

2022 Global Automotive Tax Guide

May 2022

*A guide covering
everything you need
to know about car
taxation in 42
countries – from
import and
registration to
finance, direct and
indirect taxation*



Global Automotive Tax Guide

Published by PwC

May 2022

More than 500 pages, numerous tables and figures

The Global Automotive Tax Guide is only available in pdf-format.

The material contained in this guide reflects the position as of December 2021/January 2022. Whilst we have made every attempt to ensure the information contained in this guide is accurate, neither PwC nor the author can accept any responsibility for errors or omissions in the factual content. When specific problems occur in practice, it will often be necessary to refer to the laws, regulations and legal decisions of the country and to obtain appropriate professional advice.

All rights reserved. Reproductions, microfilming, storage and processing in electronic media are not permitted without the publisher's approval.

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 156 countries with more than 295,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

This publication has been prepared for general guidance on matters of interest only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2020 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.



Introduction

It is a great pleasure to present you the PwC 2022 Global Automotive Tax Guide.

The Guide provides a unique oversight of tax aspects related to the use of cars in 42 of the world's most relevant car markets. The Global Automotive Tax Network of PwC has collected and summarized useful information on the key tax aspects such as custom duties upon car importations, car registration duties, and car taxation – both from a direct and indirect tax perspective, as well as company car taxation rules in those countries. We trust that you will find this guide an extremely useful tool in supporting your organizations' tax strategy.

A handwritten signature in blue ink that reads 'Alexander Unfried'.

Alexander Unfried

Global Automotive Tax Leader

p: + 49 711 25034 3216,

e: alexander.unfried@pwc.com

www.pwc.com



Table of contents

<i>Argentina</i>	5
<i>Austria</i>	18
<i>Belgium</i>	24
<i>Brazil</i>	60
<i>Bulgaria</i>	77
<i>Canada</i>	85
<i>Czech Republic</i>	110
<i>Denmark</i>	118
<i>Estonia</i>	132
<i>Finland</i>	138
<i>France</i>	146
<i>Germany</i>	179
<i>Greece</i>	193
<i>Hungary</i>	205
<i>Ireland</i>	231
<i>Italy</i>	244
<i>Japan</i>	254
<i>Latvia</i>	264
<i>Luxembourg</i>	274
<i>Mexico</i>	285
<i>Moldova</i>	300
<i>Netherlands</i>	313
<i>New Zealand</i>	326
<i>Norway</i>	338
<i>Poland</i>	344
<i>Portugal</i>	356
<i>Romania</i>	370
<i>Russia</i>	378
<i>Slovakia</i>	390

<i>Slovenia</i>	405
<i>South Africa</i>	419
<i>South Korea</i>	429
<i>Spain</i>	437
<i>Sweden</i>	446
<i>Switzerland</i>	453
<i>Thailand</i>	461
<i>Turkey</i>	470
<i>Ukraine</i>	481
<i>United Kingdom</i>	492
<i>United States of America</i>	501

Argentina



Néstor Rossi

Partner

p: +54 11 5118 5656

e: ricardo.d.tavieres@pwc.com

Claus Noceti

Managing Director

p: +54 48 506 000

e: nestor.rossi@pwc.com

Mauricio Mesas

Senior Manager

p: +54 11 5101 9787

e: mauricio.mesas@pwc.com

Argentina

1. Importation of vehicles

1.1. Customs duties

1.1.1. New vehicles

The “Mutual Agreement on Automotive Policy between the Republic of Argentina and the Federative Republic of Brazil”, in force until June 30, 2029, establishes a scheme of quotas for local imports for every dollar exported, until the liberalization of bilateral trade of automobiles and auto parts is reached on July 1, 2029. The current scheme referenced establishes that as of July 1, 2020 until June 30, 2023, for every USD exported to Brazil, a quota of USD 1,8 may be imported. This coefficient is said to be updated until the bilateral trade is fully liberalized.

The mentioned agreement also determines that automotive products will be considered originating from either party (Argentina or Brazil), provided that they incorporate a minimum regional Mercosur content of 50%. For all imports of vehicles that comply with this regional content coefficient as well as other requirements an 0% import duty will be applicable (certain exceptions may apply to the mentioned import duty reduction). Regarding specific vehicles (pickups, trucks, farm equipment, etc.) an annual quota to import with 0% import duty has been regulated; to apply for this quota the automotive products must comply with a minimum regional content of 35%.

The agreement also establishes a 35% import duty for motor vehicles that do not originate from either of the parties (Argentina or Brazil), with exceptions regarding temporary tariff concessions envisaged in the domestic legislation of each country.

The Republic of Argentina has established a 100% tax concession for the Republic of Uruguay (*0% ad valorem* tariff for intrazone trade) and Republic of Paraguay for certain vehicles provided they meet requirements relating to origin and other conditions stipulated in the agreement.

Economic Complementation Agreement N° 35 has permitted the Republic of Argentina to enter into the Sixty-fifth Additional Protocol to ACE 35 signed between the Mercosur parties and the Republic of Chile. Through the aforementioned Protocol, the origin rules were replaced, resulting in a decrease from 60% to 50% of the minimum regional content coefficient required for the vehicles to be exported. A specific formula for this calculation is provided.

Certain vehicles are included in the Free Trade Agreement between Egypt and Mercosur which is in force since September 1, 2017. This Free Trade Agreement establishes that customs tariffs will be reduced by a certain percentage annually until they are completely eliminated. For the different vehicles included in the agreement, different deadlines are established to reach tariff reduction of customs duties, being a 10-year-term the longest term of relief. There is also a Free Trade Agreement with Israel which establishes a gradual relief of import duties for certain vehicles. To be benefited with the tariff reductions, vehicles must meet the origin requirements envisaged in these Free Trade Agreements.

Consequently, while the import of vehicles has a general import duty rate of 35%, according to different Free Trade Agreements in force, there may be up to a 100% tax concession if the vehicles meet certain requirements therein established. In case of import of certain hybrid or electric vehicles, the import duty can be reduced as well.

1.1.2. Used vehicles

Nationalization of used vehicles in the territory is not allowed, except under the special conditions envisaged in the prevailing legislation:

- Motor vehicles belonging to Argentine citizens who have been foreign residents for no less than one year returning to the country for definitive residence
- Motor vehicles belonging to foreign citizens who have obtained the right to reside in the country

- Motor vehicles belonging to foreign citizens on an official mission who fulfil the corresponding legal rules
- Antique vehicles or historical cars, which are more than 30 years old and whose FOB value is not less than 12,000 USD. Regarding these vehicles it should be mentioned that the import request procedure has been updated.
- Motor vehicles with special features relating to their use or purpose (for example, cars adapted for use of disabled persons) authorized by the Application Authority and its verification of no local production or that the local production is not enough

1.1.3. Hybrid vehicles

Reductions of the import duty rates have been established for the import of vehicles with alternative motoring in order to stimulate the creation of a market that allows the use of new technologies fostering the development of a local industry with these characteristics.

In this sense, import duties for the import of specific parts used in electric cars were eliminated and import duties of finished hybrid cars have been reduced to 0%, 2% or 5%, according to the tariff code and to certain quotas. The continuity of the application of the mentioned duty rates, has now been renewed for 18 months from September 10, 2021.

1.2. Taxes and rates applicable to vehicle imports

1.2.1. Value-added tax (VAT)

Vehicle imports are subject to VAT. The applicable rates are 10.5% or 21% according to the type of vehicle. The basis for calculation of this tax is the CIF value plus the statistical tax and the corresponding import duties. The VAT tax paid may be used as a tax credit by taxpayers registered under the VAT, with certain limitations (see section 6.2).

1.2.2. Additional VAT for registered taxpayers

For vehicles subject to a 21% VAT, the additional tax rate payable is 20%. In the case of vehicles subject to a 10.5% VAT rate, the additional tax rate payable will be 10%.

This additional rate may be used as payment on account of the tax without applying the limitations listed in section 6.2.

Imports of goods that constitute fixed assets for the importer are exempted from the additional tax rate.

1.2.3. Statistical tax

Until December 31, 2021 an increase of the applicable rate has been applied resulting in a 3% of the CIF value, being now the maximum payable value USD 150.000 per shipment.

Certain exceptions for which the rate does not apply have also been established. The following are some of those exemptions:

- Goods originating from MERCOSUR member states
- Capital goods imported for the use in the hydrocarbon production from unconventional reservoirs, included in the specified tariff codes
- Goods imported under the following regimes: used production lines, used hydrocarbons, used capital goods and assets belonging to large investment projects
- Temporary import suspensive destinations, regardless of the regime by which they are processed

1.2.4 Additional income tax for registered taxpayers

An advance of 6% tax rate must be paid using the same basis of calculation as for the VAT.

Imports of goods that constitute fixed assets for the importer are exempted from this additional tax rate, among other exceptions.

This additional tax rate may be used by the importer as payment on account of the tax.

1.2.5 Gross revenue tax for registered taxpayers

The general payable rate is 2.5% using the same basis of calculation as for VAT. However, since August 1, 2016 each jurisdiction is able to establish its own rate, which can differ from the general one mentioned above.

Imports of goods that constitute fixed assets for the importer are exempted from this additional tax rate, among other exceptions.

This additional tax rate may be used as payment on account of the tax by the importer, as applicable in each province.

See specific comments in section 9.

1.2.6 Excise tax

Some imported motor vehicles are subject to an excise tax. The applicable rate varies depending on the tariff position of the goods and the declared value for the importation.

- For motor vehicles destined for passenger transport (excluding buses, ambulances, among others) with an import value above 1,451,300.18 ARS: the applicable rate is 20%.
- Motor vehicles destined for passenger transport (excluding buses, ambulances, among others) with an import value above 2,679,323.40 ARS: the applicable rate is 35%.
- Import of goods under contracts with a price adjustment clause between related companies, with participation of third-party operators

Through a new resolution, those interested in declaring definitive imports subject to a price adjustment clause between related companies with participation of third party operators, prior to registration in the Malvina Information System (SIM), must file a copy of the contract to be authorized by the customs service.

Once the transaction is authorized, the definitive import can be prepared; the request for destination must be accompanied by a provisional sworn statement, subject to review by the customs service. The importer may modify this sworn statement, based on the contractual provisions previously informed.

Within 180 (one hundred and eighty) calendar days after the end of the tax period, the importer must submit to the customs service the documentation supporting the final value of the goods, according to the contract filed and objective and quantifiable criteria, as well as data and documentation on the economic group and the third party operator.

Should there be an increase in price after the goods were dispatched, the pertinent tax system will be applied, and interest will accrue from the registration date of the definitive import to the effective payment date.

Importers that do not comply in due time and manner with filing the documentation referred to above will be automatically excluded from operating under this modality, and the customs service will be entitled to apply the penalties pursuant to customs regulations.

1.2.7 Authorized Economic Operator (AEO)

The Federal Administration of Public Revenue, following the guidelines of the World Customs Organization, implemented the AEO program for importers and exporters. This program consists in dutiful compliance with customs, tax and social security obligations, as well as those related to the safety of goods and the integrity of the logistics chain. This program implies a mutual commitment between Customs and Foreign Trade Operators, with the main purpose of ensuring safety and fluency of customs operations, allowing more competitiveness to the operator and improving the allocation of resources by Customs.

When filing their application to join the program (which is free of charge and voluntary), the interested party must meet certain requirements to be benefited with the AEO certification. The benefits of being AEO include easier, simpler and more direct access to the customs administration; priority attention in contingencies; acceleration of procedures before the control authorities; fewer physical and documentary controls (operations register by green channel of selectivity - mainly); ease to adhere to simplified customs procedures and the possibility of benefiting from Mutual Recognition Agreements celebrated with other countries; resulting in a reduction of time and costs, also in the countries of destination of the merchandise.

1.2.8 Mercosur and European Union Free Trade Agreement

- 1 After 20 years of negotiation, the Free Trade Agreement between Mercosur and the European Union (“EU”) was achieved, being a fact of great importance in the global context as it is the broadest agreement that two commercial blocks have achieved, resulting in the creation of a market of goods and services of 800 million consumers.
- 2 With regard to the trade of goods, the main provisions include the elimination of most of the applicable export and import duties, which in some cases will occur immediately, while in others it will take up to 15 years.
- 3 With regard to the trade of services, service providers from both the EU and Mercosur will be able to access the counterparty market under the same conditions as nationals.

Important changes are also expected regarding investments and the elimination of non-tariff barriers and benefits for Small and Medium Enterprises.

Although the final text of the agreement has not yet been finalized and, subsequently, must be ratified by the participating countries (which is estimated to take approximately 2 years), it is expected to bring significant advantages for Mercosur.

2. Car registration

2.1 When does a car need to be registered?

Registration of ownership before the National Vehicle Registry (hereinafter, the “Registry”) is mandatory for the following vehicles: cars; trucks; pickups, including traction units for articulated vehicles; light trucks; cross-country vehicles; jeeps; distribution vans and minivans; buses and microbuses, as well as their respective traction vehicles and trailers; agricultural vehicles, including farm machinery; tractors; combined-harvesters; derricks; road maintenance machinery; and any other automotive vehicle.

Vehicles registered for the first time will be assigned a single ownership number. The Registry will issue an electronic title in the name of the owner of the vehicle.

In case of vehicles assembled outside a vehicle manufacturing plant or assembly facility, the vehicle registration applicant must furnish evidence of the origin of the assembled parts in the unit before the relevant Registry.

New vehicles imported or manufactured in the country, under the ownership of the importer, manufacturer or car dealer, may only be driven using a temporary ownership certificate and number plate before sale to the public.

Registration of the transfer of used vehicles may be requested electronically through the website of the National Vehicle Registry by any of the parties involved (transferor or transferee).

Notwithstanding the latter, in principle, both parties will need to attend to the pertinent Registry to certify their signatures and submit certain original documents of the transfer deal.

2.2 Who can register a car?

Vehicles must be registered in the name of the owner and the latter must have a permanent address in Argentina.

The transfer of vehicle ownership may be formalized by public or private document (public document implies the involvement of a notary), and will only be enforceable before third parties as from the date of its registration with the Public Registry through a specific form.

2.3 Is a foreign owner allowed to register a vehicle in the country?

Argentine legislation allows foreign individuals or entities to own and register vehicles. For such purpose, foreign individuals must provide their Argentine Identity Document (DNI) if having obtained a permanent residency or their Passport or Argentine DNI, if having obtained a temporary residency. Foreign entities must have both, an appointed legal representative and a registered domicile in Argentina.

Consequently, foreign entities may only register vehicles if they are duly registered before the Corporation Control Authority (i.e. in the form of a branch or representative office).

The vehicle will be registered at the place of residence of the owner for all legal and tax purposes, or at the address the person who has custody of the vehicle.

2.4 Can a vehicle with a foreign number plate be used on public roads?

As a general rule, vehicle owners driving in Argentina must register their vehicle with the Registry.

As an exception to this rule, Argentine legislation establishes that the use of foreign vehicles (holding foreign number plates) is permitted provided both owner and vehicle have entered the country lawfully.

Usually, foreign vehicles entering the country may circulate freely for a maximum period of eight months following the date of entry. Under certain circumstances (visa extension issued to the owner of the vehicle), an extension of the eight-month period may be requested for the vehicle.

3. Car taxation

3.1 What are the different car taxes?

The following taxes may apply to the purchase, import, registration, maintenance as part of net worth, sale and export of vehicles:

- Registration tax
- Car tax or license tax
- Personal assets tax (individuals)
- Income tax
- VAT
- Gross revenue tax
- Excise tax
- Export customs duties
- Stamp tax

3.2 Registration tax

3.2.1 Taxable event

Save in special cases, all procedures carried out before the Registry require the payment of a fee.

This fee must be paid to carry out new vehicle ownership registration, transfer of ownership of used vehicles, change of address (province or municipality), etc.

3.2.2 Taxable person

The fee must be paid by the person in whose name the vehicle is registered.

3.2.3 Tax due

The fee payable for initial vehicle registration and/or vehicle ownership transfer amounts to 1.50 (domestic vehicles) or 2% (imported vehicles) of the market value of the vehicle, in line with an approved valuation table. Other fees may be of application to comply with certain formalities required to register the vehicle.

3.2.4 Tax period

The tax must be paid when a vehicle is registered or re-registered by a new owner/user.

3.3 Car tax or license tax

The car tax or license tax applies to vehicles in general and is usually paid in the province where the vehicle is registered or, in certain jurisdictions, where the vehicle is usually kept, used in carrying on economic activities or where the owner is domiciled. Argentina has 24 provinces, including the Autonomous City of Buenos Aires.

3.3.1 Taxable event

Vehicles registered in a given province are subject to an annual tax which varies according to the year the vehicle was manufactured (or “model”), manufacturer model, type of vehicle, category and/or valuation, as stipulated in the tax law.

3.3.2 Taxable person

Owners and/or buyers of automotive vehicles must pay the tax.

3.3.3 Tax due

The tax base usually comprises the valuation of the vehicle, based on values that stem from official organisms or automotive market information. The rate stipulated by the tax law of the province where the vehicle is registered is applied to the tax base obtained from these sources.

The tax rate varies from one province to another. For instance, while the City of Buenos Aires applies a progressive tax rate based on the tax base of the vehicle, ranging from an annual 3.20% to 5%, in the Province of Buenos Aires the tax rates vary from 3.55% to 6.37%.

Certain provinces – including the City of Buenos Aires – envisage annual discounts for vehicles with no prior debt and/or additional rates directed at raising funds for specific purposes. For instances, the Province of Buenos Aires, offers a 20% discount in case of new vehicles acquired within the last 5 years if certain requirements are met.

3.3.4 Tax period

The license tax is levied on an annual basis, but can be paid in bimonthly, quarterly or four-month instalments according to the rules in each province.

3.4 Personal assets tax

This tax applies to the net worth in the country and abroad of individuals residing in the country at December 31st each year. The tax rates, for fiscal period 2019 and following ones range between 0.5% and 1.25%. Notwithstanding this, for fiscal years 2019 and 2020, assets located abroad are subject to tax rates ranging between 0.70% and 2.25% (there are special provisions that reduce these higher tax rates in case of taxpayers that repatriate funds to Argentina). In all cases, there is a minimum exempt amount of AR\$ 2,000,000.

Individuals that do not reside in Argentina and who own assets in the country are subject to this tax at a 0.5% tax rate, applied to the value of their assets, with no minimum net worth exempted from the tax.

Motor vehicles are included in the calculation of this tax based on their valuation for tax purposes or purchase value less accumulated depreciation, whichever is greater, during the first five years of ownership.

3.5 Tax on minimum presumed income (IGMP)

The IGMP has been repealed as of fiscal year 2019.

3.6 Income tax (IG)

Income tax paid in respect of the taxpayer's net income amounts to 30%, expected to drop to 25% as from fiscal year 2021, for legal entities, whereas individuals are subject to a progressive rate ranging from 5% to 35% only when their activities are regularly subject to the tax. In other words, it does not affect incidental transactions.

See specific comments in section 9.

3.7 VAT

This tax is levied on sales of movable property, service renderings and contracts, imports of goods and, lastly, renderings carried out abroad whose effective use or working takes place in the country (service imports).

The general rate amounts to 21% and is applied to the price of the taxable event, although there are differential rates ranging from 10.5% to 27%.

The tax liability is calculated by applying the tax rate to the tax base, and any tax credit available for the purchase of supplies and hiring of services can be discounted from the tax liability provided these stems from transactions subject to the tax.

This applies to taxpayers registered under the tax, but not to end consumers (the general public), who pay a final price without becoming VAT taxpayer.

Exports are exempted from this tax. However, tax disbursements made in order to carry out exports leading to a tax credit may be taken up by the taxpayer. Local regulations envisage that exporters are entitled to request tax refunds from the State Treasury when the taxpayer has a credit balance.

See specific comments in section 9.

3.8 Gross revenue tax

This is a provincial tax whose scope and rate vary according to the rules prevailing in each province. However, it applies generally to transactions involving goods and services carried out in each jurisdiction.

Individuals must pay this tax only in respect of economic activities carried out regularly and not for incidental activities.

The price paid constitutes the tax base and the tax is generally paid in the province where the seller resides or the province where the transaction takes place.

Although in various provinces revenues from the sale of fixed assets are exempted from this tax, in those where it is levied the average rate applied to the sale of vehicles usually ranges from 2.3% to 5%.

It has been agreed between the Federal and Provincial Governments that the latter will enforce a progressive reduction in turnover tax rates for the manufacturing industry (including the automotive industry) up to 0% in 2022. Notwithstanding the above mentioned, Congress has recently passed a law which states the suspension of such progressive reduction for 1 (one) calendar year.

See specific comments in section 9 ("Selling a car").

3.9 Stamp tax

This tax is applied according to the legislation in force in each province and is generally applied to the economic value of agreements or contracts executed in their territory or whose economic effects take place in their territory.

Consequently, the sale of vehicles by contract (which is not a legal requirement) is subject to this tax according to the rate in force in each jurisdiction, which ranges from approximately 1% to 3%.

4. Income taxes – taxable persons

The income tax law establishes that amortizations relating to cars and related leases (included those relating to leasing contracts) in excess of the permitted amount are not deductible for tax purposes. The permitted

deductible amount for cars is up to 20,000 ARS (which implies deducting only 4,000 ARS per year over 5 years).

Car fuel, lubricant, license, insurance, regular repair and general maintenance and running expenses – other than inventories for the vehicle owner – in excess of an annual 7,200 ARS are not deductible.

The above limit also applies to vehicles intended for passenger transport, although not to cargo transport vehicles (trucks, light trucks, pickups, etc.).

Car-related expenses eligible for tax deduction only apply to taxpayers registered under the tax and provided the related vehicle is used for the activity subject to the tax.

In the cases where the above limit applies, the ensuing deductible amount will be proportionately low compared to the invested capital, since there is currently no vehicle priced below 800,000 ARS on the Argentine market.

The deductible limit referred to above does not apply to cars that constitute the main purpose of the taxable activity (rental companies, taxi/cabs, trade travel, etc.).

5. VAT

5.1 General

Cars are subject to this tax at a general 21% rate, whereas vehicles that qualify under specific regulations as “Capital Assets” (utility or cargo vehicles such as trucks, pickups, etc.) are subject to a reduced 10.5% rate.

With regard to sales of vehicles in the latter category, considering that purchases and supplies necessary to manufacture these vehicles are generally subject to 21% VAT, if the tax rate difference (21% versus 10.5%) leads to a tax credit in excess of the tax liability (credit balance), the tax law envisages a mechanism for the refund of this tax surplus using a similar procedure to that envisaged for export tax refunds.

5.2 Deduction

In principle, the VAT stemming from purchases or imports relating to taxed transactions can only be used as a tax credit.

Purchases, imports and leases of cars (including those relating to leasing contracts) for amounts above 20,000 ARS will only generate a tax credit up to the referred amount (up to a tax limit of 4,200 ARS).

This limitation does not apply when the unit constitutes an inventory item for the purchasing party or the main purpose of the taxed activity. The law provides as examples vehicle leases, taxi/cabs, trade travel, etc.

The above limitation does apply to vehicles used for passenger transport, although not to cargo transport (trucks, light trucks, pickups, etc.).

When the limitation applies, in practice, the amount that can ultimately be used as a tax credit is proportionately low compared with the invested capital, since in the Argentine market there are currently no vehicles priced less than 800,000 ARS.

5.3 Hire purchase: Supply of goods?

Leasing contracts are subject to VAT throughout the duration of the lease. When the purchase option is exercised the transaction becomes a sale.

VAT on leases is payable at the time the lease expires or when the rental fee is paid.

The purchase option is subject to VAT as if it were a sale, and the tax base is the price of the vehicle as calculated under the income tax when the transaction is similar to a finance contract or a lease. In other words, the taxable event takes place upon the delivery of the good, issue of the corresponding invoice, or an equivalent act (whichever takes place first) for the value of the purchase option.

