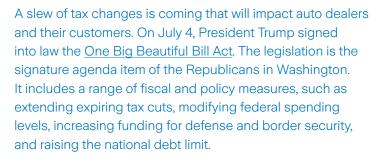


## Auto Dealer Regulatory Update July 2025

Special tax legislation report



Many provisions of the 2017 Tax Cuts and Jobs Act were slated to expire at the end of 2025, including reductions in individual tax rates. A permanent extension of the current tax rates, plus a permanent extension of the Section 199A pass-through deduction are a benefit to dealers organized as pass-through entities, such as <u>S corporations</u>, LLCs, or partnerships. There was no increase in the corporate tax rate, so C corporation dealers were not affected by the fiscal pressures for additional revenue offsets.

The new legislation returns immediate business expensing. Phasing down since 2022, the bonus depreciation provision allows deduction of the full cost of assets in the year they are placed in service. Another provision improved for dealers is the interest expense limitation. The deduction for business interest expense was limited to 30% of what's known as EBIT (earnings before interest and taxes). The new looser limitation now uses EBITDA (earnings before interest, taxes, depreciation and amortization), creating a larger pool to apply the 30% limitation and thereby a higher ceiling on the deduction for business interest expense. The estate and gift tax exemption was increased and made permanent to a new level at \$15 million per person, or \$30 million for joint filers, a benefit for dealers planning to pass down their stores to successors.

There are also many implications for a dealer's customers. President Trump campaigned on creating an auto loan tax deduction. The new legislation includes that, but with some limitations that may cause some confusion for customers. The deduction for up to \$10,000 of auto loan interest is limited to new vehicles manufactured in the United States and bought for personal use (not for business or commercial use). The deduction phases out for those with income over \$100,000 (\$200,000 for joint filers). The deduction is available through 2028 and even includes interest paid in 2025 before the bill was enacted.

Electric vehicle (EV) tax credits were targeted to be cut off as revenue offsets for other policies. The new EV tax credit (30D), the used EV tax credit (25E), and the commercial (or "lease loophole") tax credit (45W) will all be eliminated after September 30, 2025. The tax credit for EV charging property (30C) will be terminated after June 30, 2026. Given the terms of the auto loan deduction, there is a window until September 30 where a customer buying an EV could benefit from both the interest deduction and an EV tax credit.

There is a lot to digest in the bill. The lack of adverse tax rate changes for 2026 coupled with some business-friendly tax provisions creates some operational incentives and planning opportunities for dealerships. Understanding the consumer-facing updates will help dealers navigate customers through the changing tax benefits and limitations within the new legislation.

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