

VAT Flash

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Input VAT deduction for passenger cars

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On Friday 6 February 2009, during the second reading of the new governmental VAT Act amendment (parliamentary document no. 605), a member of parliament Ladislav Šustr (from KDU-ČSL) suggested changes of several sections which will allow an entitlement to input VAT deduction on the purchase and technical improvement of passenger cars without limitation of their types. This parliamentary print passed through the second reading and the third reading, most important is expected to take place next week.

Entrepreneurs, VAT payers who will use the passenger cars for their business activities only, would be entitled to claim the full input VAT deduction. In case of using the passenger car for the both - business and non business activities, the entrepreneur will be entitled to claim the VAT deduction to the same extent in which the passenger car will be used for business activities. If the VAT payer claims full entitlement to input VAT deduction and subsequently will use the passenger car also for non business purposes, an obligation to pay VAT from the usage for non business purposes will arise.

The parliamentary draft contains transitional provisions according to which it will be possible to claim the entitlement to VAT deduction only for passenger cars purchased after the effective date of the amendment. It will be possible to claim the entitlement to VAT deduction also for passenger cars purchased via financial leasing after the effective date of the amendment.

Other suggested changes of the VAT Act

Another change suggested by this member of parliament is in a definition of a tax base for calculation of VAT in case that the VAT payer will claim the entitlement to VAT deduction from assets or purchased services in full but afterwards will use them for non business purposes. This tax base will be calculated as usual market price at the time the goods or services were used for non business purposes.

The original governmental VAT Act amendment implements a Directive of the European Council number 2007/74/ES of 20 December 2007 regarding VAT and excise duty exemptions for goods imported by persons traveling from third countries. This Directive is binding for the Czech Republic, and the government was obliged to implement it fully to the Czech legislation as of 1 December 2008.

It is assumed that this amendment could pass through the whole legislative process during March 2009 and could be effective in the beginning of April 2009. The first entitlement to VAT deduction for passenger cars could in practice be claimed in the April 2009 VAT return for passenger cars purchased in the Czech Republic, imported from the third countries or acquired from other EU member states in April 2009.

Should you have any questions regarding this amendment, please contact your VAT contact person at PricewaterhouseCoopers or

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