Additionally, both the value of the rental fees and the value of the purchase option are subject to the gross revenue tax, which is payable by the party delivering the good. See special comments under section 9, “Selling a car”.

5.4 *Leasing: Supply of services?*

According to the regulation, leasing contracts involve an agreement between a delivering party and a “taker” whereby the former transfers ownership of an asset in exchange for the payment of a fee (similar to a valuable consideration for the rental of the asset) by the latter, and granting the latter a purchase option upon the termination of the contract.

In other words, at the beginning of the contract, rather than acquiring ownership of the asset, the user acquires the beneficial use or enjoyment of it.

The law establishes different types of leasing and, together with the corresponding regulation, establishes their tax implications for the delivering party and the recipient or “taker”.

The relevant tax benefits for the recipient include the following:

- Deductibility of related fees under the income tax.
- Deferment or prepayment of VAT applicable to the corresponding fees, as agreed by the contracting parties.
- The benefit of not considering the leased good as an asset under the tax on personal assets tax, at least until the purchase option is exercised, provided the transaction is not similar to a purchase.

It is worth noting that when leasing cars worth more than 20,000 ARS, the tax credit can only be calculated based on this maximum allowed value (i.e. a tax credit limit of 4,200 ARS).

This limit does not apply when the unit constitutes an inventory item or the main purpose is the taxed activity for the acquirer, as exemplified in the law: rental, tax/cabs, trade travel, etc.

This limit applies to vehicles for passenger transport and not to cargo transport vehicles (trucks, light trucks, pickups, etc.).

When the limitation applies, in practice, the amount that can ultimately be used as a tax credit is proportionately low compared with the invested capital, since in the Argentine market there are currently no vehicles priced less than 800,000 ARS.

The above limitation also applies to the leasing of cars other than those governed by Argentine regulations relating to leasing contracts.

6. *Company car*

6.1. *VAT/sales tax due on private use of company cars*

Although there are rules for shareholders and similar, there is no specific Argentine legislation relating to the total or partial private use by employees of cars belonging to the employer.

Nevertheless, there are three types of use of vehicles by employees worth noting:

Use exclusively for work purposes

This has no impact on the employee; amortizations and expenses stemming from the use of the vehicle are deductible for tax purposes with the limitations listed in section 4.

Exclusively private use

In this case, since the use of the vehicle is not necessary for work purposes, this type of use is considered a fringe benefit supplementing the monetary remuneration of the employee.

As a fringe benefit of the employee, the economic valuation of the personal use of the vehicle is subject to the applicable social security charges, in addition to employee-related income tax (paid through a withholding at the source by the employer, who acts as a withholding agent).

The amount recognized as a work benefit for the employee constitutes an expense of the employer that is 100% deductible for tax purposes. The limit to the amount of the deductible expense for vehicles described in section 4 does not apply in this case.

Work and private use

When an employee uses a vehicle for work activities as well as for private use, the proportion of each type of use must be determined, and each portion must be dealt with accordingly for tax purposes, as described above.

6.2 Company car in personal tax returns – benefit in kind

As mentioned above, an employee that has full or partial private use of vehicle/s owned by the employer must pay the corresponding income tax on that use.

This is done as a withholding at the source carried out by the employer.

6.3 Other taxes on company cars

As mentioned previously, the value established for vehicles allocated to private use by employees is considered a fringe benefit that supplements the employee's salary, and therefore is subject to the social security charges applicable to the employer and the employee.

This type of personal use of vehicles has no other tax implications, since the employee's remuneration is not subject to taxes such as VAT or gross revenue tax.

7. Income taxes – driver's personal taxation

7.1. Private use

Private use of a vehicle by the owner has no tax implications and cannot be used as a deductible expense under any tax since it is not associated to any taxable economic activity.

7.2. Commuter traffic

The use of cars owned by employees to commute between their place of residence and fixed work location does not qualify for any specific deductions or tax benefit.

In theory, the income tax law allows employees to take a fixed deductible amount comprising estimated work-related expenses, independently of how the worker commutes to the workplace.

The use of cars owned by individuals in economic activities other than those relating to their work as employees may be deducted from the personal income tax return, with the limitations described in section 4.

7.3. Business kilometers

Generally speaking, Argentine tax regulations do not contain specific instructions regarding this matter.

Nevertheless, the cost related to the use of a car owned by an employee in work activities (visits to clients, transport of goods, etc.) is generally reimbursed by the employer based on an economic estimate of mileage or kilometers covered, plus fixed costs such as toll fees, parking, etc.).

8. Selling a car

8.1. Taxable persons

When a taxpayer registered under the VAT sells a motorcar, the transaction is subject to VAT, generating a tax liability for the seller, regardless of any limitation to the amount allowed to be used as a tax credit at the time of the purchase.

As mentioned in section 6, the applicable rate ranges from 10.5% to 21%.

Additionally, the net proceeds from the sale will be subject to income tax, calculated as the difference between the sales price and the corresponding tax valuation.

The tax valuation of the unit is the purchase value adjusted at the date of sale of the vehicle (tax adjustment is currently applicable only to assets purchased on or after January 1, 2018) less amortizations relating to the years of useful life of the vehicle until the fiscal year prior to its disposal.

The income tax rate for legal entities is currently 30% expected to drop to 25% as from fiscal year 2021, while individuals pay a progressive rate ranging from 5% to 35%.

As mentioned in section 3.8, in certain provinces the sales price is subject to the gross revenue tax, at rates ranging from 2.3% to 5%, except when the vehicle constitutes a fixed asset for the seller.

It has been agreed between the Federal and Provincial Governments that the latter will enforce a progressive reduction in turnover tax rates for the manufacturing industry (including the automotive industry) up to 0% in 2022. Notwithstanding the above mentioned, Congress has recently passed a law which states the suspension of such progressive reduction in turnover tax rates for 1 (one) calendar year.

Additionally, the first sale of vehicles in the country is subject to a 20% or 35% excise tax in case of cars for passenger transport with a sales value above 1,451,300.18 and 2,679,323.40 ARS respectively. These amounts are updated quarterly on the base of the variation in the Consumer's Index Price ("IPC" by its Spanish name) published by the National Institute of Statistics ("INDEC"). Next update will take place in December 2020.

Excise tax paid on the import of these vehicles may be used as a tax credit (see section 1.2.6).

Lastly, it is worth noting that the export of vehicles is currently subject to a 0% export duty.

8.2. Private individuals

In principle, the private sale of motorcars is not taxed, provided the transaction is incidental.

In these cases, there would be no tax credit relating to the purchase and no deductible amount under the income tax by way of amortization and maintenance and upkeep expenses relating to the vehicle.

9. Future developments

The Argentine automotive market has grown significantly in the last decade, with levels of production and domestic and export sales increasing on an annual basis.

Meanwhile Brazil, which is the main destination of Argentine exports, has been experiencing political and economic crisis, which negatively affected the demand for vehicles produced in our country.

A change in the government authorities in December 2019 brought major changes in different regulations and aspects of the economy, including a wide tax reform that took place by the end of 2019. Foreign exchange restrictions were also restated.

Additionally, the current COVID-19 pandemic has seriously affected the financing of the states both given the reduction in tax collection due to lower economic activity and the higher state aid provided to mitigate its effects.

During 2019 and 2020, due to diverse internal and external factors, the official FX rates considering the Argentine peso and the US dollar has plummeted almost 33%. However, the strengthening of foreign exchange restrictions and both a new income tax withholding regime as well as a new tax passed by Congress and

imposed over the acquisition of foreign currency has increased the gap existing between the official and other legal exchange rates, almost 100%, leading Argentina into a deeper economic recession which affects several industries including the automotive.

According to official data, automobile production in the period January to August 2020 fell 36.98% compared to the same period in 2019.

Under the above framework, although there have not been any official announcements, several tax reforms are being analyzed or claimed by different economic sectors. In this regard, such reforms are aimed at strengthening the collection of taxes, the incorporation of new taxes on individual's wealth as well as increases in income tax rates which may indirectly affect taxation of vehicles on both corporations and individuals.

10. Legal background

Supplementary laws and regulations relating to income tax, VAT, sales tax, social security charges, customs duties, etc.

Austria



Peter Perktold

Automotive Tax Leader

p: +43 1 501883345

e: peter.perktold@at.pwc.com

Rupert Wiesinger

Director

p: +43 1 501883642

e: rupert.wiesinger@at.pwc.com

Austria

1. Car registration

1.1. When does a car need to be registered?

In order to obtain a registration number (number plate), cars used on Austrian public roads have to be registered with the local authorities (in general organised by the insurance company upon conclusion of an obligatory motor vehicle insurance contract). Fees for registration amount to 195.50 EUR (including costs for the number plate). The vehicle registration certificate can be requested in an alternative “credit card” format for an additional fee of 23.80 EUR.

1.2. Who can register a car?

The economic owner, i.e. the legal owner or the main user of the car, is obligated to register it. Registration is often done by the insurance broker.

1.3. Is a foreign owner allowed to register a vehicle in the country?

A foreign (economic) owner can only register his vehicle in Austria if he has his domicile in Austria.

1.4. Can a vehicle with a foreign number plate be used on public roads?

In general, it is permissible to use a vehicle with a foreign number plate for a period of up to one year if the permanent location of that car is not in Austria.

The permanent location is assumed to be in Austria if the owner or driver of the car has his domicile in Austria. In this case, the driver/owner of the car must register the car within one month after the transfer of the car to Austria.

2. Car taxation

2.1. What are the different car taxes?

Upon the registration and use of a car, the following car taxes become due:

- Car licence duty (Normverbrauchsabgabe, or NoVA)
- Motor vehicle tax (Kraftfahrzeugsteuer, or KfzSt/ motorbezogene Versicherungssteuer, or motorbezogene VersSt)

2.2. Car licence duty (NoVA)

2.2.1. Taxable event

The supply of cars which have not yet been registered in Austria, or the first registration of passenger vehicles in Austria, is subject to a car licence duty. Intra-Community acquisitions are also subject to a car licence duty (the acquisition by authorised car dealers for further delivery is excluded from this regulation). General exemptions apply to taxis, show cars, etc.. Since July 1, 2021 trucks up to 3.500 kg are also subject to the car licence duty.

2.2.2. Taxable person

The supplier (seller), respectively the acquirer in case of Intra-Community acquisitions of the car (e.g. car dealer) is usually liable for the car licence duty.

2.2.3. Tax due

According to an ECJ ruling from 2010 (Commission Austria, C-433/09), the car licence duty is not included in the VAT base for the supply of cars. Thus, the car licence duty payable is increased by 20%. This 20% increase does not apply in the case of short-term licences for car trades or if the cars are part of a taxable sale or if the car is supplied by a car trader to a company which uses the car for a taxable lease. This regulation shall apply only for cars registered for the first time before February 28, 2014.

The car licence duty tax rate is calculated according to the following formula:

(CO₂ emissions (grams per kilometre) – CO₂ deduction amount (grams per kilometre) divided by 5

The CO₂ deduction amount is as follows:

- As of January 1, 2020, the CO₂ deduction amount is 115 grams per kilometre.
- As of July 1, 2021, the CO₂ deduction amount is 112 grams per kilometre.
- The CO₂ deduction amount will be reduced by 5 per year as of 1.1.2022.

The maximum tax rate amounts to 50%. From July 1, 2021, the maximum tax rate is increased by 10% annually. However, for vehicles with higher CO₂ emissions the car licence duty is increased:

- As of January 1, 2020, the car licence duty is increased by 40 EUR for each gram of CO₂ per kilometre above 275 grams per kilometre.
- As of July 1, 2021, the car licence duty is increased by 50 EUR for each gram of CO₂ per kilometre above 200 grams per kilometre.
- As of January 1, 2022, the car licence duty is annually increased by 10 EUR for each gram of CO₂ per kilometre above a certain threshold (Malusgrenzwert). This threshold is annually decreased by 15.

The tax rate has to be rounded to whole percentages.

The car licence duty is reduced:

- In 2015 by 400 EUR for all vehicles.
- As of January 1, 2016 by 300 EUR for all vehicles.
- As of January 1, 2020 by 350 EUR for all vehicles.

2.2.4. Tax period

Car dealers must report the car licence duty on a monthly basis by the 15th of the following month. Other persons must submit a one-off return upon application for the first time registration of a car in Austria.

2.2.5. Refund

So far, § 12 NoVAG has stated that the refund of any car licence duty is permitted in specific cases when the vehicle has been verifiably delivered or brought into the country.

However, the Constitutional Court's decision G 153 / 2014-7 on November 29, 2015 lifted the restriction on the NoVA refund to entrepreneurs as set out in § 12 a NoVAG, its reasoning being that there was no objective justification for the unequal treatment of private taxpayers and entrepreneurs in relation to the refund of the NoVA (e.g. for exportations).

As a result, private taxpayers are allowed to apply for the refund of NoVA.

2.3. Motor vehicle tax (KfzSt/ motorbezogene VersSt)

2.3.1. Taxable event

The use of a car on Austrian public roads is subject to a monthly motor vehicle tax.

2.3.2. Taxable person

The tax is payable by the owner or registered user of the passenger car, though it is usually collected by the insurance company.

2.3.3. Tax due

The motor vehicle tax is based on the kilowatts, or cylinder capacity, of the passenger car.

Until September 30, 2020 the motor vehicle tax is calculated as follows:

Up to 66 kilowatts:

Tax base	Tax rate
Actual kilowatts of the car minus 24 kilowatts	0.682 EUR per kilowatt, at least 6.82 EUR per month

From 67 to 86 kilowatts:

Tax base	Tax rate
Actual kilowatts of the car minus 24 kilowatts	0.726 EUR per kilowatt, at least 6.82 EUR per month

For more than 86 kilowatts:

Tax base	Tax rate
Actual kilowatts of the car minus 24 kilowatts	0.825 EUR per kilowatt, at least 6.82 EUR per month

Cars which have been registered for the first time after 30 September, 2020 and for which the CO₂ emissions are determined in accordance with the EU Directive (EU 2017/1151) which supplements the EC Directive (EC 715/2007 regarding Euro 5 and Euro 6) are subject to the following calculation method:

EUR 0.72 per kilowatt of the 65 kilowatts reduced performance of the engine and EUR 0.72 per gram of the 115 grams per kilometre reduced performance of the CO₂ emissions in grams per kilometre. At least 5 kilowatts and at least 5 grams per kilometre must be used. The combined WLTP value of CO₂ emissions in grams per kilometre must be used. For rechargeable hybrid electric vehicles, the weighted combined WLTP value of CO₂ emissions in grams per kilometre shall be used. From January 1, 2021, the value of 115 grams per kilometre per year will be reduced by the value 3 and the value of 65 kilowatts per year will be reduced by the value 1. Cars whose CO₂ value is not determined according to the new EU Directive will be subject to the old taxation rates.

A bonus is granted if the motor vehicle tax is paid on a quarterly, half year or annual basis, whereas if paid on a semi-annual, quarterly or monthly basis, a loading fee is charged by insurance companies.

2.3.4. Tax period

For passenger cars, insurance companies collect the tax as part of motor vehicle insurance and pass it on to the tax authority on a quarterly basis. Otherwise, the tax has to be self-assessed and paid to the tax authority on a quarterly basis.

3. Income taxes – taxable persons

3.1. Level of deduction

Passenger cars purchased or leased by companies or entrepreneurs for business purposes are regarded as business assets up to acquisition costs of 40,000 EUR (including VAT). Any acquisition costs exceeding this threshold or relating proportionate leasing and operating costs like insurance expenses and repair expenses are not deductible for income tax purposes.

3.2. Deduction period

The acquisition costs that are deemed to be business-related must be amortised for tax purposes over a period of at least eight years. In the case of financial leasing of business passenger vehicles, the lease payments are considered tax deductible based on an eight year amortisation.

4. VAT

4.1. General

Any VAT incurred on the purchase, lease or use of passenger cars is not deductible. On the other hand, no VAT becomes due on the sale or private use of these vehicles. The Austrian Ministry of Finance issues a list of small buses and trucks that are not regarded as passenger vehicles in this respect (see <https://www.bmf.gv.at/steuern/fahrzeuge/vorsteuerabzugsberechtigte-fahrzeuge.html>).

4.2. Deduction

VAT is recoverable in connection with taxis, show cars, cars for commercial resale, electric vehicles, hydrogen powered vehicles or leasing and other special purpose cars if they are used for business purposes.

4.3. Cross-border lease of passenger cars

In the case of the supply of services to taxable persons the general rule to determine the place of supply of services is applicable, this being the place where the recipient of the service is established. Therefore, the place of supply of a long-term hiring out or a long-term leasing of means of transport is where the recipient is established. If an Austrian taxable person leases a car abroad, this transaction is subject to Austrian VAT. The Austrian lessee is liable for the VAT under the reverse charge system and has to pay the corresponding VAT amount to the Austrian tax office as the input VAT is not deductible in this case (except for so-called “fiscal vans”).

5. Company cars

5.1. VAT due on private use of company cars

The private use of a car by an employee is not treated as a taxable supply of services. Only the private use of qualifying vehicles (for which the deduction of input VAT is allowed) is subject to Austrian VAT. See also section 4.1.

5.2. Company cars – income taxes

The provision of a company car to an employee for private use free of charge is considered income in kind. The use of such a company car is subject to wage tax in the amount of 2 % of the vehicles acquisition cost (including VAT if not deductible and Austrian car licence duty) per month, with a maximum cap of 960 EUR per month. The wage tax for cars with low CO₂ emissions (less than 130 g/km) is 1.5 %, with a maximum cap of 750 EUR. To apply the tax rate of 1.5 % the following conditions have to be met (see the chart below):

year of purchase	max of CO ₂ emissions
up to 2016	130 g/km
2017	127 g/km
2018	124 g/km
2019	121 g/km
Until March 31, 2020	118 g/km
As of April 1, 2020	141 g/km
2021	138 g/km
2022	135 g/km
2023	132 g/km
2024	129 g/km
2025 or later	26 g/km

The income in kind can be reduced upon proper evidence of minimum private use of the car. Special provisions apply to used cars.

As of January, 2016 there is a full exemption from wage tax for cars with no CO₂ emissions. Hybrid cars are clearly exempt from the exception.

6. *Income taxes – drivers' personal taxation*

6.1. *Commuter traffic*

If an employee commutes between his home and the office, this is basically not considered a business expense for the employee that can be deducted from his taxable income. However, a general allowance of 400 EUR per annum is deductible from taxable income if the distance between home and office does not exceed 20 km. If the distance between home and office exceeds the 20 km threshold or if the use of public transportation is not reasonable, an additional lump-sum allowance in the range of 372 EUR to 3,672 EUR per annum is deductible depending on the distance involved.

As of 2013, an additional allowance of 2 EUR per kilometre for the distance between home and office (if this distance exceeds 20 km) is granted.

6.2. *Business kilometres*

If an employee who uses his private car for business purposes receives a kilometric allowance from his employer, this kilometric allowance is not considered taxable income up to an amount of 0.42 EUR per kilometre. The kilometric allowance covers any expenses related to the use of the car, such as amortisation, fuel, repair, motor vehicle tax and road fees. Evidence of the distance covered and business purpose of the trip must be provided by a special logbook.

7. *Electric vehicles*

Austrian tax law provides for some tax exemptions for electric vehicles in order to favour their purchase, for example they are subject to neither the car licence duty nor the motor vehicle tax. Additionally, some federal provinces and communities subsidise the purchase of electric vehicles at different levels.

7.1. *VAT deduction*

VAT has been recoverable for electric vehicles and hydrogen powered vehicles up to acquisition costs of 40,000 EUR since January 1, 2016 if these are used for business purposes. A car without any CO₂ emissions with acquisition costs of more than 80,000 EUR is not entitled to deduct VAT because it is regarded as a luxury item.

Belgium



Pascal Janssens

Automotive Tax Leader

p: +32 476 87 52 24
e: pascal.janssens@pwc.com

Lionel Wielemans

Director

p: +32 477 69 84 79
e: lionel.wielemans@pwc.com

Bart Lombaerts

Director

p: +32 475 98 28 17
e: frederic.souchon@pwc.com

Kris Vanderstappen

Senior Manager

p: +32 473 91 05 69
e: kris.vanderstappen@pwc.com

Belgium

1. Car registration

1.1. When does a car need to be registered?

As soon as a new or second-hand vehicle is put into free circulation on Belgian public roads the vehicle should be registered.

Also, in the event that a vehicle changes owner and is intended to be used on Belgian public roads, a new registration for the vehicle needs to be requested.

1.2. Who can register a car?

A vehicle needs to be registered in the name of the owner or the principal user of the car, whose permanent address is in Belgium.

In cross-border situations, i.e., the cross-border use of cars, the registration of the car needs to be monitored in order to avoid double registration obligations.

If the lease company agrees that the lessee registers the leased car, this would result in a VAT saving on the car taxes, which no longer have to be part of the taxable amount for the lease service.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, on the condition that the vehicle is used by a Belgian resident (i.e., a person with a Belgian address). Practically, in this case, the car is registered in the name of the foreign owner, but use is made of the Belgian address of the Belgian resident user.

1.4. Can a vehicle with a foreign number plate be used on public roads?

In principle, the owner or the main user (resident in Belgium) of a car that is driven on Belgian public roads needs to register this car in Belgium.

As an exception to this rule, Belgian legislation tolerates that, under certain circumstances and specific conditions, a Belgian-resident (private individual) who is granted the use of a company car by his foreign employer can use the company car with foreign number plates on Belgian public roads (for private or professional purposes) without having to (re-)register the car in Belgium, and without paying Belgian road taxes and VAT, provided he disposes of certain documents on board (i.e., copy of the employment contract and statement from the employer regarding the use of the car).

In practice this means that, should the employee drive the company car with foreign number plates without the above documents, he exposes himself and the foreign company to an inquiry by the Belgian road authorities regarding compliance with Belgian VAT, registration tax and road taxes.

The exception for a car registration is furthermore broadened to other situations, for example where a Belgian resident can use a vehicle made available by a foreign “client” (for the cases of an assignment outside the context of an employment contract).

There are some other exceptions e.g.:

- Vehicle rent by a Belgian resident from a foreign professional service provider for a maximum period of 6 months non-renewable;
- Vehicle driven by a civil servant official working for an international institution of the EU and residing in Belgium;
- Vehicle put at disposal to a private individual without charge for a period not exceeding one month;

If a vehicle is used in Belgium by a person not resident in Belgium, the car with foreign number plates can be used on Belgian public roads.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Belgium, several car taxes become due, namely

- registration tax,
- annual circulation tax and
- annual supplementary circulation tax
- kilometer charge for heavy goods vehicles of over 3.5 tons

2.2. Registration tax

2.2.1. Taxable event

When registering a passenger car, car for mixed use, minivan or motorcycle, a registration tax (Belasting op de Inverkeerstelling, or BIV/Taxe de mise en circulation, or TMC) is charged.

Therefore, this tax is also charged as a result of re-registration, or of a change of ownership, of a vehicle that was already registered in Belgium.

2.2.2. Taxable person

In principle due by the person who has registered the vehicle in his name.

2.2.3. Tax due

This registration tax is a regional tax, therefore differing in the Flanders, Brussels and Walloon regions.

For leasing companies, the current Brussels system applies regardless of the region in which the lease company is established.

Brussels region

The registration tax is based on the cylinder capacity of the vehicle (expressed in volume of the cylinder and taxable horsepower or fiscal horsepower) and the power of the engine (kilowatt hours per hour) and the age of the car. Please find hereafter an overview table. The amounts of the registration tax are not subject to indexation.

In case the capacity of the vehicle expressed in fiscal hp and in kW results in different amounts, the highest amount should be taken into account in order to calculate the car registration tax for petrol and diesel vehicles.

