

INSURANCE

How Does a Car Insurance Deductible Work?

Setting the best deductible for car insurance is key to getting the right coverage at the right price. But first, you need to know how it works.



A car insurance deductible is one of the most important elements of your car insurance coverage. It's the amount of money you must pay out of pocket toward an insured loss before your insurer steps in.

But, you'll usually need to set about four different types of car insurance deductibles for a standard car insurance policy.

Therefore, knowing and understanding the four types of deductibles is crucial. If you're buying a car soon or switching car insurance, check out the different types of deductibles, and get tips on how to set the right amount for you.

How do car insurance deductibles work?

After subtracting the car insurance deductible you agreed to pay from the total claim value, your insurer will pay the remaining balance of the claim.

For instance, say your car insurance deductible is \$500. If you're in an accident and the insurer determines the damage to your car will cost \$5,000, you're on the hook for \$500 of those repair costs, and the insurance company pays the remaining \$4,500 for the claim.

If you've ever dealt with health insurance or home insurance deductibles, it's a very similar process.

However, unlike health insurance, it's not an annual deductible. In the example above, you'd be responsible for the first \$500 of each claim you make, even if you've already paid a deductible on a claim earlier that same year.

Unlike home insurance, car insurance typically pays out after the repairs are made, instead of sending you a claim check beforehand. Often, the insurance company will pay its share of the claim directly to the repair shop. You pay your share (the deductible) to the repair shop when you pick up your car.

Car insurance deductibles typically only apply if you're making a claim on damage to your own car or property in an accident in which you're deemed at fault. They don't apply for liability claims, in which your insurer pays out a claim to the other driver.

Four types of car insurance deductible

Deductibles usually are paid on claims that fall under four types of coverage in your car insurance policy.

1. Collision

If you damage your vehicle in an accident in which you're at fault, this damage will be covered under your collision insurance. However, you'll need to pay a deductible on the claim.

2. Comprehensive

If your vehicle is damaged by something out of your control, your comprehensive insurance could pay for repairs. Examples include hitting a deer, storm damage or theft. This type of insurance usually also covers vandalism and fire. These claims will incur a deductible.

3. Uninsured or underinsured motorists

If someone without insurance or without enough insurance coverage to pay your claim in full is found at fault for a car accident involving you, your uninsured/underinsured motorist coverage would pay the rest of that claim to you.

In that event, a deductible could apply depending on where you live.

4. Personal injury protection (PIP) coverage

In most states, the driver who caused a car accident is considered "at fault," and their insurance is required to pay for medical bills. But 12 states* operate under "no-fault" laws, meaning you're required to file bodily injury claims with your own insurance company through Personal Injury Protection (PIP).

This type of insurance covers your medical expenses resulting from an accident, even if you're not at fault. Some no-fault states will allow you to opt out of PIP coverage.

PIP coverage will also come with a deductible.

*The 12 no-fault states include Florida, Hawaii, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Dakota, Pennsylvania and Utah.

What is the best car insurance deductible?

Car insurance deductibles can range from \$100 to \$2,000, with many options in between. The average car insurance deductible is \$500. Determining a good deductible depends on your individual financial situation and driving history.

While the lowest possible deductible sounds tempting, insurers typically charge higher premiums on policies with low deductibles. Choosing a higher deductible is one way to lower the cost of car insurance.

How do you choose a car insurance deductible?

When selecting a deductible, consider how often you drive and what risks are most relevant in your area. If you don't drive often, it might make sense to take a higher deductible, as you're less likely to get in an accident in any given year.

Meanwhile, if you live in an area that experiences intense hurricanes, tornadoes or other storm damage, you might opt for a lower deductible so you're not paying too much each time hail cracks your windshield or a flood damages your car interior.

Ultimately, though, it comes down to how much you're willing to pay now on premiums versus how much you're willing to risk being on the hook for if you're in an accident.

For instance, if you have money readily available, you could pay higher premiums and choose a lower deductible. If you do file a claim, you'll pay less out of pocket for repairs.

On the other hand, if money is tight, you might opt for lower premiums to pay upfront and choose a higher deductible on the policy. When going this route, it might be worth setting some money aside in a high-yield savings account until you have enough saved to cover your deductible.

Are car insurance deductibles tax deductible?

If you use your car for business, your car insurance premiums and any deductible payments might be tax deductible.

Say you invest in real estate and drive to house you're working on to meet a contractor or check on work progress. That counts as business use. If you run to Home Depot to pick up paint or tools to put in some sweat equity on that house, that drive to and from the store counts as business use, too.

However, if the car is also used for personal errands that aren't work-related, tax deductions get tricky. You'll need to track your mileage and calculate the percentage of total mileage driven during the year that's for eligible business purposes. That percentage is the amount of your premiums and other car expenses you can claim as a deduction.

Note that your car insurance deductible can only be claimed on your taxes in certain circumstances, and the calculation is even trickier than deducting premiums. It might be best to get help from a tax pro when it's time to file taxes for a year when you were in a car accident.

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Karon writes about personal finance, including consumer credit, credit cards, mortgages, student loans and retirement, along with travel, small business and health care. Her work has appeared in U.S. News & World Report, LendingTree, USA Today's 10Best, GoodRx and many others. Karon earned her B.S. in journalism with an emphasis on news editorial from the University of Southern Mississippi. A member of the American Society of Journalists & Authors, Karon released her first book, "100 Things to Do in the North Georgia Mountains Before You Die" (Reedy Press), in 2022.

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