processes. Doing so will promote accurate reporting, reduce consumer confusion, and ensure that the benefits of the qualified passenger vehicle loan interest deduction are delivered as intended.

We appreciate your consideration of these comments and welcome continued engagement as the IRS finalizes this rulemaking.

If you have any questions regarding our comments, please do not hesitate to contact me.

Sincerely,

Lucy Ito
Interim President and CEO
California and Nevada Credit Union Leagues