Car registration for petrol and diesel vehicles younger than 4 years				New and <1 year	1 <2 years	2 <3 years	3 < 4 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6- 1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 123,00	€ 110,70	€ 98,40	€ 86,10
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 495,00	€ 445,50	€ 396,00	€ 346,00
2,2- 2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 867,00	€ 780,30	€ 693,60	€ 606,90

2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 1.239,00	€ 1.115,10	€ 991,20	€ 867,30
3,1-3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 2.478,00	€ 2.230,20	€ 1.982,40	€ 1.734,60
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 4.957,00	€ 4.461,30	€ 3.965,60	€3.469,90

Car registration for petrol and diesel vehicles from 4 to 8 years				4 < 5 years	5 < 6 years	6 < 7 years	7 < 8 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6-1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 73,80	€ 67,65	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 297,00	€ 272,25	€ 247,50	€ 222,75
2,2-2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 520,20	€ 476,85	€ 433,50	€ 390,15
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 743,40	€ 681,45	€ 619,50	€ 557,55
3,1-3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 1.486,80	€ 1.362,90	€ 1.239,00	€ 1.115,10
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 2.974,20	€ 2.726,35	€ 2.478,50	€ 2.230,65

Car registration for petrol and diesel vehicles from 8 to 12 years				8 < 9 years	9 < 10 years	10 < 11 years	11 < 12 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6-1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 198,00	€ 173,25	€ 148,50	€ 123,75
2,2-2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 346,80	€ 303,45	€ 260,10	€ 216,75
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 495,60	€ 433,65	€ 371,70	€ 309,75

3,1-3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 991,20	€ 867,30	€ 743,40	€ 619,50
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 1.982,90	€ 1.734,95	€ 1.487,10	€ 1.239,25

Car registration for petrol and diesel vehicles older than 12 years				12 < 13 years	13 < 14 years	14 < 15 years	15 years and older
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6-1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 99,00	€ 74,25	€ 61,50	€ 61,50
2,2-2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 173,40	€ 130,05	€ 86,70	€ 61,50
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 247,80	€ 185,85	€ 123,90	€ 61,50
3,1-3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 495,60	€ 371,70	€ 247,80	€ 61,50
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 991,40	€ 743,55	€ 495,70	€ 61,50

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles younger than 4 years				New and < 1 year	1 < 2 years	2 < 3 years	3 < 4 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 0,00	€ 61,50	€ 61,50	€ 61,50
1,6-1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 0,00	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 197,00	€ 177,30	€ 157,60	€ 137,90
2,2-2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 569,00	€ 512,10	€ 455,20	€ 398,30
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 941,00	€ 846,90	€ 752,80	€ 658,70
3,1-3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 2.180,00	€ 1.962,00	€ 1.744,00	€ 1.526,00

3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 4.659,00	€ 4.193,10	€ 3.727,20	€ 3.261,30
------------	-----------------	---------	------------------	------------	------------	------------	------------

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles from 4 to 8 years				4 <5 years	5 <6 years	6 <7 years	7 < 8 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6- 1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 118,20	€ 108,35	€ 98,50	€ 88,65
2,2- 2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 341,40	€ 312,95	€ 284,50	€ 256,05
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 564,60	€ 517,55	€ 470,50	€ 423,45
3,1- 3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 1.308,00	€ 1.199,00	€ 1.090,00	€ 981,00
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 2.795,40	€ 2.562,45	€ 2.329,50	€ 2.096,55

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles from 8 to 12 years				8 <9 years	9 to <10 years	10 to <11 years	11 to < 12 years
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6- 1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 78,80	€ 68,95	€ 61,50	€ 61,50
2,2- 2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 227,60	€ 199,15	€ 170,70	€ 142,25
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 376,40	€ 329,35	€ 282,30	€ 235,25
3,1- 3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 872,00	€ 763,00	€ 654,00	€ 545,00
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 1.863,60	€ 1.630,65	€ 1.397,70	€ 1.164,75

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles older than 12 years				12 <13 years	13 <14 years	14 <15 years	15 years and older
0,1 - 1,5l	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
1,6- 1,9l	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2-2,1l	11 hp	and /or	From 86 till 100 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
2,2- 2,7l	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 113,80	€ 85,35	€ 61,50	€ 61,50
2,8-3l	15 hp	and /or	From 111 till 120 KW	€ 188,20	€ 141,15	€ 94,10	€ 61,50
3,1- 3,4l	16 and 17 hp	and /or	From 121 till 155 KW	€ 436,00	€ 327,00	€ 218,00	€ 61,50
3,5l and +	More than 17 hp	and /or	More than 155 KW	€ 931,80	€ 698,85	€ 465,90	€ 61,50

Note that for vehicles that run on liquefied petroleum gas (LPG), the amount of the registration tax is (also) lower (on second-hand vehicles) due to the fact that these vehicles are not as burdensome for the environment as the vehicles that run on petrol or diesel.

For electric vehicles, a registration tax amounts to EUR 61.50.

Walloon region

The car registration tax for petrol and diesel vehicles is the same as in the Brussels Region. For the LPG and other liquefied gaseous hydrocarbons vehicles, please find hereafter an overview table. The amounts of the registration tax are not subject to indexation.

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles younger than 4 years				New and <1 year	1 <2 years	2 <3 years	3 < 4 years
	Till 8 hp	and /or	Till 70 KW	0	€ 61,50	€ 61,50	€ 61,50
	9 and 10 hp	and /or	From 71 till 85 KW	0	€ 61,50	€ 61,50	€ 61,50
	11 hp	and /or	From 86 till 100 KW	€ 197,00	€ 177,30	157,60	€ 137,90
	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 569,00	€ 512,10	€ 455,20	€ 398,30

	15 hp	and /or	From 111 till 120 KW	€ 941,00	€ 846,90	€ 752,80	€ 658,70
	16 and 17 hp	and /or	From 121 till 155 KW	€ 2.180,00	€ 1.962,00	€ 1.744,00	€ 1.526,00
	More than 17 hp	and /or	More than 155 KW	€ 4.659,00	€ 4.193,10	€ 3.727,20	€ 3.261,30

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles from 4 to 8 years				4 < 5 years	5 < 6 years	6 < 7 years	7 < 8 years
	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	11 hp	and /or	From 86 till 100 KW	€ 118,20	€ 108,35	€ 98,50	€ 88,65
	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 341,40	€ 312,95	€ 284,50	€ 256,05
	15 hp	and /or	From 111 till 120 KW	€ 564,60	€ 517,55	€ 470,50	€ 423,45
	16 and 17 hp	and /or	From 121 till 155 KW	€ 1.308,00	€ 1.199,00	€ 1.090,00	€ 981,00
	More than 17 hp	and /or	More than 155 KW	€ 2.795,40	€ 2.526,45	€ 2.329,50	€ 2.096,55

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles from 8 to 12 years				8 < 9 years	9 < 10 years	10 < 11 years	11 < 12 years
	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	11 hp	and /or	From 86 till 100 KW	€ 78,80	€ 68,95	€ 61,50	€ 61,50
	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 227,60	€ 199,15	€ 170,70	€ 142,25
	15 hp	and /or	From 111 till 120 KW	€ 376,40	€ 329,35	€ 282,30	€ 235,25

	16 and 17 hp	and /or	From 121 till 155 KW	€ 872,00	€ 763,00	€ 654,00	€ 545,00
	More than 17 hp	and /or	More than 155 KW	€ 1.863,60	€ 1.630,65	€ 1.397,70	€ 1.164,75

Car registration for LPG and other liquefied gaseous hydrocarbons vehicles older than 12 years				12 <13 years	13 <14 years	14 <15 years	15 years and older
	Till 8 hp	and /or	Till 70 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	9 and 10 hp	and /or	From 71 till 85 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	11 hp	and /or	From 86 till 100 KW	€ 61,50	€ 61,50	€ 61,50	€ 61,50
	From 12 till 14 hp	and /or	From 101 till 110 KW	€ 113,80	€ 85,35	€ 61,50	€ 61,50
	15 hp	and /or	From 111 till 120 KW	€ 188,20	€ 141,15	€ 94,10	€ 61,50
	16 and 17 hp	and /or	From 121 till 155 KW	€ 436,00	€ 327,00	€ 218,00	€ 61,50
	More than 17 hp	and /or	More than 155 KW	€ 931,80	€ 698,85	€ 465,90	€ 61,50

For electric vehicles, a registration tax amounts to EUR 61.50. On top of this system, an eco-malus system is in place. Each time a vehicle is registered it will receive a malus if its CO₂ emissions exceed 145g per kilometer.

Eco-malus

146g–155g	100 EUR
156g–165g	175 EUR
166g–175g	250 EUR
176g–185g	375 EUR

186g–195g	500 EUR
196g–205g	600 EUR
206g–215g	700 EUR
216g–225g	1,000 EUR
226g–235g	1,200 EUR
236g–245g	1,500 EUR
246g–255g	2,000 EUR
>255g	2,500 EUR

A reduction is granted to large families with 3 dependent children (which are younger than 25 years) owning a car emitting less than 226 g of CO₂ and for vehicles equipped with LPG.

The Eco-Malus is 0 EUR: for old-timers registered with an O plate (vehicles which are 30 years old), for vehicles from companies having a leasing activity and for vehicles equipped with CNG (Compressed Natural Gas) (even partially)

Flanders region

Depending on the capacity of the person (private/legal) and whether it concerns a new or old car, a different formula based on CO₂-emissions, fuel type, Euro norm, age, etc. will be applied to calculate the registration tax.

Introduced as from January 1, 2016, as an incentive for the use of eco-friendly cars by private individuals (so not for leasing cars), the calculation of the formula includes some environmental parameters such as ‘eg Diesel Particulate Filter (DPF)’

It has become a complicated formula that can be consulted online (simulation tool/app on the website of Tax Administration of Flanders Region -<https://belastingen.fenb.be/ui/public/vkb/simulatie>).

Fully electric or hydrogen powered cars even for leasing vehicles are exempt from the registration tax as from 1 July 2020.

For the other categories, the registration tax on leased cars is still calculated based on horsepower.

2.2.4. Tax period

Every time a vehicle is (re-)registered by a new owner/user of that vehicle.

2.3. Annual circulation tax

2.3.1. Taxable event

An annual circulation tax (Verkeersbelasting/Taxe de circulation) is levied due to the fact that a vehicle is registered in Belgium.

2.3.2. Taxable person

The annual circulation tax is, in principle, due by the person mentioned on the registration form of the vehicle. It is also a regional tax and differs in amount among the Flanders, Brussels and Wallonia regions.

2.3.3. Tax due

Please find hereafter an overview table regarding passenger cars, cars for mixed use and minivans for Flanders, Brussels and Walloon regions.

Annual circulation tax tariffs applicable July 1, 2021 till June 30, 2022

Volume of the cylinder (l)	Fiscal HP	Brussels	Walloon Region	Flanders [EUR]
0-0,7	≤4	85,27€	85,27 €	€ 77,40
0,8-0,9	5	106,66 EUR	106,66 €	€ 96,84
1-1,1	6	154,04 €	154,04 €	€ 140,04
1,2-1,3	7	201,30 €	201,30 €	€ 183,00
1,4-1,5	8	248,95€	248,95 €	€ 226,32
1,6-1,7	9	296,60€	296,60 €	€ 269,52
1,8-1,9	10	343,73€	343,73 €	€ 312,36
2-2,1	11	446,03 €	446,03 €	€ 405,36
2,2-2,3	12	548,33 €	548,33 €	€ 498,36
2,4-2,5	13	650,36 €	650,36 €	€ 591,12
2,6-2,7	14	752,66 €	752,66 €	€ 684,24
2,8-3	15	854,96 €	854,96 €	€ 777,12
3,1-3,2	16	1119,89 €	1 119,89 €	€ 1.017,96
3,3-3,4	17	1384,94 €	1 384,94 €	€ 1.259,04
3,5-3,6	18	1650,00 €	1 650,00 €	€ 1.499,88

3,7-3,9	19	1914,53 €	1 914,53 €	€ 1.740,36
4-4,1	20	2179,58 €	2 179,58 €	€ 1.981,20
4,2-4,3	21	2298,38 €	Above 20 fiscal HP: 2 179,58 € + 118,80 € per additional fiscal hp (to be calculated)	Above 20 fiscal HP: 1.981,20 € + €108,00 per additional fiscal hp (to be calculated)
4,4-4,6	22	2417,18€	See above	See above
4,7-4,8	23	2535,98 €	See above	See above
4,9-5	24	2654,78 €	See above	See above
5,1-5,2	25	2773,58 €	See above	See above
5,3-5,5	26	2892,38 €	See above	See above
5,6-5,7	27	3011,18 €	See above	See above
5,8-5,9	28	3.129,98 €	See above	See above
6-6,1	29	3.248,78 €	See above	See above
6,2-6,3	30	3.367,58 €	See above	See above
6,4-6,6	31	3.486,38 €	See above	See above
6,7-6,8	32	3.605,18 €	See above	See above
6,9-7,1	33	3.723,98 €	See above	See above
7,2-7,3	34	3.842,78 €	See above	See above
7,4-7,6	35	3.961,58 €	See above	See above
7,7-7,8	36	4.080,38 €	See above	See above
7,9-8,1	37	4.199,18 €	See above	See above
8,2-8,3	38	4.317,98 €	See above	See above
8,4-8,6	39	4.436,78 €	See above	See above
8,7-8,8	40	4.555,58 €	See above	See above
8,9-9,0	41	4.674,38 €	See above	See above
9,0-9,1	42	4.793,18 €	See above	See above
9,1-9,2	43	4.911,98 €	See above	See above
9,2-9,3	44	5.030,78 €	See above	See above
9,3-9,4	45	5.149,58 €	See above	See above
9,4-9,5	46	5.268,38 €	See above	See above
9,5-9,6	47	5.387,18 €	See above	See above
9,6-9,7	48	5.505,98 €	See above	See above
9,7-9,8	49	5.624,78 €	See above	See above
9,9-10	50	5.743,58 €	See above	See above

The annual circulation tax for electric vehicles amounts to EUR 85,27 in the Brussels and Walloon region.

In case of old-timers over 30 years old, the tax is 38.64 EUR in the three regions.

With reference to the above table, in the Walloon region the decisive criterion for electric vehicles is the fiscal horsepower.

Flanders region

For passenger cars, mixed cars and minivans (no leasing cars) registered before January 1, 2016, the above annual circulation tax tariffs are calculated on the basis of the fiscal horsepower.

For passenger cars, mixed cars and minivans (no leasing cars) registered as from January 1, 2016, the above annual circulation tax tariffs are also calculated on the basis of the fiscal horsepower, but it is adjusted according to the CO₂ emissions, the Euronorm and the fuel type.

The exemption above-mentioned (see 2.2.3.) is also applicable.

Finally, a lump-sum reduction of 100 EUR is foreseen for LPG vehicles (new or old). This amount is indexed as of July 1, 2016. As from 1 July 2021 this lump-sum reduction amounts to 110,04 EUR.

2.3.4. Tax period

Annual (period of 12 months starting from the month of registration of the vehicle in Belgium).

If a vehicle falls out of use, the annual circulation tax will be refunded to the person mentioned on the registration form of this vehicle for the remaining period.

2.4. Annual supplementary circulation tax

2.4.1. Taxable event

A supplementary circulation tax is payable in respect of vehicles that run on liquefied petroleum gas (LPG) or other liquefied gaseous hydrocarbons and are registered in Belgium. This circulation tax serves as a substitute for an excise duty on LPG.

2.4.2. Taxable person

The annual supplementary circulation tax is, in principle, due by the person mentioned on the registration form of the vehicle.

2.4.3. Tax due

Please find hereafter an overview table for Flanders, Brussels and Walloon regions.

Annual supplementary circulation tax for July 1st 2021 to June 30th 2022

Amounts in EUR / KW

≤ 7	89.16
$> 7, \leq 13$	148.68
> 13	208.20

2.4.4. Tax period

Annual (period of 12 months starting from the month of registration of the vehicle in Belgium).

If a vehicle falls out of use the annual supplementary circulation will be refunded to the person mentioned on the registration form of this vehicle tax for the remaining period.

2.5. Kilometer charge for heavy goods vehicles of over 3.5 tonnes

In addition, kilometer charging for trucks with a maximum authorized mass of more than 3.5 tons has been introduced as of April 1, 2016. The measure applies on Belgian highways and certain regional- and municipal roads.

This kilometer charging is calculated using a device in the truck, called an “On Board Unit” (OBU). This system replaces the “Eurovignet”.

Please find hereafter an overview table for Flanders, Brussels and Walloon regions.

€/km	Highways in the Brussels region			Brussels city area (local & regional road network)		
	3,5-12ton	12-32 ton	> 32 ton	3,5-12 ton	12-32 ton	> 32 ton
Euronorm 0	€ 0,157	€ 0,210	€ 0,214	€ 0,202	€ 0,282	€ 0,313
Euronorm 1	€ 0,157	€ 0,210	€ 0,214	€ 0,202	€ 0,282	€ 0,313
Euronorm 2	€ 0,157	€ 0,210	€ 0,214	€ 0,202	€ 0,282	€ 0,313
Euronorm 3	€ 0,135	€ 0,189	€ 0,193	€ 0,175	€ 0,255	€ 0,286
Euronorm 4	€ 0,102	€ 0,155	€ 0,160	€ 0,142	€ 0,222	€ 0,253
Euronorm 5	€ 0,090	€ 0,144	€ 0,148	€ 0,128	€ 0,208	€ 0,239
Euronorm 6	€ 0,079	€ 0,133	€ 0,137	€ 0,106	€ 0,187	€ 0,218

€/km	Highways in the Walloon region						
	3,5-12ton	12-32 ton	> 32 ton	€/km	3,5-12 ton	12-32 ton	> 32 ton
Euronorm 0	€ 0,157	€ 0,210	€ 0,214	Euronorm 4	€ 0,102	€ 0,155	€ 0,159
Euronorm 1	€ 0,157	€ 0,210	€ 0,214	Euronorm 5	€ 0,080	€ 0,133	€ 0,137
Euronorm 2	€ 0,157	€ 0,210	€ 0,214	Euronorm 6	€ 0,080	€ 0,133	€ 0,137
Euronorm 3	€ 0,135	€ 0,188	€ 0,192				

Highways in the Flanders region							
€/km	3,5-12ton	12-32 ton	> 32 ton	€/km	3,5-12 ton	12-32 ton	> 32 ton
Euronorm 0	€ 0,123	€ 0,210	€ 0,236	Euronorm 4	€ 0,069	€ 0,155	€ 0,181
Euronorm 1	€ 0,123	€ 0,210	€ 0,236	Euronorm 5	€ 0,057	€ 0,144	€ 0,169
Euronorm 2	€ 0,123	€ 0,210	€ 0,236	Euronorm 6	€ 0,046	€ 0,133	€ 0,159
Euronorm 3	€ 0,102	€ 0,189	€ 0,214				

Please note that some exceptions exist for public utility vehicles.

3. Corporate Income taxes

Costs related to passenger cars (owned or leased) are not fully tax-deductible in the hands of a Belgian company/branch. A percentage of the costs is included in the company's/branch's taxable basis as disallowed expenses and is subject to Belgian corporate income tax (at 25% for financial years starting on or after 1 January 2020). The percentage to be disallowed is depending on some features of the car concerned. On top, the applicable regulation depends on the year in which the car is purchased, leased or rented.

On 3 December 2021, the law concerning the fiscal and social 'greening' of the mobility sector (law of 25 November 2021) was published in the Belgian Official Gazette.

This new legislation is explained below.

3.1. Cars 'acquired' before 2018

A car is acquired before 2018 in case it has been delivered or in case it has been ordered but not yet delivered before 1 January 2018. For operationally leased or rented cars, the date of conclusion of the lease or rental contract is decisive.

The system for the deduction of car costs is subject to different parameters, whereby a deduction up to a maximum of 100% is implemented. This means that for electric cars acquired before 2018, the deductibility will be 100%.

The deductible part of the car costs is determined by the formula: $120\% - (0.5\% \times \text{CO}_2 \text{ emissions} \times \text{coefficient})$, whereby the percentage resulting from this formula shall be rounded to the nearest higher or lower tenth depending on whether the number of hundredths reaches 5 or not. The deductibility percentage resulting from this formula cannot exceed 100% and may not be lower than 50%.

However, for cars with a CO₂ emission of minimum 200 g/km, a deviation on this rule is applicable whereby only 40% of the car costs can be deducted for Belgian corporate income tax purposes.

Please find herewith an overview of the calculation of the tax-deductible part of the car costs:

Cars	Percentage	Formula
>199 CO ₂ (g/km)	40%	N/A
Diesel	Between 50 and 100%	$120 - (0,5 \times 1 \times \text{gCO}_2/\text{km})$

Other engine	Between 50 and 100%	$120 - (0,5 \times 0,95 \times \text{gCO}_2/\text{km})$
Natural gas and < 12hp	Between 50 and 100%	$120 - (0,5 \times 0,9 \times \text{gCO}_2/\text{km})$
Electric	100%	N/A

The above overview applies to all vehicles purchased before 2018 and thus to vehicles equipped with only an internal combustion engine and to hybrid vehicles (regardless of the built-in charging system) as well as to 'other' vehicles.

3.2. Cars 'acquired' as from 2018 till 31 December 2022

For vehicles acquired as from 1 January 2018, the legislator has introduced the terminology of "fake" hybrid cars. "Fake" hybrid cars are vehicles equipped with an (external) rechargeable battery whose energy capacity is less than 0,5 kWh per 100 kg of vehicle weight or a CO₂ emission of more than 50g/km.

A list of "fake hybrids" is published by the Federal government and includes, amongst others, luxurious hybrid cars. This list can be found on the following website:

<https://financien.belgium.be/sites/default/files/downloads/121-valse-hybrides-lijst-overeenstemmende-voertuigen.pdf>

The deductibility percentage to be applied on the car costs related to such "fake" hybrid cars is calculated on the basis of the CO₂ emission of the non-hybrid version of the car concerned (see the green line below the car concerned on the above website). If no non-hybrid version is available (on the above website, a red remark is included below such cars), the CO₂ emission of the hybrid version is multiplied by 2,5 to determine the tax-deductibility rate, whereby the maximum of 100% should be considered.

For cars that are purchased, leased or rented between 1 January 2018 and 31 December 2022 that cannot be considered as "fake" hybrids, the rules as described in 3.1. remain applicable.

Please find herewith an overview of the calculation of the tax-deductible part of the car costs:

Cars	Percentage	Formula
>199 CO ₂ (g/km)	40%	N/A
Diesel	Between 50 and 100%	$120 - (0,5 \times 1 \times \text{gCO}_2/\text{km})$
Other engine	Between 50 and 100%	$120 - (0,5 \times 0,95 \times \text{gCO}_2/\text{km})$
Natural gas and < 12hp	Between 50 and 100%	$120 - (0,5 \times 0,9 \times \text{gCO}_2/\text{km})$
Electric	100%	N/A
"fake" hybrid	Between 50 and 100%	Formula and percentage CO ₂ of the corresponding non-hybrid car or percentage CO ₂ emission x 2,5
"real" hybrid	Between 50 and 100%	$120 - (0,5 \times 0,95 \times \text{gCO}_2/\text{km})$ (official CO ₂ emission)

However, for ("fake") hybrid cars ordered prior to 1 January 2018 or for which the lease agreement was signed prior to 1 January 2018, the CO₂ emission of the hybrid version is still applicable.

It is explicitly mentioned in the law of 25 November 2021 (as published in the Belgian Official Gazette of 3 December 2021) that as from assessment year 2022, car costs comprise all costs of a car made available for the personal use by a third party, with the exception of the amount corresponding to (i) the benefit in kind which

is taxed in the name of that third party and (ii) the third party's own contribution for the personal use of that car.

3.3. Cars purchased, leased or rented from 1 January 2023 to 30 June 2023

As from 1 January 2023, the law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector provides new regulations regarding the tax-deductibility of fuel expenses for hybrid rechargeable cars.

Following this law, a special scheme will be applicable for "hybrid rechargeable cars" purchased, leased or rented as of 1 January 2023, whereby the fuel expenses will be taxed differently compared to the other car expenses.

“Hybrid rechargeable cars” are according to text of the law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector vehicles that are both "equipped with a fuel engine and an electric battery that can be recharged via a connection to an external energy source outside the vehicle", hereafter referred to as “plug-in hybrids”. By including such a general description, this provision would not only refer to the aforementioned "false" rechargeable hybrid vehicles but in fact to "all" rechargeable hybrid vehicles.

The new rule entails that for such plug-in hybrids a distinction must be made between the costs of petrol and diesel, on the one hand, and other car costs, on the other hand.

For both cost categories, the rule remains that the tax-deductible amount is determined according to the above-mentioned formula: $120\% - (0.5\% \times \text{CO}_2 \text{ emissions} \times \text{coefficient})$; (whereby for the "false" hybrid vehicles the aforementioned "adjusted" CO₂ emissions must be used). However, the deduction percentage will be limited to 50% for the petrol or diesel expenses of these cars.

For cars that are purchased, leased or rented between 1 January 2023 and 30 June 2023 that cannot be considered as plug-in hybrids, the rules as described in 3.2. remain applicable.

Cars	Formula	Deductibility percentage
>199 CO ₂ (g/km)	N/A	40%
Diesel	$120 - (0,5 \times 1 \times \text{gCO}_2/\text{km})$	Between 50 and 100%
Other engine ¹	$120 - (0,5 \times 0,95 \times \text{gCO}_2/\text{km})$	Between 50 and 100%
Natural gas and < 12hp	$120 - (0,5 \times 0,9 \times \text{gCO}_2/\text{km})$	Between 50 and 100%
Electric ²	N/A	100% (also on electricity)
“fake” hybrid ³	Formula and percentage CO ₂ of the corresponding non-hybrid car or percentage CO ₂ emission x 2,5	Between 50 and 100%, except fuel costs which are only deductible for a maximum of 50%
“real” hybrid ⁴	Formula and percentage CO ₂ of the corresponding non-hybrid car or percentage CO ₂ emission x 2,5	Between 50 and 100%, except fuel costs which are only deductible for a maximum of 50%

¹ Excluding plug-in hybrids

² Excluding costs related to charging stations for electric vehicles – see further

³ Excluding costs related to charging stations for electric vehicles – see further

⁴ Excluding costs related to charging stations for electric vehicles – see further

This scheme remains unchanged as long as the taxpayer uses the car for business purposes (with the exception of fuel costs, see below).

3.4. Cars purchased, leased or rented from 1 July 2023 to 31 December 2025

Based on the law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector, the maximum deductibility of costs made in relation to the plug-in hybrids and other cars with carbon emission purchased, leased or rented between 1 July 2023 and 31 December 2025 will be reduced annually in order to - in the end - arrive at a complete non-deductibility of the car costs made in relation to such cars.

Plug-in hybrids purchased, leased or rented from 1 July 2023 to 31 December 2025

For assessment year **2025** (financial years ending between 31 December 2024 and 30 December 2025), the deduction system described under point 3.3. still applies to plug-in hybrids: application of the formula with the 'actual' (or for 'false' hybrids adjusted) CO₂ emissions.

The deductibility percentage for the costs in relation to fuel expenses may not exceed 50% whereas for the other car costs a minimum deduction of 50% and a maximum deduction of 100% should be applied (in case the CO₂ emission is below 200 gCO₂/km).

For assessment year **2026** (linked to a financial year starting at the earliest on 1 January 2025 and ending between 31 December 2025 and 30 December 2026), the minimum deductibility percentage of 50% for the car costs excluding fuel of plug-in hybrids, is abolished. As from 1 January 2025, the law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector only provides for a maximum deduction of 75% (instead of 100%). The maximum deductibility percentage of 50 % to be applied on the costs for fuel expenses of plug-in hybrids however remains unchanged.

For assessment year **2027** (linked to a financial year starting at the earliest on 1 January 2026 and ending between 31 December 2026 and 30 December 2027), the deductibility percentage for all car costs of plug-in hybrids (including fuel costs) may not exceed 50%.

As of assessment year **2028** (linked to a financial year starting at the earliest on 1 January 2027 and ending between 31 December 2027 and 30 December 2028), the maximum deductibility percentage of 50% for the car costs of plug-in hybrids will be further reduced to 25% and as of assessment year **2029** (linked to a financial year starting at the earliest on 1 January 2028 and ending between 31 December 2028 and 30 December 2029), the right to deduct (partially) for Belgian corporate income tax purposes such car costs will be abolished.

Assessment year	Type of cost for plug-in hybrid	Deductibility percentage
2025	Petrol/diesel expense	Maximum 50%
	Other car expenses (including cost of electricity for recharging the car)	Between 50% and 100%
2026	Petrol/diesel expense	Maximum 50%
	Other car expenses (including cost of electricity for recharging the car)	Maximum 75% - no minimum
2027	Petrol/diesel expense	Maximum 50% - no minimum
	Other car expenses (including cost of electricity for recharging the car)	
2028	Petrol/diesel expense	

	Other car expenses (including cost of electricity for recharging the car)	Maximum 25% - no minimum
2029	Petrol/diesel expense	0%
	Other car expenses (including cost of electricity for recharging the car)	

Other cars with carbon emissions purchased, leased or rented between 1 July 2023 and 31 December 2025

For cars with carbon emissions that are different from plug-in hybrids that have been purchased, leased or rented between 1 July 2021 and 31 December 2025, the formula as explained in 3.3. (with the 'actual' CO₂ emissions) remains applicable. The deductibility percentage resulting from the formula may not exceed 100% and shall not be lower than 50% (**in case the CO₂ emission is below 200 g CO₂/km**). This rule is applicable until and including assessment year **2025** (financial years ending between 31 December 2024 and 30 December 2025).

The minimum of 50% deductibility of the costs of cars with carbon emission is abolished as from assessment year **2026** (linked to a financial year starting at the earliest on 1 January 2025 and ending between 31 December 2025 and 30 December 2026). As from that moment, the deductibility percentage as calculated via the previously mentioned formula will be applied, be it that the tax deduction can never exceed 75%.

The following assessment years the maximum deduction of car costs of cars with carbon emission is further reduced to 50% (assessment year **2027**) and 25% (assessment year **2028**). As from assessment year **2029** no deduction is allowed anymore for these car costs.

Assessment year	Deductibility percentage if CO ₂ emission < 200 gCO ₂ /km
2025	Between 50 and 100%
2026	75%
2027	50%
2028	25%
2029	0%

Car costs related to cars purchased, leased or rented until 31 December 2025 with a carbon emission of **at least 200 g CO₂/km** are only 40% deductible until assessment year **2025**. As from assessment year **2026**, the same rules as mentioned above for cars with a CO₂ emission below 200 g CO₂/km apply.

In case the CO₂ emission is unknown for cars purchased, leased or rented between 1 July 2023 and 31 December 2025, any tax deduction of the related car costs is prohibited.

Other cars without carbon emission

The deductible costs of cars without carbon emission are determined according to the formula as set forth in 3.3. The deduction limitation that applies to cars with carbon emissions as of assessment year **2026** (linked to a financial year starting at the earliest on 1 January 2025) does **not** apply to vehicles without any carbon emissions. The professional expenses for carbon emission-free cars remain deductible up to 100% until assessment year 2026.

3.5. Cars purchased, leased or rented from 2026

For cars that are purchased, leased or rented as from assessment year **2027** (linked to a financial year starting at the earliest on 1 January 2026), the principle – based on the text of the law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector - is that the costs related to the professional

use of a passenger car (or similar vehicle) are no longer tax-deductible. The law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector however makes an exception for cars without CO₂ emissions.

The costs of a car without carbon emission purchased, leased or rented before assessment year 2027 remain 100% deductible to the extent and as long as the vehicle is used for professional activities.

Taxpayers who purchase, lease or rent a zero-emission car during or after assessment year 2027 will have to accept a lower deduction.

The longer one waits to invest in a zero-emission car, the lower the percentage of deduction:

Year of purchase / rent / lease	Deductibility percentages for vehicles without carbon emissions					
	AY 2027	AY 2028	AY 2029	AY 2030	AY 2031	AY 2032 et seq.
2026	100%	100%	100%	100%	100%	100%
2027		95%	95%	95%	95%	95%
2028			90%	90%	90%	90%
2029				82,5%	82,5%	82,5%
2030					75%	75%
2031 and onwards						67,5%

3.5. Special cases

Benefit in kind on company cars

Besides the car costs, 17% (40% if the company/branch bears the fuel and/or electricity expenses linked to private use of the car concerned) of the yearly benefit in kind (see below) will be included in the employer’s taxable profits as disallowed expenses and will be subject to Belgian corporate income tax.

Belgian corporate income tax will anyhow be due on this 17% (40% if the company covers the fuel and/or electricity costs relating to private use) as the taxable basis triggered by this disallowed expense cannot be offset against notional interest deduction, tax losses or other tax attributes (meaning it results in a minimum taxable basis).

As per today, no changes have been announced in this respect.

Cars of which the CO₂ emissions are not known by the DIV (being the vehicle registration office)

As per today, Belgian legislation contains a deduction limitation of 50% for the costs related to cars for which the CO₂ emissions are not known.

Based on the law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector, these car costs are only 40% deductible as from assessment year **2021** (linked to a financial year starting at the earliest on 1 January 2020 and ending between 31 December 2020 and 30 December 2021) until assessment year **2025** (linked to a financial year starting at the earliest on 1 January 2024 and ending between 31 December 2024 and 30 December 2025).

As from assessment year 2026 (linked to a financial year starting at the earliest on 1 January 2025 and ending between 31 December 2025 and 30 December 2026), no deduction will be allowed anymore for these car costs.

Costs of using a taxi

For pragmatic reasons, it was accepted in the past that a uniform 75% deduction limitation is applied to professionally incurred taxi costs, regardless of whether it concerns travel by taxi in Belgium or abroad.

Recently, the Minister of Finance indicated in an answer to a parliamentary question that this 'tolerance' may still be applied under the scheme applicable for assessment year 2021. For the time being, it is unclear whether the tolerance will also still be allowed to be applied under the new, forthcoming regulation.

3.6. Costs related to charging stations

As the rules explained above focus on a shift to electric vehicles, the law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector also contains some stipulations in relation to the tax-deductibility of expenses linked to the installation of charging stations by companies/branches.

The costs for charging stations for electric vehicles which are open to the public at least during certain timeframes (and the Federal Public Service Finance has been notified in time) will be tax-deductible for 200% for depreciation related to investments made from 1 September 2021 to 31 December 2022.

For the depreciations related to such investments made between 1 January 2023 and 31 August 2024, the deductibility will be 150%.

The incentive linked to an increased deduction tax-wise is being phased out over time in order to speed up the acceleration of the number of charging stations available.

To be able to claim the above deductibility percentages, the following conditions must be met:

- The straight-line depreciation method has to be used to depreciate the costs over a period of at least 5 taxable periods.
- The investment deduction for electric charging infrastructure is not claimed for these costs.
- The deductibility can be claimed at the earliest as of the assessment year linked to the taxable period during which the charging station is operational and publicly accessible.
- For subsequent assessment years, the costs are deductible only for those assessment years connected to a taxable period for which the charging station can be considered open to the public during the entire period, without taking into account inaccessibility caused by factors outside the taxpayer's control.

4. VAT

4.1. General

Belgian VAT at the standard rate of 21% is, in principle, due on most supplies of goods and/or services. For taxable persons with a right to deduct VAT, the input VAT incurred for their purchases in respect of their economic activity can, in principle, be deducted for 100%.

4.2. Deduction

However, with respect to the delivery, importation and intra-Community acquisition of cars used for passenger transport or vehicles used for the transport of both passengers and goods as well as the services and deliveries related thereto, the deduction of the input VAT equals the share of the professional use (in percent), but cannot exceed 50% of the VAT paid.

In order to calculate the percentage of professional use, taxable persons can choose amongst the following systems:

- A kilometer registration (manual or automated)
- A semi lump sum system based on the kilometers commuting plus weekend traffic (i.e., home-work distance x 2 x 200 days + 6,000 kilometers) versus total kilometers driven by the car)
- A lump sum deduction of 35%

The rate of the professional use of the vehicle must be used as the % of deductible VAT for the following transactions:

- Purchase and rent of the car;
- Purchase of fuel;
- Expenses for repairs and maintenance;
- Purchase of equipment (e.g.: car phone costs) and spare parts ;
- Provision of electricity to charge electric vehicles;

Exceptions to this rule are:

- Light trucks – 100% deductible (provided the vehicle is exclusively used professionally);
- Light trucks – kilometer registration or lump sum of 85% deductible provided that the truck is not exclusively used professionally and certain conditions are met;
- Cars destined to be resold by a taxable person whose economic activity is the sale of cars – 100% deductible;
- Cars destined to be hired out by a taxable person whose economic activity is the renting of cars to anyone – 100% deductible (please note that it is not required that the rental activity is the only or main activity of a company, nor that the rental should be provided towards an unlimited clientele);
- Cars destined to be used as a replacement car by a taxable person who puts these vehicles at the disposal of customers who await the repair or maintenance of their car or who await the supply of their new vehicle – 100% deductible;
- Cars destined to be rented out on a regular basis by a taxable person to affiliated companies – 100% deductible;
- Cars destined to be used as replacement cars by a taxable person who offers road assistance – 100% deductible.

4.3. Hire purchase: Supply of goods?

For VAT purposes, a hire purchase in Belgium is a supply of goods whereby the taxable amount lies in the price that can be paid in cash to acquire the goods immediately.

Consequently, the amount of interest must be considered as remuneration of an exempt financial service and must not be included in the taxable amount for the hire purchase. The VAT due must be paid to the VAT authorities when the car is put at the disposal of the hirer/purchaser.

4.4. Leasing: Supply of services?

A lease agreement, operational or financial, whereby the customer must exercise a purchase option (if any) in order to legally acquire the vehicle, is considered in Belgium to be a service for VAT purposes.

Consequently, the finance cost needs to be included in the taxable amount of the lease for VAT purposes.

Furthermore, as legal owner of the car, the lessor can register the car in Belgium in his own name; alternatively, the lessee is also entitled to do this.

As the different car taxes are legally due by the person who registers the car, all these taxes only need to be included in the taxable amount of the lease for VAT purposes if it is the lessor who registers the car. A similar treatment is given to the insurance premium paid by the lessor, unless the lessee contracts directly with the car insurer. VAT will be due at the end of each period to which the payment relates and in case no payments are received at the latest on 31 December of each year.

This being said, do note that according to the judgement of the CJEU of 4 October 2017 in the Mercedes-Benz Financial Services UK Ltd case (C-164/16), the Belgian VAT authorities could, on the basis of a set of objective criteria, qualify the vehicle leasing contract as a supply of goods for VAT purposes (i.e. thus, not as a supply of services).

In this case, the lessee would have to pay (at the beginning of the lease) the full amount of VAT for the leasing of the vehicle fleet. This would have a negative impact on the lessee's cash flow.

Do note that, at this stage, the Belgian VAT authorities did not make a statement regarding this CJEU decision. Therefore, no Belgian VAT guidelines are yet available in this regard.

5. Company car

5.1. VAT due on private use of company cars

When a capital good is used for both economic activities and non-economic activities, the VAT deduction is in any case limited to the economic use of the good.

Therefore, the private use of a car by an employee is in principle no longer treated as a taxable supply of services (correction already done through limiting the deduction).

The tax authorities have implemented these principles for leasing cars as well. Also in this case the VAT deduction is limited to a maximum 50%.

In respect of the number of private kilometers, both the commuter traffic and the actual private kilometers should be taken into account.

The following cases can be distinguished:

- The employee pays no contribution
- The employee pays a contribution

5.1.1. The employee pays no contribution

If the VAT deduction has been limited to the private portion of the use of the car (via one of the three methods as described under point 4.2), in principle no VAT is due on the private use.

In exceptional cases where VAT was not initially deducted according to the private/professional use of the (purchased) car, VAT might be due on the private use.

5.1.2. The employee pays a contribution

If the employee pays a contribution for the private use of the car, the company is deemed to render a “rental service” to its employee. This rental of the car is subject to VAT and the VAT deduction is automatically put at 50%.

However, the taxable amount for this rental to the employee or director cannot be lower than the normal value.

If the car is bought, the normal value (NV) equals:

$NV = (\text{purchase price}/5 + \text{expenses (for which VAT was due)}) \text{ multiplied by } (50\% - \% \text{ of professional use})$

If the car is leased, the normal value (NV) equals:

$NV = (\text{lease price} + \text{expenses (for which VAT was due)}) \text{ multiplied by } (50\% - \% \text{ of professional use})$

Therefore, if the professional use equals 50% or higher, no normal value is to be calculated.

Furthermore, do note that the Belgian VAT authorities have a broad understanding of the concept of “contribution”. This can potentially have an impact on cafeteria plans.

5.2. Company car and personal tax

When a company car is put at the disposal of an employee, its private use triggers taxation as a benefit in kind. Private use includes all uses other than the business use: use during weekends and holidays as well as commuting between home and the fixed place of work.

The yearly benefit in kind on which the employee will be taxed has to be computed as 6/7 of the catalogue value of the car (to be understood as the list price of the car for a sale to an individual when it was new, including options and the actually paid VAT, but excluding any discounts and rebates), multiplied by a percentage linked to the car CO₂ emission rate (the “taxable percentage”).

In addition, the benefit in kind takes into account the age of the car, by multiplying the catalogue value with a percentage (the “degressivity coefficient”) in function of the age of the car (based on the first registration of the car). The benefit in kind decreases by 6% per annum, with a maximum of 30% decrease.

For income year 2021, the taxable percentage to apply to the catalogue value of the car is 5.5% for a diesel car with a CO₂ emission rate of 84 g/km and for a petrol (or other fuel than diesel) car with a CO₂ emission rate of 102 g/km.

This base percentage of 5.5% is then increased/decreased by 0.1% for each gram of CO₂ per kilometre above or below the CO₂ emission thresholds of respectively 84 g/km and 102 g/km (with an absolute minimum percentage of 4% and an absolute maximum percentage of 18%).

Depending on the outcome of the above calculation, the benefit in kind is determined, but in no circumstance can the benefit in kind be lower than 1.370 EUR per year.

The CO₂ emission thresholds and minimum benefit in kind are indexed every year. The above amounts are for income year 2021 .

In summary; the following formula will be applied to determine the taxable benefit in kind in 2021 :

Diesel cars:

$[(5.5\% + (\text{CO}_2 \text{ emissions of the car} - 84)) * 0.1\%] * \text{catalogue value} * \text{degressivity coefficient} * 6/7$ (minimum 4% and maximum 18% of the catalogue value – if CO₂ emissions are not known, they are deemed to be 195 g/km), with a minimum of 1.370 EUR per year.

Petrol, LPG and natural gas cars:

$[(5.5\% + (\text{CO}_2 \text{ emissions of the car} - 102)) * 0.1\%] * \text{catalogue value} * \text{degressivity coefficient} * 6/7$ (minimum 4% and maximum 18% of the catalogue value – if CO₂ emissions are not known, they are deemed to be 205 g/km)), with a minimum of 1.370 EUR per year.

Hybrid cars (PHEV and HEV) follow the above rules according to the fuel of their internal combustion engine (i.e. petrol or diesel).

Fake hybrid cars/ plug-in hybrid cars:

The so-called “fake hybrids” are hybrid cars for which the following conditions apply:

- Purchased (date of order), leased or rented (date of contract) as of 1 January 2018
- either an electric battery with an energy capacity of less than 0.5 kWh per 100 kilograms of vehicle weight or an emission of more than 50 grams of CO₂ per kilometre,

If a hybrid car is considered to be a “fake hybrid”, the CO₂-emission of the hybrid car won't be used to determine the taxable benefit in kind (see formula above). A corresponding vehicle (I.e.the same model but with a traditional fuel engine) will have to be found and that corresponding CO₂-emission will be used for determining the taxable benefit in kind.

The Belgian tax authorities have a list available of fake hybrids and their corresponding vehicles. If no corresponding vehicle is known, the CO₂-emission of the “fake hybrid” will be used and multiplied by x 2,5.

Battery electric cars (BEV) with CO₂ emissions of 0 g/km:

4% of the catalogue value * degressivity coefficient * 6/7, with a minimum of 1.370 EUR per year.

For example, the 2021 taxable benefit in kind for the private use of a new diesel car emitting 134 g CO₂/km with a catalogue value of 28,600 EUR is amounting to $(5.5\% + [(134 - 84) * 0.1\%]) * 28,600 * 6/7 = 2.574$ EUR

The number of private kilometres actually driven for private purposes is not taken into account for computing the taxable benefit in kind.

If the employee pays a contribution to the employer for the private use of the car, the contribution can be deducted from the benefit in kind.

5.3. Company car and social security contributions

No employee social security contribution is due on the private use of the company car.

An employer social security (solidarity) contribution is due each month, based on the CO₂ emissions of the company car. This contribution is fully deductible for the employer.

Besides this solidarity contribution, no other employer social security contribution is due. This CO₂ solidarity contribution is payable by the employer on each company car put at the disposal (directly or indirectly, e.g. by leasing) of the employee. It is due as from the moment there is a private use of the car.

For the year 2021, the monthly CO₂ contribution will be calculated as follows, with a minimum of 27.54 EUR:

Petrol cars: $((\text{CO}_2 \text{ emissions} * 9) - 768) / 12 * 1.3222$ or 95.86 EUR if CO₂ emissions are not known (equivalent to 182 g/km CO₂ emissions)

Diesel cars: $((\text{CO}_2 \text{ emissions} * 9) - 600) / 12 * 1.3222$ or 97.51 EUR if CO₂ emissions are not known (equivalent to 165 g/km CO₂ emissions)

LPG cars: $((\text{CO}_2 \text{ emissions} * 9) - 990) / 12 * 1.3222$

Electric cars: 27.54 EUR

No CO₂ contribution is due on company cars put at the disposal of a self-employed company director.

CO₂ emissions are to be found under point 49.1 of the car's conformity certificate mentioning NEDC values.

In light of recent announced legislative changes to transform towards "greener" fleets, we already would like to point out that this contribution will increase (not only indexed) as from 1 July 2023. It will gradually increase by a factor x2.25 as from 1 July 2023 up to x5.50 as from 2026.

6. Income taxes – drivers' personal taxation

According to the Belgian personal tax legislation, an individual taxpayer can opt for a lump sum deduction for professional expenses or can opt to prove his/her actual professional costs. Only to the extent the actual expenses exceed the lump sum amount, the actual expenses are taken into account. If the taxpayer does not prove his professional costs, the fixed deduction lump sum amount is automatically applied. If the taxpayer opts to use the lump sum deduction of professional expenses, any costs reimbursed by the employer for commuting by private car, are tax exempt up to a maximum of EUR 420 (on top of the deduction of the lump sum professional costs). If the taxpayer opts to prove his/her actual expenses, this reimbursement by the employer is considered to be taxable income for the full amount.

If one opts to deduct the actual expenses, the expenses linked to the usage of a car for professional use are tax deductible based on the CO₂ emissions. The same rules apply as for corporate income tax. The only exception to this relates to cars purchased before 1 January 2018. For these cars the deduction of car expenses will also be based on the CO₂ emission, however with a minimum of 75%. Costs related to commuting by private car are deductible based on a fixed amount per kilometer driven. Costs related to private use are not deductible.

If the taxpayer opts to prove his real professional costs in his personal tax return, a distinction should be made between the costs made for the private use of the vehicle, the commuter traffic and the business kilometres.

6.1. Private use

The vehicle costs made in respect of the private use of a vehicle are not deductible in the employee's personal tax declaration.

6.2. Commuter traffic

The deduction of car costs in respect of commuter traffic is limited to 0.15 EUR per kilometre. In case the taxpayer is driving with a company car and opts to deduct his actual expenses, the deduct commuting costs (0.15 EUR/km) may never be higher than the taxable benefit in kind.

6.3. Business kilometres

Except for finance costs incurred to acquire the vehicle and the costs in respect of the installation of a telephone car kit that are fully deductible in the personal tax declaration, all costs made regarding business kilometres are deductible based on the CO₂ emissions, analogously to the deduction system in corporate income tax. For cars purchased before 1 January 2018, the deduction of car expenses will also be based on the CO₂ emission, however with a minimum of 75%.

Fuel costs (including electricity costs for charging electric driven cars) are tax-deductible for 75%. As from 2020 (assessment year 2021), these costs also follow the deductibility rate based on the CO₂-emission as applicable for companies (see above).

6.4. Environmentally friendly cars

Environmentally friendly vehicles are stimulated quite intensively in Belgium, certainly for company cars (CO₂ emissions linked).

7. Electric vehicles

As already explained under point 3, the law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector stipulates that car costs related to full electric cars that have been purchased, rented or leased until assessment year 2026 (linked to a financial year ending between 31 December 2025 and 30 December 2026) will remain fully deductible for Belgian corporate income tax purposes. For full electric cars that are purchased as from assessment year 2027, the deductibility of the car costs will gradually decrease to 67,5% for electric cars purchased in assessment year 2032 (we refer to point 3.5 in this respect).

Furthermore, employees driving electric company cars are taxed on a minimum valuation of the benefit in kind (i.e., 4% of the catalogue price of the car * a degressivity coefficient * 6/7, with a minimum of €1.370 for calendar year 2021) and a minimum social security contribution is due by the employer (i.e. €27,54 per month during 2021).

Also on a regional level, proposals of decrees are being introduced to encourage companies and individuals to purchase, lease and/or rent electric vehicles.

7.1. Flanders Region

Following the United Nations Framework Convention on Climate Change of Paris in 2015 and the Climate Summit of Glasgow in 2021, the Flemish Region has agreed to a complete shift to zero-emission vehicles by 2050.

In preparation of the Climate Summit of Glasgow (2021), the Flemish government has concluded on 4 November 2021 a new Climate Agreement, aiming to reduce carbon emissions by 40% by 2030, compared to 2005.

One of the main amendments included in this agreement is that as from 1 January **2029** onwards, one can only purchase an electric car when buying a **new** car (cars with carbon emission may still be traded on the second-hand market). This is however subject to a few preconditions to be met at that point in time: electric cars must be affordable, sufficient charging infrastructure must be available and there must be sufficient

choice in electric cars. The Flemish government is however currently of the opinion that these conditions will anyhow be met per 1 January 2029.

7.2. Walloon and Brussels Region

Both the Walloon and Brussels governments have the aim to gradually ban the most polluting vehicles. Both governments want to reach this goal via (the introduction of) low emission zones (see below).

8. Recent & future developments

8.1. Brussels, Antwerp and Ghent

Brussels, Antwerp and Ghent have implemented a low emission zone (LEZ). Via ANPR cameras the license plates of the cars entering the zone are checked and compared to a list of authorized vehicles. Vehicles that are not on the list and drive into the zone will receive a fine. Temporary passes can be bought for non-compliant vehicles to enter the zone.

In Brussels, this measure prohibits EURO 0, 1, 2 and 3 diesel vehicles and EURO 0 and 1 petrol vehicles or vehicles without a EURO standard (pre-Euro standards) to drive in the LEZ. The criteria will be tightened in 2022 and 2025.

In Antwerp, this measure prohibits diesel vehicles with EURO standard below 5 and petrol vehicles with EURO standard below 2 or vehicles without a EURO standard (pre-Euro standards) to drive in the LEZ. Euro standard 4 Diesel vehicles must buy an “environmental ticket” in order to be allowed to drive in the LEZ. In 2025 and 2027, the criteria for diesel cars will be further tightened. For petrol vehicles, stricter criteria will apply in 2025 and 2028. Since 1 January 2020, the inner city of Ghent follows the example of Antwerp and Brussels and has turned into a LEZ. As from this date, vehicles running on petrol must, at least, meet Euro standard 2 and vehicles running on diesel must, at least, meet Euro standard 5 to drive in the Ghent LEZ. Euro standard 4 Diesel vehicles must buy an “environmental ticket” in order to be allowed to drive in the LEZ. The criteria will be tightened in 2025, 2027 and 2028.

Note that several other cities are also thinking about implementing a LEZ, but they are waiting for overall guidance from the Flemish Regional Government.

For an overview of which EURO standard relates to which date of first registration, see the following table:

EURO standard	Car (M1)	Van (N1) class I
EURO 1	01/07/1992-31/12/1996	01/10/1994-31/12/1997
EURO 2	01/01/1997-31/12/2000	01/01/1998-31/12/2000
EURO3	01/01/2001-31/12/2005	01/01/2001-31/12/2005
EURO 4	01/01/2006-31/12/2010	01/01/2006-31/12/2010
EURO 5	01/01/2011-31/08/2015	01/01/2011-31/08/2015
EURO 6	01/09/2015-31/08/2019	01/09/2015-31/08/2019
EURO 6d-temp	01/06/2019-31/12/2020	01/06/2019-31/12/2020
EURO 6d	01/01/2021-...	01/01/2021-...

LEZ Brussels Region

In Brussels, the measure makes a distinction based on the category of vehicle and the type of fuel it consumes.

For a passenger car (M1) and a van weighing less than 3,5 tonnes (N1), the following table shows an overview of which EURO standards will be allowed in the Brussels LEZ in what calendar year. Please note that there is a table for both diesel/hybrid cars on the one hand and for petrol/hybrid/LPG/CNG cars on the other hand.

Diesel/hybrid vehicles					
EURO standard	2021	2022-2024	2025-2027	2028-2029	2030-2036
EURO 6d	✓	✓	✓	✓	X
EURO 6d-TEMP	✓	✓	✓	X	X
EURO 6b and 6c	✓	✓	✓	X	X
EURO 5	✓	✓	X	X	X
EURO 4	✓	X	X	X	X
EURO 3	X	X	X	X	X
EURO 2	X	X	X	X	X
EURO 1	X	X	X	X	X
No EURO standard	X	X	X	X	X

Petrol/hybrid/LPG/CNG vehicles					
EURO standard	2021-2024	2025-2027	2028-2029	2030-2034	2035-2036
EURO 6d	✓	✓	✓	✓	X
EURO 6d-TEMP	✓	✓	✓	X	X
EURO 6b and 6c	✓	✓	✓	X	X
EURO 5	✓	✓	✓	X	X
EURO 4	✓	✓	✓	X	X
EURO 3	✓	✓	X	X	X
EURO 2	✓	X	X	X	X
EURO 1	X	X	X	X	X
No EURO standard	X	X	X	X	X

Failure to comply with the Brussels LEZ access criteria is subject to a fine of €350.

LEZ Antwerp and Ghent

The city of Antwerp and the city of Ghent both have their own LEZ zone in place. Their rules are however the same, which will become gradually stricter over the course of the next few years. The different periods with their applicable rules are explained below.

Note that for the below overview, only the vehicles of category M1, M2 and N1 are covered in this respect, being:

- Passenger cars (M1)
- Vans with more than 8 seats and weighing less than 5 tonnes (M2)
- Vans weighing less than 3.5 tonnes (N1).

Current rules until 31 December 2024

Currently diesel vehicles with EURO standard below 5 and petrol vehicles with EURO standard below 2 or vehicles without a EURO standard (pre-Euro standards) are prohibited to drive in the LEZ. EURO standard 4 diesel vehicles must buy an “environmental ticket” in order to be allowed to drive in the LEZ. Other vehicles will need to buy a LEZ day pass, with a maximum of 8 days per year. These rules will continue to be applicable until 31 December 2024 for both cities.

Overview of standards from 01/01/2020 to 31/12/2024		
EURO standard	Diesel	Petrol, natural gas, LPG
EURO 6/VI	Access	Access
EURO 5/V	Access	Access
EURO 4/IV	Environmental ticket	Access
EURO 3/III with soot filter	LEZ daypass*	Access
EURO 3/III without soot filter	LEZ daypass*	Access
EURO 2/II	LEZ daypass*	Access
EURO 1/I	LEZ daypass*	LEZ daypass*
Pre-EURO standards	LEZ daypass*	LEZ daypass*

*Maximum of 8 times per year.

From 1 January 2025 until 31 December 2026

As from 1 January 2025, the rules become more severe. As of this date, diesel vehicles with EURO standard below 6 and petrol vehicles with EURO standard below 3 will be prohibited. EURO standard 5 diesel vehicles must buy an “environmental ticket”.

Overview of standards from 01/01/2025		
EURO standard	Diesel	Petrol, natural gas, LPG
EURO 6/VI	Access	Access
EURO 5/V	Environmental ticket	Access

EURO 4/IV	LEZ daypass*	Access
EURO 3/III with soot filter	LEZ daypass*	Access
EURO 3/III without soot filter	LEZ daypass*	Access
EURO 2/II	LEZ daypass*	LEZ daypass*
EURO 1/I	LEZ daypass*	LEZ daypass*
Pre-EURO standards	LEZ daypass*	LEZ daypass*

*Maximum of 8 times per year.

As from 1 September 2027 and onwards for diesel vehicles

As from 1 September 2027, only diesel vehicles with Euronorm EURO 6d are able to access the LEZ zones of Antwerp and Ghent. EURO 6a, 6b, 6c and 6d-temp diesel vehicles can have access through an environmental ticket. All other diesel vehicles need to buy a LEZ day pass.

Overview of standards for diesel vehicles	
EURO standard	As of 01/09/2027
EURO 6d	Access
EURO 6a, 6b, 6c, 6d-temp	Environmental ticket
EURO 5	LEZ daypass*
EURO 4	LEZ daypass*
EURO 3	LEZ daypass*
EURO 2	LEZ daypass*
EURO 1	LEZ daypass*
Pre-EURO standards	LEZ daypass*

*Maximum of 8 times per year.

For petrol/natural gas vehicles, the rules that are applicable as from 1 January 2025 remain applicable until 31 December 2027.

As from 1 January 2028 for petrol and natural gas vehicles

The rules for vehicles using petrol and natural gas will become more severe as from 1 January 2028.

Overview of standards for petrol and natural vehicles	
EURO standard	As of 01/01/2028
EURO 6	Access
EURO 5	Access
EURO 4	Access
EURO 3	LEZ daypass*
EURO 2	LEZ daypass*
EURO 1	LEZ daypass*
Pre-EURO standards	LEZ daypass*

*Maximum of 8 times per year.

For diesel vehicles, the same rules that are introduced in the previous paragraph continue to be applicable as no additional changes for diesel vehicles will occur in 2028.

Note that several other cities are also thinking about implementing a LEZ, but they are waiting for overall guidance from the Flemish Regional Government.

Walloon Region

In 2019, Wallonia adopted a "Decree on the fight against air pollution from vehicle traffic". This decree aims to progressively ban the circulation of the most polluting vehicles throughout Wallonia (regardless of the existence of a low emission zone).

From 1 January 2020, traffic restrictions for the most polluting vehicles can be introduced within low emission zones. This is the case in the cities of Namur and Eupen as from 2021, with the aim to test the set-up and impact of a low emission zone.

In a second phase, as from 1 January 2023, restrictions throughout the Walloon Region may come into force.

In addition to the low emission zones, the Walloon Region has planned a gradual phase-out of diesel. It applies to all motorized vehicles (private and professional). However, exemptions exist. They are based solely on the specific use of the vehicle, for example ambulances or other priority vehicles. Individual derogations may be requested according to modalities and criteria to be determined.

As from 1 January 2023, the circulation of the most polluting passenger cars will be progressively banned, regardless of their engine, according to the following schedule:

	Traffic is prohibited for passenger cars that comply with
As from 1 January 2023	No EURO-norm or EURO 1
As from 1 January 2024	EURO 2
As from 1 January 2023	EURO 3
As from 1 January 2023	EURO 4

Thus, only vehicles meeting the EURO 5 standard will still be allowed on the road in the Walloon Region as from 1 January 2026.

On top, the scheme provides for a second phase, which concerns only vehicles with diesel engines, according to the following schedule:

	Traffic is prohibited for passenger cars that comply with
As from 1 January 2028	EURO 5
As from 1 January 2030	EURO 6

In practice, by 1 January 2028, only vehicles with diesel engines meeting the EURO 6 standard or higher will be allowed to drive. On 1 January 2030, only vehicles with diesel engines meeting the EURO 6d-TEMP standard or the EURO 6d or higher standard will still be allowed to drive.

The verification of these rules will be carried out via electronic recognition of vehicles via ANPR cameras.

8.2. CO₂ emissions testing

As from 1 September 2017, the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) has become the new official standard computation used to determine the CO₂ emission of a new car model (i.e. a car that was not available in the market before that date). As from 1 September 2018, each new car must be tested with the WLTP test. WLTP test results in average in a CO₂ emission 20% higher than New European Driving Cycle (NEDC) being the former emissions test in place.

After WLTP came into force, car manufacturers were obliged to convert the result obtained by WLTP to the old NEDC standard. These NEDC 2.0 values are usually lower than the WLTP values, which eased the fiscal transition.

As a result, depending on the moment of the registration, the CO₂ emission value listed under the field V.7 of the Registration Certificate can be either the WLTP or the NEDC (2.0 - recomputed) CO₂ value of the vehicle. Whether the NEDC 2.0 value or the WLTP value should be considered for the determination of the deductibility of the car costs is still a point of discussion at the Belgian government (discussed but no final point taken in the law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector to which we refer to under point 3).

Finally, the Belgian government has recently introduced two measures aiming to reduce the number of company cars in Belgium. The idea is to encourage people to give up their company through two different mechanisms:

- The mobility allowance (aka “*cash for cars*”), available only until 31 December 2020
- The mobility budget.

The initiative to launch and implement those mechanisms belongs in both cases to the employer.

8.3. Mobility allowance

The mobility allowance has been cancelled by the Belgium supreme Court. It remained available until the end of 2020. This means that the mobility allowance can no longer be used.

8.4. Mobility budget

The Belgian government aims to stimulate eco-friendly means of transportation. One of the elements used to obtain this objective is the introduction of the mobility budget. The legislation on the mobility budget allows employees to exchange their company car or their right to a company car and accessories for a mobility budget which they can use for having a smaller eco-friendly car in combination with payment for other means of transportation.

It is important that the employer of the employee in question provides the possibility of a mobility budget, otherwise the employee will not be able to request it. In other words, an employer is not obliged to introduce a mobility budget.

In case the employer foresees the mobility budget, also the employee is not obliged to subscribe to this system. Everyone can choose to continue driving with their current company car or choose to exchange it for the mobility budget.

The amount of the mobility budget is determined by the annual total gross employer cost (TCO= Total Cost of Ownership) of the (hypothetically) traded-in company car and accessories. This TCO includes the monthly lease or rental price of the car, but also all costs for fuel, insurance, the CO₂ solidarity contribution, non-deductible VAT, corporate tax on non-deductible car costs, etc.

This calculated budget is then freely available to the employee who can spend it within the three pillars.

To sum up, since April 2019, a mobility budget can be proposed to employees who decide to return their current company cars. They can spend this budget in three different ways (i.e. the three pillars). The tax and social security treatments of the mobility budget depend on its use.

The three pillars:

- First pillar: move to an environmentally friendly company car with maximum emissions of 95 g CO₂/km (same social security and tax treatment as a common company car);
- Second pillar: combination of mobility alternatives: for instance public transports, car, bike, steps, sharing, bicycle, etc. but also housing costs (i.e. rent or interest of a mortgage loan related to a dwelling located in an area of 5km of the usual workplace). The budget spent in this pillar is neither subject to social security contributions, nor personal income taxes.

Furthermore, public bike-sharing incentives benefit from a 6% VAT rate compared to the normal 21% VAT rate.

- Third pillar: The remaining budget balance is converted into a cash budget which is subject to a special social security contribution of 38,07% but not to personal income taxes.

The law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector includes some adjustments to the above-mentioned rules as from 1 January 2022:

- Those who qualify for a company car through promotion will be able to participate immediately, rather than waiting 12 months as they do now.
- Employees will also be able to spend their mobility budget on more alternatives (e.g. subscription to public transport for members of the family).
- Thresholds will be applied on the mobility budget, which should amount to a minimum of €3.000 on an annual basis and a maximum of one fifth of the employee's gross annual salary, with a ceiling of €16.000.
- Employers are obliged to offer mobility solutions included in the second pillar.

Furthermore, following the law of 25 November 2021 concerning the fiscal and social ‘greening’ of the mobility sector, only zero-emission cars can be chosen under the first pillar as from 1 January 2026

Please find below further information with respect to the three pillars:

First pillar: an environmentally friendly company car

Within this pillar, the employee can choose a “more eco-friendly” company car. The budget that remains after spending it in pillar 1 can be spent in pillars 2 and/or 3.

The company car chosen in pillar 1 has to be either a full electric company car or a car that has a CO₂-emission of maximum 95 gr/km, and in case it's a hybrid car, the battery needs to have a capacity of at least 0.5kWh per 100kg car weight.

The car chosen by the employee within this first pillar is subject to the same social and fiscal treatment as a conventional company car. The part of the budget used for this pillar is calculated on the same TCO concept as for the creation of the budget.

Second pillar: durable means of transport and accommodation costs

The second pillar allows the employee to spend the remaining budget (after pillar 1, if applicable) for durable means of transport. By durable means of transport, the legislator means e.g. public transport, car sharing services, public bike services, e-steps, but also the rent / mortgage interest for your own dwelling in case you live within a range of 5km to your working place.

Any expenditure made by the employee within this second pillar is fully exempt from social security contributions and taxes, both from an employee as an employer point of view.

Third pillar: cash

If the mobility budget has not yet been fully spent in pillars 1 and/or 2, the employee can receive the remaining amount in cash.

That amount is first reduced by a special employee contribution of 38.07%.

Conditions:

- For the employee:

If an employee would like to apply for a mobility budget, this is only possible in case the following conditions are simultaneously met:

- At the time of the application, he has had a company car for at least three months continuously or is eligible for one, and
- Has had a company car for at least 12 months during the 36 months preceding the application or has been eligible for one.

The assessment period of 36 months does not apply when the employee is employed by a starting employer. In addition, the waiting periods of 3 and 12 months do not apply when hiring a new employee. Anyone who is newly employed as of 1 March 2019 can immediately join the mobility budget if the mobility budget has already been introduced and the new hire falls in scope of the mobility budget policy of the employer.

Self-employed persons are not eligible for the mobility budget.

- For the employer:

An employer who wants to introduce a mobility budget can only do so if he has made one or more company cars available to one or more employees during an uninterrupted period of at least 36 months immediately prior to the introduction of the mobility budget.

This minimum period does not apply to a start-up employer who has been in business for less than 36 months, provided that, when the mobility budget is introduced, he provides one or more company cars to one or more employees.

8.5. Motorway vignette and city toll

The Walloon government is strongly considering introducing a motorway vignette for passenger cars. The price of the motorway vignette (based on the information available per 30 November 2021) would range from €9,20 for a 10-day pass, €26,80 for two months, to €89,20 for a year. However, this legislation is still in a negotiation phase and texts are yet to be drafted.

The Brussels' government has agreed to implement a city toll as from 1 January 2022. The current proposal includes the introduction of a day pass for the people not living in Brussels, of which the price will depend

whether you drive during rush hour (between 7h and 10h a.m. and between 3h and 7h p.m.), during the day (from 10h a.m. until 3h p.m.), or during the night (from 7h p.m. until 7h a.m.). However, as this law has not yet been finalised as per 30 November 2021, it is uncertain that it will become applicable on the foreseen date of 1 January 2022.

The Flemish government recently announced that the implementation of such a motorway pass or kilometer levy will not take place soon in the Flemish Region.

8.6. Recent changes in the legal landscape

As already explained above, on 3 December 2021, the new law of 25 November 2021 concerning the fiscal and social 'greening' of the mobility sector was published in the Belgian Official Gazette.

Size of the mobility budget

A sensitive point of the mobility budget is its calculation. In principle, this should correspond to the TCO (= Total Cost of Ownership). However, this calculation often turns out to be a difficult exercise. It is now foreseen to have a fixed formula in place (specifics still to be determined)

The limits

An important innovation is that an absolute minimum and maximum limit for the mobility budget is provided. The mobility budget will amount to a minimum of 3,000 EUR and a maximum of 16,000 EUR per calendar year.

In addition, a relative limit is also introduced: the budget (without prejudice to the minimum of 3,000 EUR) may never exceed one fifth of the total gross salary. In combination with the aforementioned ceiling of 16,000 EUR, this means that when one fifth of the gross salary exceeds 16,000 EUR, the mobility budget must be limited to the ceiling of EUR 16,000. If one fifth of the gross salary is not higher than 16,000 EUR, the mobility budget must be limited to that 'one fifth' (without it being possible for it to be lower than 3,000 EUR).

Since the mobility budget is rather new and quite some important changes have been announced, we highly recommend you to involve the Belgian team mentioned in this report when (potential) clients are asking for this regime.

Furthermore, the region of Brussels plans to implement what is called the "Smartmove Plan", in order to reduce car usage in the capital. In a nutshell, every car would be subject to a tax, with a rate influenced by: 1) the time at which you are travelling 2) the distance travelled 3) the car's engine capacity. An overview of the applicable preliminary tax rates can be found here: <https://bx1.be/blogs/blog-mobilite/smartmove-voici-les-exemples-de-la-taxe-kilometrique-imaginee-par-le-gouvernement-bruxellois/>.

This will take the form of an app, suggesting various mobility options (e.g. cars/metro/bus) and helping you determine the costs of the travel you plan to do. The so-called smart taxation will (following an extensive testing phase) only be implemented as from 2022 at the earliest.

The introduction of the Smartmove Plan means that the annual circulation tax, as well as the registration tax, will be abolished for the people living in Brussels. However, for the people living in Wallonia and Flanders, the Smartmove Tax will be an addition to the existing registration and annual tax in those respective regions. This raises some constitutional questions regarding a potential discrimination between commuters. More information can be found here: <https://www.smartmove.brussels/projet>.

9. *Legal background*

- Direct tax legislation (WIB 92)
- Belgian VAT legislation
- With income tax equalised taxes
- Other

Brazil



Romero Tavares

Automotive Tax Leader

p: +55 11 3674-2880

e: romero.tavares@pwc.com

Orlando Dalcin

Director Indirect Taxes

p: +55 11 3674 8579

e: orlando.fdalcin@pwc.com

Brazil

1. Importation of cars

Definitive imports of goods into Brazil are generally subject to five different taxes: customs duty, one federal excise tax (IPI), two social contributions over imports (PIS-Import and COFINS-Import) and one state VAT (ICMS). Please, find below a summary of the main applicable taxes.

1.1. Customs duties

Also known as import duty or import tax, the customs duty is calculated over the CIF value (cost, international insurance and international freight). Rates vary in accordance with the products' tariff code pursuant to the applicable harmonized system (usually, the Mercosur harmonized tariff schedule or NCM). In general, imported cars are subject to the maximum consolidated rate of 35% (i.e., MFN rate).

On a regional level, Brazil signed preferential trade agreements with certain Latin American countries, the most relevant ones with Mexico, Uruguay, and Argentina, potentially allowing for duty free imports. Specific qualification rules (i.e., rules of origin), import quotas, and product's restrictions may apply depending on each agreement.

1.2. Import VAT/sales tax

1.2.1. Federal excise tax (IPI)

The federal excise tax levied on manufactured products (IPI) is a federal value-added "like" tax levied on nearly all the sales of industrialized products and on imports, including vehicles. In this sense, IPI taxpayers are in general importers and manufacturers (including those qualified as such by the law). IPI rates also vary in accordance with the product's tariff codes. Vehicles are subject to specific rates (please, refer to section 6 for additional details). The IPI taxable basis over imports consists of the CIF value of the goods added by the import duty. With respect to imports, the IPI is creditable by importers when importing for resale or manufacturing purposes (i.e., the IPI levied on importation can be used to offset the IPI due by the importer at a subsequent taxable resale or manufacturing transaction). If imported as a fixed asset or a consumable, IPI is a cost (non-creditable tax). Finally, certain automakers may benefit from specific import regimes waiving the IPI taxation of components upon clearance when imported as an input.

1.2.2. Federal PIS-Import and federal COFINS-Import

The "Employees Profit Participation Program over Imports" (PIS-Import) and the "Tax for Social Security Financing over Imports" (COFINS-Import) are taxes also known as social contributions and usually burden imports at the respective rates of 1.65% and 7.6%. Some exceptions apply depending on the product's tariff code. This is the case for vehicles subject to increased rates of 2% and 9.6% respectively. The taxable basis of the mentioned social contributions is the CIF value. These taxes may also be creditable, provided that certain requirements are met (e.g., depending on the method used to calculate corporate income tax adopted by the importer, the destination of the goods, the sector of industry etc.).

1.2.3. State value-added tax (ICMS)

The state VAT (ICMS) is a state tax levied on importation and circulation of merchandise. ICMS rates vary in accordance with the good's tariff classification, as well as the importer's fiscal domicile. ICMS rates over imports usually range from 17% to 25% (some exceptions apply). Being a VAT, ICMS is usually a recoverable tax and can be offset against the ICMS levied on subsequent taxable transactions or the acquisition of fixed assets (since these fixed assets are used in activities resulting in transactions subject to ICMS). The ICMS taxable basis over imports consists of the CIF value, plus the import duty, the excise tax, the PIS/COFINS-Import, the ICMS itself (grossed up calculation), and certain customs expenses. If imported as a consumable, ICMS is a cost (non-creditable tax).

1.2.4. Merchant marine fee (AFRMM)

Freely translated as “additional freight to the renewal of the merchant marine”, the AFRMM is a federal tax levied on maritime freight imports. The AFRMM’s taxpayer is usually the Bill of Lading’s (B/L) consignee, i.e., usually the importer of goods. In case of importation of goods, the AFRMM is usually calculated applying a 25% rate over the maritime freight value. The AFRMM is not recoverable by the importer, i.e., it is a cost (non-creditable tax).

2. Car registration

2.1. When does a car need to be registered?

2.1.1. Identification

Every vehicle must be individually identified by the manufacturer or assembler with a number engraved into the chassis or the monobloc engine, according to Brazilian legislation. This identification cannot be changed and is used to identify the vehicle itself, its manufacturer, characteristics and year of manufacture.

In terms of external identification, vehicles also need to be supplied with two number plates, a front and a rear one, which are sealed according to the specifications issued by the National Transit Council. These plates are supplied upon the first acquisition of the vehicle.

2.1.2. Registration

Regarding registration, the Brazilian traffic rules also set forth that all automotive, electric, articulated, tow and semi-tow vehicles need to be registered. The registration process starts with the National Register of Automotive Vehicles (*Registro Nacional de Veículos Automotores*, otherwise known as RENAVAL), which assigns each vehicle a unique number which allows it to be identified in the course of its useful life. The RENAVAL keeps records of details, such as the original specifications of the vehicle, the owners, ownership transfers, any changes regarding the vehicle’s characteristics etc. The registration is finally canceled when the vehicle is dismantled or deemed irrecoverable.

Information on the chassis, monobloc, aggregates and unique features of the vehicle should be provided to RENAVAL: (i) by the manufacturer or assembler, before the commercialization, in case of national vehicle; (ii) by the national customs, in the case of vehicles imported by individuals; (iii) by the importer, if the vehicle is imported by a legal entity. Information received by RENAVAL will be passed to the executive organ of transit responsible for the vehicle registration.

After the vehicle acquisition by an individual or legal entity, the owner must promote the vehicle registration with the State Transit Department located in the municipality of domicile, which must communicate the acquisition to the RENAVAL. The owner will then be given the certificate of vehicle registration (*Certificado de Registro de Veículo*, or CRV). Please, note that a new certificate will be needed if one of the following situations occurs:

- Ownership transfer
- Changes regarding the owner’s residence
- Changes to any of the car’s original characteristics
- Changes to the car’s category

2.1.3. Licensing

Licensing is required in order to allow a vehicle to circulate on public roads. The car owner must apply for a license from the State Transit Department where the vehicle has been previously registered. The certificate of vehicle registration and licensing (*Certificado de Registro e Licenciamento de Veículo*, or CRLV) is issued. Vehicle drivers must always have the CRLV at hand when driving on public roads in Brazil.

Please note that vehicles destined to pull/drag other machinery or used for agricultural, construction or paving activities are also subject to being registered and licensed, in case they are allowed to circulate on public roads.

2.2. Who can register a car?

The car owner is responsible for obtaining the registration and licensing. The owner can be either an individual or a legal entity (a situation in which a legal representative of the company will have to perform such duty).

In the case of individuals, the parents, sons, brothers and spouses of the car's owner may also register and license the vehicle before state authorities on behalf of the owner. The registration and license procedures may also be carried out by a third-party representative, as long as the representative has a power of attorney.

2.3. Is a foreign owner allowed to register a vehicle in the country?

As per the traffic legislation in force, customs offices and border control agencies must always inform the RENAVAL about the temporary or permanent entry or exit of foreign vehicles into Brazilian territory.

Please, find below the most common situations when a vehicle owned by a foreign owner may enter the country:

2.3.1. Traveling

A foreign vehicle can be used inside Brazilian territory for traveling purposes, as long as the requisites below are observed in each specific situation:

- Vehicles owned by a foreign non-resident traveler utilized exclusively for border traffic: in this situation the vehicle owned by a foreigner is automatically submitted to the temporary admission regime.
- Vehicles owned by a traveler resident in Mercosur countries: a car duly registered in a country which is part of the Mercosur (Southern Common Market, a trading bloc formed by Argentina, Brazil, Paraguay and Uruguay) may be used in Brazilian territory by (i) its owner, (ii) relatives of the owner, up to the second degree of consanguinity, without the need of an authorization, or (iii) a person authorized by the owner, as long as the driver holds the following documentation (the driver must be resident in one of the countries where the vehicle is registered, which are part of the Mercosur):
 - Valid identity card to circulate within Mercosur
 - Driving license
 - Document qualifying the driver as a tourist by the Brazilian immigration authorities
 - Authorization to drive (when applicable)
 - Document proving the ownership of the vehicle
 - Proof of insurance in force
- Vehicles owned by a traveler resident in other countries (outside Mercosur): in this situation, the vehicle must be submitted to the temporary admission regime and the term of the authorization for the vehicle to stay in the country is linked to the term of the travel visa issued to the car owner. A simplified import declaration (*Declaração Simplificada de Importação*, or DSI) concerning the car must be obtained, as well a responsibility term must be signed, which guarantees the payment of the suspended taxation due in case the temporary admission regime ends and the vehicle remains in Brazilian territory.

2.3.2. Classic cars

Cars older than thirty years and destined for private collections, for entertaining or cultural purposes, can be imported and registered in Brazil. However, the owner must be a member of an antique automobile association and the number plate for this kind of vehicle is also different from the ones destined for usual circulation across the country.

2.3.3. Donation, inheritance

Vehicles donated to a national resident or inherited by someone domiciled in Brazil from someone who died abroad can be imported and then registered/licensed in Brazil.

2.3.4. Diplomatic missions and international organizations

In the case of foreign diplomatic missions or representations of international organizations, the import of used cars is allowed and the vehicles must be registered and licensed as well.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Please refer to the comments above.

3. Car taxation

3.1. What are the different car taxes?

Please find below the main taxes levied on car ownership:

- Tax on motor vehicle ownership (*Imposto sobre a Propriedade de Veículos Automotores*, or IPVA): This tax is a state tax payable on a yearly basis on all kinds of vehicles. The taxable event is the ownership of vehicles. The amount payable is based on the market value of the vehicle at the beginning of each year.
- Annual license (*Licenciamento Anual*): This is a state tax levied annually on the issuance of the CRLV, which is mandatory for any vehicle in order to circulate on public roads. The value due corresponds to the predetermined amount of the service rendered by the competent authority to issue the CRLV.

Other charges:

- Compulsory insurance for personal injuries caused by motor vehicles (*Seguro DPVAT*): Compulsory insurance imposed by federal law.

3.2. Registration tax

3.2.1. Taxable event

Please refer to section 3.1 above.

3.2.2. Taxable person

For all four mentioned items, the car owner (individual or legal entity) is responsible for paying the taxes/charges.

3.2.3. Tax due

The amount of each tax/charge due will vary, according to the technical characteristics and utilization of the vehicle. For more details, please refer to section 3.1 above.

3.2.4. Tax period

As already mentioned, in general, the taxes and charges listed above are due annually.

4. Income taxes – Taxable persons

Regarding individuals, there is no deduction allowed by Brazilian legislation when it comes to car expenses.

If the car is owned by a legal entity and destined to attend to the company's needs, however, it is depreciable for accounting purposes, and the depreciation expenses are, in principle, deductible for corporate income tax purposes, provided that the Brazilian company is under the taxable income regime for corporate income tax purposes.

Depreciation is allowable on a straight-line basis over the useful life of the fixed assets, which shall follow a useful life report prepared by specialized experts. The depreciation rates may also follow the table provided by the Brazilian tax authorities; according to the referred table, in general, cars may be depreciated at a rate of 25 % per year - depreciation in four years.

5. VAT/sales tax

5.1. General

In contrast to other jurisdictions, the Brazilian indirect tax system is threefold, varying in accordance with the activity that generates value added to the transaction. In this sense, the most important indirect taxes for non-

financial entities are the IPI, the state VAT (ICMS) and the municipal tax on services (ISS). Especially after 2003, gross revenue taxes (PIS and COFINS) may also be subject to a VAT-like system (i.e., the non-cumulative regime), and are, therefore, also included in this analysis.

The automotive sector is subject to certain peculiarities applied on the supply chain, where the credit-debit system is replaced by a system whereby a given taxpayer anticipates the collection of taxes on behalf of other taxpayers: it is the so-called “substitution tax regime” or WH-ICMS. A similar (but simplified) tax regime is also applied to PIS and COFINS. In this case, the system is known as a monophasic or “single-phased” regime.

Please, find below the main aspects of these taxes.

5.2. IPI

As previously mentioned, in addition to customs clearance of manufactured products, IPI is also due if the outflow transaction is carried out by a manufacturer (or a taxpayer qualified as such by law). As a general rule, manufacturers are legal entities performing manufacturing activities (e.g., transformation, assembly, renewal etc.). Other IPI taxpayers (i.e., entities deemed as manufacturers for IPI purposes) are importers, indirect importers, wholesalers of certain specific products (e.g., retailers of imported cosmetics) etc.

As a general rule, the company may recover the IPI levied on the previous transaction and offset its amount against the IPI due on the sales transaction. Subsequent resale transactions carried out by non-IPI taxpayers (e.g., simple distributors or retailers) are not subject to IPI, being the tax on cost of these entities (non-creditable tax).

When applicable, IPI is usually due on a transaction value and it is never included in the good’s amount, i.e., it is always charged separately (no gross up calculation).

Like customs duty, IPI has been conceived much more as a tool of market regulation than having a collection purpose. Accordingly, sometimes the federal government constantly alters IPI rates to boost certain sectors of the economy, and other times to protect local industries.

IPI is especially important in the automotive sector once it plays an important role in market regulation. Until 2017, as part of the strategy to stimulate the competitiveness of the automotive industry, specifically focused on curbing imports and developing local suppliers, the Brazilian government created a new automotive policy: 2012’s “Plano Brasil Maior” and 2013’s “INOVAR-AUTO”.

This strategy consisted in two steps: on one hand, the Government unveiled a 30% increase in the IPI rates applied to all cars, on the other hand, the same government created measures through waivers or specific tax credits to offset this effect to established entities, imports from foreign partners (i.e., Mercosur and Mexico), as well as companies that have decided to invest in Brazil.

During this period, the program was changed but, concisely, allowed the registration of IPI presumed credits based on some expenses, such as R&D, engineering and acquisition of tools and strategic inputs.

Nowadays there is a new tax incentive of course, the so-called program Rota 2030 enacted by Law No. 13,755/2018. This is a broader program with several tax incentives. As regards to IPI, there is the possibility of IPI reduction by the Federal Executive Branch, of up to 3%.

5.3. PIS and COFINS

5.3.1. General

On local transactions, PIS and COFINS are taxes (ie, social contributions) levied on the companies’ gross revenues. Depending on the actual circumstances of the company, PIS and COFINS shall be calculated at the following rates:

- Cumulative regime (applicable to certain entities): 0.65% and 3%, respectively (with no credits available).

- Non-cumulative regime (standard regime applicable to the majority of the entities): 1.65% and 7.60%, respectively (credits may be computed on certain items, as set forth in the legislation). It should be noted that, although the non-cumulative regime allows the recovery of credits (similar to the VAT system), the actual effect (i.e. the tax burden) will depend on a case-by-case analysis. This regime allows deduction, from the PIS and COFINS due, of credits calculated at the same tax rates (1.65% and 7.6%) over the following main costs and expenses:
 - Goods acquired for resale
 - Goods and services used as inputs in the manufacturing of products for sale or supply of services
 - Electricity
 - Rental expenses of certain items
 - Acquisition or depreciation of machines, equipment and other fixed assets used in the production of goods or supply of services
 - Expenses with constructions and improvements in properties used in the company's activities
 - Return of goods (where revenue has already been subject to taxation)
 - Warehousing and freight

There are many discussions involving PIS and COFINS credits. The Superior Court of Justice recently considered this matter (No. 1,221,170) and decided that the concept of input should be broader: costs and expenses considered essential or relevant to the execution of the taxpayer's economic activity.

Regardless of the calculation regime, PIS and COFINS are always included in the good's value and charged within it (i.e., gross-up calculation).

PIS and COFINS are payable on a monthly basis.

Also, there is a precedent from the Supreme Court' (STF) determined that the ICMS will no longer integrate the PIS and COFINS tax basis. The lawsuit that fixed this stipulation was the Extraordinary Appeal n° 574/706 (RE-PR n° 574/706), which preceded more decisions in favor of the exclusion of the ICMS from the PIS and COFINS tax basis.

5.3.2. Monophasic or 'Single-phased' system (*sistema monofásico*)

The taxation set forth in Federal Law 10,485/2002 is known in Brazil as the "monophasic system" (*sistema monofásico*), since the manufacturer/importer is subject to PIS/COFINS at rates that are higher than the standard rates, but the subsequent sales made by wholesalers and retailers are not subject to additional PIS/COFINS burden.

Federal Law 10,485/2002 establishes that the legal entities that manufacture or import self-propelled machines and vehicles classified under codes 73.09, 7310.29, 7612.90.12, 8424.81, 84.29, 8430.69.90, 84.32, 84.33, 84.34, 84.35, 84.36, 84.37, 87.01, 87.02, 87.03, 87.04, 87.05, 87.06 and 8716.20.00 of the table of IPI tax rates (TIPI) are subject to PIS and COFINS on revenues relating to the sale of such products at the rate of 2% and 9.6%, respectively, under the monophasic system.

The calculation basis of such taxes will be reduced by 48.1% in the case of sales of products classified under the following TIPI codes: 73.09, 7310.29.20, 7612.90.12, 8424.81, 84.29, 8430.69.90, 84.32, 84.33, 84.34, 84.35, 84.36, 84.37, 87.01, 8702.10.00 Ex 02, 8702.90.90 Ex 02, 8704.10.00, 87.05, 8716.20.00 and 8706.00.10 Ex 01 (only if used in products classified in Ex 02 of codes 8702.10.00 and 8702.90.90).

In summary, the importers or manufacturers of products classified under the following NCMs will have specific tax treatment:

	NCM
Subject to monophasic system	73.09, 7310.29, 7612.90.12, 8424.81, 84.29, 8430.69.90, 84.32, 84.33, 84.34, 84.35, 84.36, 84.37, 87.01, 87.02, 87.03, 87.04, 87.05, 87.06 and 8716.20.00
Tax basis reduction in 30.2%	87.04
Tax basis reduction in 48.1%	73.09, 7310.29.20, 7612.90.12, 8424.81, 84.29, 8430.69.90, 84.32, 84.33, 84.34, 84.35, 84.36, 84.37, 87.01, 8702.10.00 Ex 02, 8702.90.90 Ex 02, 8704.10.00, 87.05, 8716.20.00 and 8706.00.10 Ex 01

In such calculation, the taxpayer will be able to use all the credits related to the non-cumulative system, as described above.

As regards the subsequent sale of the products by the distributor, there will be no PIS and COFINS due.

5.4. State value-added tax (ICMS)

5.4.1. General

The ICMS is levied on the circulation of merchandise, according to place-of-supply rules. Transactions carried out within the same state are subject to internal/intrastate rates (i.e., usually 17%; 18% in the States of São Paulo, Minas Gerais and Paraná; and 20% in the State of Rio de Janeiro). Inter-state transactions carried out between ICMS taxpayers, in turn, are subject to the following rates:

- 12%: general cross-state rate
- 7%: specific rule applicable on transactions carried out from taxpayers living in the south and south-east regions (except the State of Espírito Santo) to taxpayers residing in other regions or Espírito Santo.
- 4%: rule applicable in the operations with imported goods and merchandise carried out by any taxpayer.

Please, note that if the transaction takes place between a taxpayer and a non-taxpayer domiciled in another state (i.e., individuals, exclusively service providers etc.) with the advent of EC 87/2015, the states began to distribute the value of ICMS to be collected in each operation.

So the annual criterion was established on how this division will be made: 2017: 40% state of origin and 60% destination state; 2018: 20% state of origin and 80% state of destination; and from the year 2019 the collection of the tax must be 100% for the state of destination.

The above is not applicable on direct sales of vehicles, performed by the automaker to the end user, which delivery is made by the dealer.

Finally, ICMS is usually calculated on the transaction value. On certain transactions, (e.g., sales to non-ICMS taxpayers, fixed assets), the taxable basis also includes the IPI amount. Regardless of that, ICMS is always included in the good's value and charged within it (i.e., gross-up calculation).

ICMS is payable on a monthly basis.

States have regulated in particular ways the tax burden of ICMS on automobiles. In this sense, there are specific rates and tax basis reductions in several cases. In order to provide an overview, please find below the current ICMS tax treatment of sport cars (classified under the NCM 8703.24.90, as an example) in all Brazilian states on sales within its territories:

Brazilian states



No	State	Tax rate	Tax basis reduction	Total tax burden
1	Rio Grande do Sul	18%	In 33.33%	12%
2	Santa Catarina	12%	N/A	12%
3	Paraná	12%	N/A	12%
4	São Paulo	12%	N/A	12%
5	Minas Gerais	12%	N/A	12%
6	Rio de Janeiro	20%	In 40%	12%
7	Espírito Santo	12%	N/A	12%
8	Mato Grosso do Sul	17%	In 29.41%	12%
9	Mato Grosso	17%	In 29.41%	12%
10	Goiás	17%	In 29.41%	12%
11	Distrito Federal	12%	N/A	12%
12	Bahia	12%	N/A	12%
13	Sergipe	18%	In 33.33%	12%
14	Alagoas	18%	In 33.33%	12%
15	Pernambuco	12%	N/A	12%

No	State	Tax rate	Tax basis reduction	Total tax burden
16	Paraíba	18%	In 33.33%	12%
		25% imported	In 28%	18%
17	Rio Grande do Norte	18%	In 33.33%	12%
		25% imported		25%
18	Ceará	17%	In 29.41%	12%
19	Piauí	17%	In 29.41%	13% (1% FECOP)
20	Maranhão	18%	N/A	18%
21	Tocantins	12%	N/A	12%
22	Pará	12%	N/A	12%
23	Rondônia	17,5%	In 31.43%	12% *
24	Acre	17%	In 29.41%	12%
		25% imported	In 52%	12%
25	Amapá	18%	In 33.33%	12%
26	Roraima	12%	N/A	12%
27	Amazonas	27% luxury cars	N/A	27% (2% FECOP)
		18% other cars	In 33.33%	14% (2% FECOP)

* It cannot result in a tax burden of less than 12%

5.4.2. Transactions subject to the ICMS substitution regime (ICMS-ST)

As a general rule, in the ICMS ordinary collection process the tax is due at each part of the economic chain from manufacturing and/or importation to the final customer. However, based on article 128 of the Brazilian Tax Code (CTN), as well as on article 5 of Complementary Law 87/1996, states are entitled to demand in advance the payment of the ICMS due in the entire chain, transferring the payment obligation of all taxpayers involved to one single taxpayer – usually the manufacturer or importer – also known as “substitute taxpayer”.

In other words, under such a collection process, commonly known as the ICMS substitution regime, the substitute taxpayer becomes responsible for paying not only the ICMS that is levied on its own transactions, but also the tax due on the subsequent transactions carried out by the remaining taxpayers of the economic chain of the product up to the final consumer.

Normally, the ICMS-ST is calculated over a presumed basis (MVA) arbitrated by the tax authorities based on an estimated price to the final consumer.

5.4.3. Operations subject to the 4% rate – Federal Resolution 13, of 2012

In 2013, the Federal Senate enacted the 4% rate for ICMS in the interstate transactions carried out with imported goods and merchandise.

The rule is applicable to the goods and merchandise which, after the customs clearance was concluded, were not subject to a manufacturing process, and, if subject to any process of transformation, improvement, assembling, packaging, repackaging or renovation/renewing process, which possess an imported content higher than 40% (forty percent).

The Resolution provides that, in the operations performed with imported goods or merchandise which were subject to a manufacturing process, the taxpayer manufacturer will have to fill out and submit an Imported Content Form (FCI), as provided in the ICMS Agreement 38/2013.

Such a measure was implemented by the Brazilian Federal Government for purposes of holding equivalent the rules for interstate operations, of restricting the differentiated rates adopted by the respective State Governments and avoiding the so-called “fiscal war” existing between the Brazilian States.

5.5. *Municipal tax on services (ISS)*

ISS is the municipal tax levied on services rendered in Brazil, both by local and foreign services providers (in case of importation of services). Its regulations are set forth by the Complementary Law 116/2003.

The ISS is due, as a general rule, to the municipality where the service provider is established. Exceptions are made to some specific services upon which the ISS is due to the municipality where the services are rendered, e.g., construction- related services.

Rates vary from 2% to 5% depending on the municipality and on the service rendered. As a general rule, municipalities are not allowed to establish rates below 2%.

In case of the exportation of services, the ISS is not levied, except if the services are rendered in Brazil or the results of these services are verified in Brazil.

5.6. *Hire purchase: Supply of goods?*

Providing that the hire purchase is termed on an installment plan, since it is not an agreement established on Brazilian civil code, the transaction will be deemed as a sale of car and taxed accordingly, as described above.

5.7. *Leasing: Supply of services?*

As a general rule, leasing of vehicles is not considered a supply of services, therefore not subject to Service Tax (ISS). However, it is important to clarify that financing is considered a service for tax purposes. Hence, whenever leasing of vehicles is in essence a financing activity (no matter if named Leasing agreements, operational, financial or lease-back), it will be taxed as services, subjected to ISS.

In this sense the Brazilian Supreme Court has already pacified this understanding in Extraordinary Appeal No.592905/SC, in December 2009.

6. *Company car*

6.1. *VAT/sales tax due on private use of company cars*

With regards to VAT/sales taxes, there is no specific taxation on private use of company cars.

6.2. *Company car in personal tax returns – benefit in kind*

6.2.1. *Brazilian income tax return*

Every resident taxpayer in Brazil is required to file an income tax return for each tax year (a calendar year comprehends January 1 to December 31). As a general rule, an individual has to file the tax return by the last business day of April and no extension of time to file is allowed.

One of the schedules of the individual income tax return is a worldwide list of assets and liabilities. Taxpayers are required to report items of their net worth such as real estate property, cars, boats, checking accounts, savings accounts, investments, shares etc. All assets should be stated at cost. Likewise, any liabilities, such as personal loans and mortgages should be demonstrated.

Since there is no income tax on property, the authorities use the list to check if the increase in the taxpayer’s net worth is compatible with the reported income, the reason for which being that the cost basis must be reported and maintained in the list of assets and not the fair market value.

In view of the above, a car used by an employee, but owned by the company, should not be included in the individual’s income tax return as an asset since it is not part of the employee’s property/assets.

6.2.2. *Benefit in-kind*

However, it is important to mention that in case a company car or a private car is granted by the employer to the employee and it is not necessarily for the performance of the work and the employee uses it habitually, it should be considered as a fringe benefit and, thus, part of the employee’s remuneration. As a consequence, the

corresponding amount should be included in the Brazilian payroll and should be included as an income property taxed in the individual's tax return.

Please be aware that if the individual uses the company car during the week (five days) for work purposes but remains with the car during the weekends (two days) when he/she uses it for private purposes, the Brazilian tax authorities may require taxation on 2/7 of the amount corresponding to the car benefit.

In both cases, the value corresponding to the benefit can be considered as an operational expense for corporate tax purposes, since it is deemed the salary of a certain identified employee.

However, if the company grants the benefit but does not include it in the employee's remuneration and consequently does not identify the beneficiary, the company will be subject to corporate income tax withheld exclusively at source at the rate of 35% flat.

Finally, if the company car is used exclusively for work purposes, there will be no tax consequences for the individual or for the company and the pertinent amount will be deductible for corporate income tax purposes.

6.3. Social security and labor aspects

According to the Brazilian labor and social security legislations, any benefit in kind, such as a company vehicle, received as routine (habitually) must be considered as part of the employee's remuneration and, as such, should be considered in the calculation of all labor and social security charges, as described below.

Labor charges:

- 13th salary – equivalent to one-month salary usually paid in two installments, one in November and one in December.
- Vacation bonus – equivalent to 1/3 of the salary paid in addition to the salary paid during vacation.
- Government Severance Indemnity Fund for Employees (FGTS) – for individuals considered employees, the Brazilian company must make a monthly deposit to the FGTS at an amount equal to 8% of an employee's remuneration, in an employee's blocked account. In case of a dismissal without cause, the employee may withdraw this fund with an additional 40% fine over its total balance. The company must contribute an additional 10% fine to a government social fund.

Social charges:

- Monthly employer's social security contribution of up to 29% on the total amount paid monthly to the employee.
- Monthly employees' social security contributions ranging from 8% to 11%, limited to 513.01 BRL (for fiscal year 2015).

7. Income taxes – drivers' personal taxation

7.1. Private use

The private car (owned by the taxpayer), even if it is granted by the company, must be reported in the owner's personal tax return in the list of assets (*Bens e Direitos*) with a specific code. The following items must be informed in the tax return:

- Acquisition value
- Date of purchase
- Seller's information (name, Brazilian taxpayer identification number, or CPF)
- Car information (year of fabrication, brand, plate etc.)

Please, be aware that if the private car is granted by the company to the individual, the same principles mentioned in sections 7.2.2 and 7.2.3 above are applicable.

7.2. Commuter traffic

Brazilian legislation only authorizes the company to pay commuter traffic equivalent to the public transportation cost. If its value exceeds the amount corresponding to the public transportation cost, the difference is considered as a fringe benefit and should be included in the employees' remuneration for all purposes (labor, social security and income tax). As a general rule, companies may deduct up to 6% of the base salary from the employee's remuneration.

7.3. Business kilometers

Although the Brazilian legislation does not specify this item, the reimbursement of business kilometers should not be considered as part of the employee's remuneration and, as such, should not be included in the calculation of labor, social security and income tax charges.

8. Selling a car (capital gains taxation)

8.1. Taxable persons

Legal entities may recognize a capital gain when selling a car, as long as the car is a fixed asset for the company and not merchandise. Taxation on capital gains will depend if the legal entity is resident or non-resident.

8.1.1. Resident legal entity

The capital gain will be recognized in the accounting books of the Brazilian entity and, thus, the capital gain will represent a revenue inside the company's profits, which shall be taxed according to the corporate income tax regime to which this entity is subject (e.g., *Lucro Real* or *Lucro Presumido*). The current corporate income tax rates are (i) 25% (15% plus a surcharge of 10% on annual taxable income in excess of 240,000 BRL) for the IRPJ (corporate income tax); and (ii) 9% for the CSLL (social contribution on net income).

8.1.2. Non-resident legal entity/individuals

As per Brazilian tax legislation, the capital gains taxation applicable for non-residents will follow the same rules applicable to Brazilian residents. In summary, the capital gain is the positive difference between the sale's price of the asset or right and the related acquisition cost. The capital gain is subject to withholding tax (WHT) at 15% (or 25% if the seller is domiciled in a tax haven jurisdiction). The WHT has to be withheld and remitted to the tax authorities by the acquirer or its attorney-in-fact in Brazil.

8.1.3. Resident individuals

The individual tax resident of Brazil who receives at any time a capital gain in the sale of assets or rights, of any nature, is subject to the income tax on capital gain, on a definitive basis. The capital gain is the positive difference between the sale's price of the asset or right and the related acquisition cost. The capital gain is subject to the definitive income taxation at the rate of 15%. The calculation and payment of the mentioned tax, upon the sale of assets and rights, should be made separately from any other taxable earnings received in the month. Note that losses in a sale cannot be offset against gains obtained in another, even if they occur in the same month. In addition, it should be emphasized that the tax on capital gain cannot be adjusted in the annual income tax return.

8.1.4. Exemptions

According to the Brazilian tax legislation, the capital gain earned in the sale of assets and rights of small value is exempt from income tax, considering the unit price, in the month of sale, is equivalent to or lower than 35,000 BRL. As a general rule, vehicles are sold with losses because of their devaluation.

8.2. Private individuals

In principle, the sale of a car owned by individuals will not trigger any indirect tax, provided that they are not ICMS taxpayers.

9. Research and Developments

Innovation has proven to be a successful corporate strategy for preserving and growing the business of companies and also increasing the social and environmental benefits of the cities, states and countries that they are located in.

Therefore, in line with the state's function of providing the common good, its role as a promoter of technological development activities through the articulation of a national policy of innovation and

technology, with the intention to bring more investments, has been consolidated in the recent decades here in Brazil.

Listed below are some laws that focus on tax benefits arising from the company's innovative performance:

9.1. Federal Law n° 11.196 of 2005, freely translated as “Law of Good”

At the option of the company and for tax purposes, research and development expenditure may be deducted when incurred or deferred until the end of the project and then amortized over a period of not less than five years.

In 2005, the Brazilian Legislation introduced tax incentives for projects geared towards technological innovation, by the promulgation of the Law n° 11.196 of 2005. This regulation brings incentives such as:

- a) Additional exclusion (still considering the 100% already calculated) of 60% to 80% of expenditures on technological innovation from the IRPJ (corporate income tax) and CSLL (social contribution on the net income) calculation basis, plus an additional 20% for expenditures related to technological research and development of technological innovation;
- b) 50% reduction in the IPI (tax levied on manufactured products) rate of the equipment, machinery, instruments, equipment, spare accessories and tools that accompany these goods for research and technological development;

9.2. “Route 2030”- Requirements for the Commercialization of Vehicles in Brazil - Auto Parts Tax Regime not produced - MP Conversion No. 843/2018 – Federal Law No. 13.755 / 2018

On December 11, 2018, the Federal Law n°. 13.755 was published, which established mandatory requirements for the commercialization of vehicles in Brazil, therefore instituting the Route 2030 - Mobility and Logistics Program that regulates the tax regimen of non-automotive produced.

9.2.1. Commercialization and importing new vehicles

Mandatory Requisitions: The Federal Executive Branch will establish mandatory requirements for the commercialization of new vehicles produced in Brazil and for the importation of new vehicles classified under codes 87.01 to 87.06 of Tipi (Tax on Industrialized Products Incidence table). Relating to the vehicles labeling, the vehicles energy efficiency and the structural performance associated with assistive technologies, in compliance with the other provisions specified in the law.

IPI tax reduction (Start 2022): The law stipulates that the Federal Executive Power may reduce IPI rates for the vehicles mentioned above: (i) up to 2 percentage points, for vehicles meeting specific efficiency requirements; and (ii) up to 1 percentage point for vehicles meeting specific performance requirements associated with driving assistive technologies, observing the other particularities of the norm.

It is important to mention that the sum of the above-mentioned tax rate reductions is limited to 2 percentage points.

Administrative Sanctions: The sale or importation of vehicles in the Brazil, without the registration act mentioned in the Route 2030 Law, as well as the non-fulfillment of the energy efficiency target, also addressed among other things, will impose on the manufacturer or importer, administrative penalties specified in the regulation.

9.2.2. Route 2030 Program

This program has the objective to support the technological development, competitiveness, innovation, vehicle safety, environmental protection environment, energy efficiency and quality of cars, trucks, buses, engine chassis and auto parts.

This program has, among others, the following guidelines:

- (i) Increase investments in research, development and innovation in the country;
- (ii) Stimulate the production of new technologies and innovations, according to technological global trends;

-
- (iii) Increase the productivity of the mobility and logistics industries.

9.2.3. Who can be a part of the program?

Will be able to be part of this program the companies that:

- (i) Produce vehicles classified under Tipi (Tax on Industrialized Products Incidence table) codes 87.01 to 87.06 in the country, auto parts or strategic systems for the production of vehicles classified under these Tipi codes regulation of the federal executive branch; or
- (ii) Have a technology development and production project approved for the production in the country of existing products or new product models mentioned above, or new solutions mobility and logistics strategies, according to the federal executive power regulation.

They may also qualify for the “Route 2030” Program, pursuant to item “ii” above, still subjected to the provisions specified in the law, and in accordance with the Federal Executive Power, the companies that:

- (i) Have, on the date of publication of MP No. 843/2018, a project for the development and a technological production for the installation of new plants or industrial projects;
- (ii) Have an investment project related to INOVAR-AUTO (Law No. 12.715 / 2012), with the purpose of installation of a light vehicle factory in the country with annual production capacity of up to thirty-five thousand units and with a specific investment of at least 17,000.00 BRL per vehicle;
- (iii) Have an investment project related to the installation of a light vehicle factory, with capacity for an annual production of up to thirty-five thousand units and with a specific investment of at least 23,300.00 BRL; or
- (iv) Have an investment project related to the installation, in the country, of a production line of vehicles with alternative propulsion technologies to combustion.

Expenditure on research and technological development may be made in the form of research, development and innovation projects and priority programs to support the industrial and technological development for the automotive sector and its chain, according to the federal executive branch, in partnership with specified companies.

9.2.4. The Route 2030 Incentives

The legal entity qualified in the “Route 2030” Program may deduct from the IRPJ (corporate income tax)/CSLL (social contribution on the net income) due, the amount corresponding to the application of the IRPJ/CSLL rates and surcharges on up to 30% of the expenditures made in the country, in the calculation period itself. Provided that they are classified as operating expenses under IRPJ legislation and applied in research and development, as specified in the law.

It is noteworthy that the above deduction may not exceed, in each calculation period, the amount of the IRPJ (corporate income tax)/CSLL (social contribution on the net income) due on:

- (i) Actual income and quarterly adjusted income;
- (ii) Real profit and in the adjusted result calculated in the annual adjustment; or
- (iii) The estimated basis of calculation calculated based on the gross revenue and additions or based on the balance sheet or balance sheet result.

The law also provides that the amount deducted from IRPJ (corporate income tax) and CSLL (social contribution on the net income) calculated from the estimated calculation basis above will not be considered as IRPJ/CSLL paid by estimate for the purposes of calculating the tax due.

The portion calculated in excess of the deduction limit may only be deducted from the IRPJ/CSLL due, respectively in subsequent calculation periods, and the deduction shall be limited to 30% of the value of the tributes.

It should be noted that, in the event of expenditure on research and technological development considered strategic, as specified in the law Route 2030, without prejudice to the deduction of taxes above, the company might benefit from the additional deduction of IRPJ/CSLL. This deduction must correspond to the application of the rate and surcharge of said taxes on up to 15% on this expenditure, limited to 45% of such expenditure.

It is noteworthy that the deductions mentioned above were permitted to be done only from 01.01.2019 to qualified companies until that date and, from the qualification to the qualified companies after that date.

The amount of the consideration for the anticipated tax benefit recognized in operating income will not be computed in the PIS/COFINS and IRPJ/CSLL calculation basis.

10. Future developments

With the aid of technology, vehicles are heading towards innovations and technologies in favor of environmental, urban mobility and traffic safety aspects. Biofuels, hybrids and electric vehicles are already real and have been implanted. Other ways to set vehicles in motion, such as hydrogen cells and even other unimaginable technology will be tested in the next few years. Vehicles also tend to be more global with regard to their own conception.

This also means that these new concepts, developed domestically or brought from abroad, will also be internalized in the country, considering the local vocation, characteristics and particularities.

It has already been circulated in the local media that the government is working on a project to reduce taxes levied on electrical and hybrid vehicles. The government has been analyzing alternatives to stimulate the use of these vehicles, in addition to the reduction of the taxes usually levied on them. So far there is no relevant specific tax regimes for electric vehicles.

11. Legal background

- Brazilian Federal Constitution of 1988
- Complementary Law 87/1996
- Complementary Law 116/2003
- Federal Decree 3,000/1999 (Income Tax Regulation) – articles 117, 674 and 675, among others
- Federal Decree 5,637/05 (incorporated Resolution 35/02 from the Common Market Group of the Mercosur into Brazilian legislation)
- Federal Decree 6,759/09
- Federal Decree 7,819/2012 (regulates the INOVAR-AUTO Program)
- Federal Decree 7,212/2010
- Federal Decree-Law 5,452/1943 (Brazilian Labor Code) – article 458, among others
- Federal Law 10,485/2002 (regulates PIS/COFINS – Monophasic system)
- Federal Law 10,637/2003
- Federal Law 10,833/2003
- Federal Law 5,172/1966 (Brazilian National Tax Code)
- Federal Law 6,194/74
- Federal Law 6,729/79 (regulates the commercial concession between vehicle manufacturers and dealers)
- Federal Law 7,418/1985 and Federal Decree 95,247/1987 (Commuter Traffic)

-
- Federal Law 8.212/91 (social security legislation)
 - Federal Law 9,249/95
 - Federal Law 9,503/97 (Brazilian Traffic Code)
 - Federal Law 9,826/1999
 - Federal Resolution 13/2012 (establishing the rate of 4% of ICMS on interstate transactions)
 - Normative Instruction 162/1998 of the Federal Revenue Services
 - Normative Instruction 611/2006 of the Federal Revenue Services
 - Normative Opinion COSIT 11/1992
 - Ordinance 03/1886 of the National Department of Transit
 - Ordinance 235/2006 of the Ministry of Commerce
 - Provisional Measure 627/2013
 - Resolution 286/2008 of the National Transit Council
 - State ICMS regulations – of all Brazilian States
 - EC 87/2015
 - Provisional Measure 843/2018
 - Federal Law 13.755/2018
 - Federal Law 11.196/2005

Bulgaria



Orlin Hadjiiski

Automotive Tax Leader (Partner)

p: +359 89 780 0436

e: orlin.hadjiiski@pwc.com

Nikolay Ilchev

Tax Senior Director

p: + 359 2 935 5332

e: nikolay.ilchev@pwc.com

Vladislav Handzhiev

Tax Senior Manager

p: +359 2 935 5123

e: vladislav.handzhiev@pwc.com

Bulgaria

1. Car registration

1.1. When does a car need to be registered?

Within 1 month after a vehicle has been purchased or imported into the territory of Bulgaria it should be registered. This does not concern cars acquired with the sole purpose to be resold by a business entity, i.e., booked as goods.

1.2. Who can register a car?

The owner of the vehicle shall personally present the vehicle and the relevant documents before the competent state authorities within the above-mentioned timeframe. When the vehicle is co-owned, the registration procedure can be done by one of the co-owners, based on a written authorisation from the other(s).

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, it is possible, but for certain types of foreign persons a particular legal regime will be applicable, namely:

- citizens of EU and EEA countries as well as of Switzerland and members of their families are entitled to register their vehicles in Bulgaria upon obtaining a long-term residence certificate or permanent residence certificate;
- other foreign individuals are entitled to register their vehicles in Bulgaria upon obtaining a temporary residence permit in the country for at least three months, carrying special registration plate numbers;
- diplomatic, consular, commercial and other missions and their personnel, as well as missions of international representative organizations and consulates lead by honored consuls in Bulgaria, are registered freely in the country, carrying special registration plate numbers.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Yes, subject to payment of a local vignette fee for public state roads (applicable for local and foreign number plates). Vehicles with a technically admissible maximum mass above 3.5 tons should pay a toll fee based on i) the actual distance covered and ii) type/class of public state road used (instead of a vignette).

2. Car taxation

2.1. What are the different car taxes?

- Property tax on cars;
- Transfer tax on vehicles;
- Environmental fee;
- Customs duty.

It should be noted that as of January 1, 2010 cars are excluded from the scope of excise duties.

2.2. Property tax on cars

2.2.1. Taxable event

With the changes in force from January 1, 2015, there is no need to declare the vehicle separately before the respective municipality. The required information about the vehicle should be collected by the municipal authorities from the register of vehicles maintained by the Ministry of Interior. The information on the tax due should be provided by the municipal authorities to the taxable person.

The owners should declare the cars before the relevant municipal authority in a two-month period following the acquiring of the car in the following cases:

- If the car is owned by more than one person;
- If the owner/s of the car do not have a permanent address or seat in Bulgaria;
- There are grounds for exemption from the property tax on cars or certain tax relief related to buses carrying passengers on regular lines subsidized by the respective municipality (this amendment entered into force on 1 January 2020).

If a car is inherited, a declaration should be submitted to the respective municipal authority in a six-month period.

2.2.2. Taxable person

The property tax should be paid by the owner of the vehicle.

2.2.3. Tax due

The property tax for a car is determined by each municipality based on two components. The first component is determined based on the engine power of the car adjusted with the year of its manufacturing. The second component is determined based on the ecological category of the car.

The base for the first component is determined by each municipality within the following statutory ranges:

- For cars up to 55kW inclusive, from 0.34 BGN to 1.20 BGN for each kilowatt
- For cars above 55kW up to 74kW inclusive, from 0.54 BGN to 1.62 BGN for each kilowatt
- For cars above 74kW up to 110kW inclusive, from 1.10 BGN to 3.30 BGN for each kilowatt
- For cars above 110kW up to 150 kW inclusive, from 1.23 BGN to 3.69 BGN for each kilowatt
- For cars above 150 kW up to 245 kW inclusive, from 1.60 BGN to 4.80 BGN for each kilowatt
- For cars above 245 kW, from 2.10 BGN to 6.30 BGN for each kilowatt

Depending on the year of the manufacturing of the car, the base for the first component shall be multiplied with the following coefficients:

Number of years since the year of manufacturing (including the year of manufacturing)	Coefficient
More than 20 years	1.1
From 15 to 20 years	1
From 10 to 15 years	1.3
From 5 to 10 years	1.5
Up to 5 years	2.3

Depending on the ecological category of the car, the first component is then multiplied by the following coefficient (the second component):

Ecological category (EC)	Coefficient
Without EC or with Euro 1 or Euro 2	1.10 – 1.40
Euro 3	1.00 – 1.10
Euro 4	0.80 – 1.00
Euro 5	0.60 – 0.80
Euro 6 or EEV	0.40 – 0.60

In view of the above, the formula for calculation of the property tax for cars is the following: First component (tax base determined as per the engine power x coefficient as per the year of manufacturing) x Second component as per the ecological category.

In such a way, the property tax determined under the first component is increased for the automobiles without EC or with EC Euro 1, Euro 2 or Euro 3, and decreased for the automobiles with EC Euro 4, Euro 5, Euro 6 or EEV.

Since 1 January 2019, these taxation rules are applicable not only for cars, but also for trucks/lorries with technically admissible maximum mass up to 3.5 tons.

2.2.4. Tax period

The property tax on cars is due for a calendar year and should be paid in two equal instalments – by June 30, and then by October 31. A 5% decrease of the tax applies provided the whole amount of the tax liability due for the calendar year is paid by April 30.

2.3. Transfer tax on vehicles

2.3.1. Taxable event

A transfer tax is due in respect of a transfer of the ownership of an automobile that was already registered in Bulgaria.

2.3.2. Taxable person

The new owner of the automobile, unless explicitly agreed otherwise.

2.3.3. Tax due

0.1% to 3% on the insurance value of a car (the exact rate within this range is determined separately by each municipality).

2.3.4. Tax period

Upon the transfer of ownership.

2.4. Environmental fee

2.4.1. Taxable event

An environmental fee is due upon acquisition of an automobile brought into Bulgaria from another member state or importation of an automobile.

2.4.2. Taxable person

The owner of the automobile.

2.4.3. Tax due

Type of motor vehicle	Automobiles with internal combustion engine (M1 and N1 categories)	Automobiles with internal combustion engine (M2 and N2 categories)	Automobiles with internal combustion engine (M3 and N3 categories)	Automobiles with hybrid engines (M1 and N1 categories)	Electric vehicles (M1 and N1 categories) /product fee payable as from 1 January 2022/
	Fee per unit				
New	BGN 125	BGN 625	BGN 938	BGN 100	BGN 102
Used up to 5 years	BGN 194	BGN 970	BGN 1455	BGN 170	
Used from 5 to 10 years	BGN 290	BGN 1450	BGN 2175	BGN 240	
Used more than 10 years	BGN 310	BGN 1550	BGN 2325	BGN 255	

2.4.4. Tax period

Upon acquisition or importation of the automobile, and before its first registration in Bulgaria.

2.5. Customs duty

2.5.1. Taxable event

Customs duties are due upon the importation of the automobiles.

2.5.2. Taxable person

Custom duties are due by the importer.

2.5.3. Tax due

The customs value of the imported automobiles is subject to a customs duty rate of 10%, unless a lower rate applies under a preferential agreement signed by the EU with third countries. The customs value is determined based on the invoice price (insurance value if there is no sale), plus certain additional expenses like transportation costs, insurance, etc.

2.5.4. Tax period

Upon importation.

3. Income taxes – taxable persons

The costs related to private cars are not deductible for income tax purposes.

The private usage of company cars is considered a taxable benefit. However, there are no defined explicit rules in Bulgarian law on the formation of the taxable base in such cases and the way of taxation, so the general rules of taxation of benefits are followed on a case-by-case basis.

4. VAT

4.1. General

Bulgarian Value-Added Tax (VAT) at the standard rate of 20% is, in principle, due on the purchase, acquisition and importation of vehicles.

Acquisition of second-hand vehicles (with mileage above 6 000 km and registered for the first time more than six months ago) from other EU member states does not lead to VAT obligations in Bulgaria, except where the special margin scheme for second-hand vehicles is applied.

Upon the importation of an automobile, 20% VAT is charged on the customs value plus the customs duty and environmental fee.

4.2. Deduction

VAT recovery is denied for the acquisition, importation, maintenance, repair, improvement and exploitation of a motorcycle or an automobile (with six or less seats, including the driver's seat), unless used exclusively or as part of the core business activity of a person for the performance of transport, security, taxi, rental, courier or driving lessons services, or for subsequent resale.

The above restriction does not apply for motor vehicles designated for cargoes or motor vehicle with permanently built-in technical equipment for the purposes of the performed economic activity by the registered person.

VAT incurred for the purchase, maintenance, repair and exploitation of trucks, lorries, buses, and passenger cars with seven or more seats is recoverable where the vehicles are used for the taxable economic activity of the registered person.

4.3. Hire purchase: Supply of goods?

The hire purchase (definite transfer of ownership agreed at the end of the hire term) is considered a supply of goods whereby the VAT becomes due on the whole value of the vehicle when placed at the disposal of the hirer/purchaser.

The interest due is considered a separate VAT-exempt financial service. An option to tax (for the seller) exists for the interest element.

4.4. Leasing: Supply of goods or service?

A lease agreement containing a purchase option (freely exercisable by the lessee at the end of the contract term) is considered a supply of goods from a Bulgarian VAT perspective if the aggregate amount of the leasing instalments (excluding the interest due) is identical to the market price of the vehicle as at the date of delivery. The VAT under such lease contracts becomes due upon delivery.

This treatment applies to lease agreements concluded from January 1, 2014 onwards.

If a lease agreement is amended and as a result the market price of the car becomes identical with the aggregate amount of the lease instalments due, it is considered that at the date of the amendment of the agreement the lessor performs a supply of goods. In such case the taxable base is equal to the amount of the lease instalments due (excluding VAT) after the amendment of the lease agreement.

Lease agreements where the above conditions are not met and there is no definite transfer of ownership agreed at the end of the agreement are considered supply of service under the Bulgarian VAT legislation.

The VAT Act provides a special regime for the short-term hire of motor vehicles (delivered for a maximum period of 30 days). In such cases Bulgarian VAT is chargeable if the motor vehicle is physically handed over in the country.

5. Company car

5.1. VAT due on private use of company cars

No VAT is charged on the private use of a company car, unless input VAT credit has been deducted for the car in accordance with the special rules outlined in Section 4.2 above.

Where goods and services are used both for business and private purposes and input VAT has been previously deducted upon their acquisition, importation, or production. In such cases, the registered persons will be obliged to charge VAT on the goods or services proportional to their use for personal needs. The taxable base for providing services for private purposes should include (as until now) all direct expenses related to the performed services, but as of 2016, the expenses for depreciation should also be considered. These expenses will be calculated for each tax period in accordance with the linear method for 5 years from the tax period in which the right of input VAT deduction has been exercised. For leased cars (not treated as a supply of goods) – the lease installment is included instead of the depreciation. The taxable event is deemed to occur on the last day of the respective month.

As of January 1, 2017, specific rules were introduced in the Bulgarian VAT Act for the so-called “proportional” deduction of input VAT upon acquisition, importation, or production of goods, or upon receipt of services, which will be used for both business and private purposes. In other words, when the car will be used for both business and private purposes, proportional input VAT deduction shall apply from the moment of acquisition (instead of deducting full input VAT and charging output VAT for the private use on a monthly basis as explained above). The proportion should be based on a so-called “reasonable” time or quantity-based method. More detailed rules on subsequent adjustments of input VAT credit were also promulgated. Such adjustments may be required on an annual basis if there is a change in the use of the goods or services, for which VAT credit was used.

5.2. Company car – income taxes

Bulgarian legislation provides for specific rules regarding the taxation of company cars. Generally, if a company car is used for business purposes only, the costs are fully deductible for the company and non-taxable for the individual.

Currently, the maximum tax depreciation rate applicable for a company car is 25% per year.

If the car is used for private purposes, all relevant costs are seen as personal income of the employee subject to 10% personal income tax. In case the car is used for both business and private purposes, the company may choose to:

i/ include the costs proportional to the private use in the employees’ payroll (and apply 10% personal income tax), or

ii/ apply 10% one-off tax at the account of the company on the relevant costs, which may be determined as follows:

- the costs proportional to the actual private use; or
- 50% of the total costs made in relation to the vehicle.

The choice between the two options is made once a year for all cars of the company.

6. Income taxes – drivers’ personal taxation

According to the Bulgarian legislation, the expenses related to the maintenance and use of a personal car are not deductible for personal income tax purposes.

There are specific rules for the taxation of certain car-related activities, e.g., driving instructors pay an annual fixed (patent) tax for their activity. Their income from these activities is excluded from general personal taxation.

7. Electric vehicles

Electric vehicles, motorcycles and mopeds are exempt from property tax.

For the purposes of the relevant tax legislation, electric vehicles are considered light vehicles using engines with fully electrical generation and not having an internal combustion engine.

8. *Future developments*

No major amendments to the legislation regarding car taxation are expected.

9. *Legal background*

- Corporate Income Tax Act;
- Personal Income Tax Act;
- Value Added Tax Act and the Regulations on its application;
- Excise Duties and Tax Warehouses Act;
- Local Taxes and Duties Act;
- Customs Act;
- Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff and its subsequent amendments;
- Road Traffic Act;
- Regulation for the application of the Road Traffic Act;
- Ordinance No I-181/03.12.2002 for the registration and reporting of vehicles owned by foreign natural persons and entities;
- Ordinance No I-45/24.03.2000 for the registration, reporting, putting in motion and ceasing the motion of vehicles and trailers pulled/drawn by them;
- Ordinance for the determination of the rules and the amount of payable environmental fee;
- IAS 17 Leases and IFRS 16 Leases.

Canada



Todd Thornton

***Automotive Tax Leader, Partner -
Corporate Tax***

p: +1 905 815 6407

e: todd.thornton@ca.pwc.com

Eric Paton

Partner - Sales Tax

p: +1 416 869 2878

e: eric.paton@ca.pwc.com

Jaime Seidner

Partner - Customs

p: +1 416 687 8492

e: jaime.seidner@ca.pwc.com

Diana Terlizzi

Director - Corporate Tax

p: +1 905 815 6429

e: diana.terlizzi@ca.pwc.com

Attila Gaspardy

Director - Sales Tax

p: +1 416 941 8455

e: attila.gaspardy@ca.pwc.com

Jody Mclean

Senior Manager - Customs

p: +1 416 869 2459

e: jody.mclean@ca.pwc.com

Timothy Tsui

Manager - Customs

p: +1 905 815 6481

e: timothy.x.tsui@ca.pwc.com

Canada

1. Importation of vehicles

1.1. Customs duties

In order to import a vehicle into Canada you must first ensure that the vehicle is eligible to be imported. It must meet the required regulatory standards imposed namely by Transport Canada (TC). The Canada Border Services Agency (CBSA) assists TC with the administration of the Motor Vehicle Safety Act (MVSA) and the Motor Vehicle Safety Regulations (MVSR) at CBSA points of entry and will be the first line of review. The CBSA also assists other government agencies with respect to what may be additional requirements for vehicle importers. These include, but may not be limited to:

- The Canadian Food Inspection Agency (CFIA) with the administration of the Plant Protection Act by enforcing the conditions under which vehicles may be imported if soil and/or related matter are present at the time of import; and
- Environment Canada and Climate Change Canada (ECCC) with the administration of the Canadian Environmental Protection Act with regards to emissions standards under which new and used vehicles may be imported.

Further with respect to admissibility, to be eligible for importation into Canada, vehicles must qualify for entry under one of the following two principles:

1. Vehicles that are required to be registered in the Registrar of Imported Vehicles (RIV) Program⁵, which only applies to United States (US) specification vehicles purchased or originally sold in the US at the retail level or that belong to the category of Prescribed class of vehicle from Mexico (passenger car, MPV, truck or bus only); and
2. Vehicles that are not required to be registered in the RIV Program, which applies to all other vehicle importations including Canadian Motor Vehicle Safety Standards vehicles, age-exempt vehicles, non-regulated vehicles and vehicles imported temporarily.

Vehicles that do not qualify for importation under one of the two preceding options are generally considered inadmissible and cannot be imported into Canada.

It should also be noted that the importation of certain used and second-hand vehicles into Canada may be prohibited from a CBSA standpoint. Exemptions to the prohibition must be reviewed on a case-by-case basis, but cars imported from the US or Mexico directly may not be subject to the prohibition but are still required to meet the TC requirements. To this end, it is extremely important to research and understand the admissibility requirements prior to importing a vehicle into Canada.

When importing a permissible vehicle into Canada, customs duties, excise taxes (where applicable) and the Goods and Services Tax (GST) are typically payable on the declared value. In situations where the importation is not the subject of a sale, an alternate value may be assessed (e.g., an appraised value).

The rate of customs duty rate for most passenger vehicles that are not eligible for import under a free trade agreement is typically 6.1% of the declared value/sale price. However, if the vehicle originates in and was imported from a country that has a free trade agreement with Canada, a preferential duty rate may apply.

For example, if a vehicle is imported into Canada from the United States and is eligible under the Canada-United States-Mexico Agreement (CUSMA), the rate of duty is normally 0%, provided all other requirements are met as well. Similarly, if a vehicle is imported into Canada from a member country of

⁵ The Registrar of Imported Vehicles (RIV) was created by TC to establish and maintain a system of registration, inspection, and certification to Canadian standards of vehicles originally manufactured for distribution in the U.S. market that are being permanently imported into Canada.

the European Union and is eligible under the Canada–European Union Comprehensive Economic and Trade Agreement (CETA), the rate of duty is normally 0%, provided all other requirements are met as well. Other preferential tariffs (e.g., the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)) may also apply allowing for importation at a lower (of free) duty rate depending on the country in question.

Note that if the vehicle is equipped with an air conditioning unit, an additional \$100 CAD in excise taxes would also be payable (certain exceptions apply e.g., buses). Importers will also have to pay additional excise taxes (Green Levy) if the vehicle has a weighted average fuel consumption rating of 13 or more litres per 100 kilometers and was put into service after March 19, 2007. Kindly refer to sections 3.2 and 3.3 for additional details in this regard.

It should also be noted that there are certain duty exemptions (e.g., returning residents), subject to certain conditions, that may apply to the importation and serve to relieve the duty assessed.

Lastly, while not impacting imports of vehicles in 2021, the Government of Canada has announced its intention to impose a Luxury Tax on new vehicles priced over \$100,000 effective January 1, 2022. Kindly refer to section 10 for additional details in this regard.

1.2. Import VAT/sales tax

Upon importing vehicles into Canada for commercial use (i.e., imported for sale or for any commercial, industrial, occupational, institutional or other like use), GST is paid on the value of the vehicles for duty purposes plus all duties and taxes (e.g., customs duties and excise taxes). It is the importer of record who is typically liable for the GST, whether or not the importer is the owner of the cars.

Where the GST is paid on importation by a GST registrant who is importing goods for “consumption, use or supply in the course of commercial activities”, an input tax credit (ITC) normally is available.

Where vehicles are imported to be delivered into a harmonized sales tax (HST)⁶ province from outside Canada, the provincial component of the HST will be payable at the time of vehicle registration where the vehicle is not imported for commercial use.

On the importation of vehicles into provinces where provincial sales tax (PST) is levied (currently in Manitoba, British Columbia and Saskatchewan), PST will also be collected at the time of vehicle registration.

There are exemptions available from tax on importation such as ‘returning resident’ exemptions for Canadian residents.

Temporary importation of rental vehicles

Rental vehicles that are registered in another country (foreign-based rental vehicles) and temporarily imported by Canadian residents are taxed as follows:

- Full GST/HST relief on foreign-based rental vehicles temporarily imported by Canadian residents who have been outside Canada for at least 48 hours.
- Levying of GST/HST on a partial basis, as described below, on foreign-based rental vehicles temporarily imported by Canadian residents who have not been outside Canada for at least 48 hours.
- Full relief from the excise taxes on all foreign-based rental vehicles temporarily imported by Canadian residents.

In the case of a Canadian resident who has been outside Canada for less than 48 hours and who temporarily imports a foreign-based rental vehicle, the GST/HST will be levied on fixed monetary values, intended to approximate the average cost of a weekly rental of the same type of vehicle in

⁶ The HST includes a 5% federal component, and a provincial component that varies by province.

Canada, for each week or part of a week that the vehicle is in Canada. These weekly fixed monetary values will be set out in regulations and will generally be as follows:

- \$200 CAD for cars, motorcycles and ATV;
- \$300 CAD for pickup trucks, sport utility vehicles and vans including minivans, camping trailers, fifth wheel trailers and trucks up to 10 tonnes or similar vehicles; and
- \$1,000 CAD for recreational vehicles, such as motor homes

Where GST/HST applies on these rental vehicles, the GST/HST rate applicable will be that of the province where the vehicle enters Canada. For example, Canadian travelers who enter Canada at a border crossing in Ontario would pay the Ontario HST rate at 13% at the time of entry.

This tax treatment applies only to foreign-based rental vehicles temporarily imported for a period not exceeding 30 days, which is consistent with the revised federal vehicle safety rules that now permit the temporary importation of these vehicles for a period not exceeding 30 days.

Generally, no taxes or similar restrictions apply to foreign-based rental vehicles temporarily imported by foreign residents visiting Canada.

2. Vehicle registration

2.1. When does a vehicle need to be registered?

In Canada, it is provincial governments that carry out responsibilities relating to the issuance of motor vehicle number plates. For its part, the Government of Canada supports to the greatest extent possible provincial authorities in establishing, implementing, delivering and monitoring vehicle number plate programs designed specifically for foreign missions, consular posts, international organizations and other offices, and their representatives.⁷

For the provinces and territories in Canada, a vehicle is required to be registered when

- a person buys a new/used vehicle,
- a person transfers a vehicle from one province to another and stays in that province for more than a specified number of days (typically more than 90 days) or
- a resident of Canada brings a vehicle from outside Canada.

It should be noted that proof of minimum insurance is required at the time of registration before a vehicle will be registered. If a vehicle is imported for use by a resident of Canada, it will have to comply with the requirements of the MVSA and meet the requirements set out by the RIV. The registrar maintains a list of vehicles that can be imported into Canada. Vehicles older than 15 years are exempt from the RIV program.

2.2. Who can register a vehicle?

A resident of a province or territory must register their vehicle in the province or territory where the individual lives. A vehicle is registered in the name of the owner of the vehicle.

As a new resident to the country, a foreign owner will be required to register their vehicle if living in a particular province for a specified period of time (typically more than 60 or 90 days). Exceptions often exist for visiting students enrolled in full-time post-secondary studies.

If a person is in a province as a full-time student and attending an accredited institution or he is working here as part of a co-op program of study, he may use his valid registration and number plates from his home jurisdiction. A person must also have valid insurance on the vehicle and the registration must contain his name (either exclusively or jointly with another individual(s)).

⁷ Source: Issuance of Licence Plates to Foreign Representatives, including Honorary Consular Officers – Foreign Affairs & International Trade Canada

2.3. Is a foreign owner allowed to register a vehicle in the country?

Practically speaking, a foreign owner without a permanent address in Canada will not be able to register a vehicle in Canada. As noted above, to register a vehicle in Canada, all vehicles must be insured and a permanent address in Canada is required before a vehicle can be insured.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Yes. Depending on the province, visitors may use their valid license, registration and plates (with valid insurance) from their home jurisdiction as long as they have a legitimate residence there and do not take up residence in Canada. In most provinces and territories, vehicles can use foreign plates for a specified period (90 days in most provinces) before having to register. Exceptions to this maximum period exist in most provinces for students in full-time studies or members of a foreign consulate.

3. Vehicle taxation

3.1. What are the different vehicle taxes?

The main taxes applicable in Canada for vehicles include:

- Federal GST/HST
- Provincial sales taxes (PST)
- Various other provincial taxes if the GST/HST and/or PST do not apply
- Federal excise tax

For details on the first three taxes, see sections 6, 7, 9 and 10 below.

3.2. Federal excise tax on fuel-inefficient vehicles

3.2.1. Taxable event

Federal excise tax on fuel-inefficient vehicles applies to automobiles (including station wagons, vans and sport utility vehicles) designed primarily for use as passenger vehicles, but not including pickup trucks, vans equipped to accommodate 10 or more passengers, ambulances and hearses, in accordance with the vehicle's fuel-efficiency rating.

In general, an excise tax is also levied on air conditioners designed for use in automobiles, station wagons, vans or trucks.

The excise tax is payable at the time of import of the vehicle to Canada or at the time of the first sale after manufacturing in Canada.

3.3. Taxable person

The excise tax is payable by the importer or by the Canadian manufacturer.

3.3.1. Tax due

The excise tax on fuel-inefficient vehicles is calculated on the basis of the weighted average fuel consumption rating as determined in accordance with information published by Natural Resources Canada. For purposes of this tax, the weighted average fuel consumption rating is calculated by combining 55% of the city fuel consumption rating with 45% of the highway fuel consumption rating.

Automobiles that have a weighted average fuel consumption rating of 13 or more litres per 100 kilometres will be subject to the excise tax at the following rates:

- At least 13 but less than 14 litres per 100 kilometres: \$1,000 CAD
- At least 14 but less than 15 litres per 100 kilometres: \$2,000 CAD
- At least 15 but less than 16 litres per 100 kilometres: \$3,000 CAD
- 16 or more litres per 100 kilometres: \$4,000 CAD

The excise tax on air conditioners is \$100 CAD per unit.

4. Income taxes – taxable persons

4.1. Employer-supplied automobiles

For many businesses, automobiles are a necessity. As a result, the costs of supplying and operating automobiles are legitimate business expenses. However, a car is almost always used personally, even if just for transportation to and from the workplace. For tax purposes, having appropriate ways to distinguish legitimate business expenses from personal benefit is important.

Employers can deduct reasonable costs of operating vehicles supplied to employees (whether the vehicles are leased or owned). If a company has purchased the vehicle, it is eligible to claim capital cost allowance (CCA) and related interest expense or other borrowing charges, subject to the following special rules and limitations.

CCA rules for company-owned vehicles			
	Zero-emission passenger vehicles	Passenger vehicles that cost more than the prescribed amount	Other passenger vehicles
CCA class	Class 54	Class 10.1 (separate class)	Class 10
Maximum cost added to CCA class	Prescribed amount: for vehicles purchased in 2021, \$55,000 CAD + GST/HST & PST on \$55,000 CAD	Prescribed amount: for vehicles purchased in 2021, \$30,000 CAD + GST/HST & PST on \$30,000 CAD	Purchase price + GST/HST & PST + improvements
Maximum CCA rate	Up to a maximum of 100% in a year if acquired after March 18, 2019 and is available for use before January 1, 2028. A gradual phase-out of this percentage will be applied to vehicles that become available for use after 2023 and before 2028.	15% (45% if acquired after November 20, 2018 and available for use before January 1, 2024) in year acquired; otherwise 30%	15% (45% if acquired after November 20, 2018 and available for use before January 1, 2024) in year acquired; otherwise 30%
	If acquired after 2028: 15% in year acquired; otherwise 30%		
	N/A in year of disposal	15% in year of disposal	N/A in year of disposal
Recapture or terminal loss?	Possible	None	Possible
Adjustment to proceeds of disposition?	Possible if actual cost of vehicle exceeds the prescribed cost Adjustment is equal to prescribed cost divided by actual cost, multiplied by the proceeds of disposition	None	None
Subject to lease cost deduction rules?	No	Yes	Yes
Maximum interest deduction	Interest limit: for vehicles purchased in 2021, \$300 CAD per 30-day period (\$3,600 CAD for a full year)		

4.1.1. Company-leased vehicles

For leased automobiles, the deduction of the lease payments is generally limited to the least of

1. actual lease payments incurred or paid in the year (with insurance, maintenance and taxes considered part of the actual lease payments only if they are included in the lease);
2. prescribed monthly based lease limit (for leases entered into in 2021, \$800 CAD plus GST/HST and PST) multiplied by 12 (when the vehicle is available to the employee for a full year);
3. annual lease limit, calculated as
 - prescribed lease cost limit (for leases entered into 2021, \$30,000 CAD + GST/HST and PST)
 - multiplied by actual lease payments incurred or paid in the year
 - divided by 85% x greater of
 - prescribed limit (\$35,294 CAD + GST/HST and PST on \$35,294 CAD)
 - manufacturer's list price.

4.1.2. GST/HST and QST

Employers who purchase or lease vehicles for their employees may be eligible to claim

- input tax credits in respect of GST/HST paid and
- input tax refunds in respect of QST (Quebec Sales Tax) paid.

However, some restrictions may apply. See section 6 below.

4.2. Employee-supplied automobiles

Subject to the same deduction limits described above for CCA and lease costs for employer-owned vehicles, deductible motor vehicle expenses include the following:

Operating expenses vs capital costs	
Operating expenses	Capital costs subject to certain limits
Gas	Capital cost allowance (CCA)
Oil	Interest
Maintenance	Leasing costs subject to certain limits
Minor repairs (net of insurance recoveries)	
License and registration fees	
Insurance	

If the conditions summarized in the table below are met

- employees may deduct reasonable travel expenses, including motor vehicle expenses;
- employees who are salespersons or contract negotiators may deduct a wider variety of expenses.

Employee deductions		
	Employees in general	Salespersons and contract negotiators
Conditions (all must be met to deduct the expenses noted above)	Did not claim any deductions as a salesperson	At least partially remunerated by commissions or similar

		amounts based on sales volume
	Ordinarily required to carry on the duties of employment away from the employer's place of business, or in different places	Ordinarily required to carry on the duties of employment away from the employer's place of business
	Did not receive a tax-free allowance with respect to the expenses	
	Not reimbursed for expenses	
	Required under the employment contract to pay the expenses	
	A prescribed form (Form T2200) certified by the employer, reporting the conditions of employment, is completed	
Expenses that may be deducted	Travel	All expenses incurred to earn employment income
Interest and maximum CCA on vehicle	Not limited by income	Not limited by income
Other expenses	Not limited by income	Commission income for the year

Note: Quebec employees must file Form TP-64.3-V with their Quebec tax returns, in addition to completing Form T2200.

If an automobile is used for both employment and personal purposes, to determine the deductible amount, most motor vehicle expenses are pro-rated, based on the proportion that the distance driven in the course of employment is of the total distance.

4.2.1. Reimbursements and allowances

For tax purposes, a reimbursement is an amount that

- the employer gives to an employee as repayment for amounts spent on the employer's business and
- is substantiated by vouchers or receipts the employee provides.

An allowance is different: a periodic or other payment by the employer to an employee, in addition to the employee's salary and wages. (Typical examples are a flat monthly allowance and a per-kilometre allowance.) Unlike a reimbursement, employees are not required to account for the use of an allowance.

4.2.2. Reimbursements

Reimbursements are simpler than allowances, for tax purposes. Employers can deduct reimbursements of business-related automobile operating expenses. Employees are

- not required to report reimbursements on their income tax returns and
- not entitled to deduct automobile expenses that were reimbursed.

4.2.3. Allowances

The general rule on allowances for travel and/or motor vehicle expenses is simple: to be tax-free to the employee, the allowances must be reasonable.

If an allowance for travel expenses is tax-free, the employee may not deduct travel expenses. Similarly, if an allowance for motor vehicle expenses is tax-free, the employee may not deduct expenses in respect of the motor vehicle.

A motor vehicle allowance will be considered reasonable only if it is

- based solely on the number of kilometres driven in the course of employment and
- computed using a reasonable per-kilometre rate.

Consequently, a flat monthly automobile allowance is not considered reasonable for tax purposes, and must be included in income. Furthermore, even an allowance that meets the above criteria for reasonableness will be taxable in its entirety if the employee is reimbursed for some of the automobile expenses. However, reimbursements for supplementary business insurance, parking, or toll or ferry charges will not cause the allowance to be taxable, if the allowance was determined without reference to these reimbursed expenses.

According to the “CRA Employers’ Guide—Taxable Benefits and Allowances” (T4130(E) Rev. 20), if an employee receives a combination of flat-rate and reasonable per-kilometre allowances, or any other personal reimbursement such as a fuel card, that cover the same use for the vehicle, the total combined allowance is taxable.

As a general rule, for allowances paid in 2021, the CRA will accept as reasonable an allowance calculated in accordance with the following prescribed rates:

Distance driven	Reasonable allowance for 2021	
First 5,000km	\$0.59 CAD	+\$0.04 CAD for each km driven in the Yukon, NWT or Nunavut
Each Additional km	\$0.53 CAD	

5. Sales taxes (GST/HST/QST/PST)

5.1. General

GST is a federally administered value-added tax, levied at a rate of 5% on most supplies of goods and services made within Canada by registered persons. The HST is levied in the provinces of Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador and Prince Edward Island. In addition to the 5% tax, the HST contains a provincial component. Currently, the HST rate is:

- 13% in Ontario
- 15% in Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador

Persons that register for GST will automatically be registered for HST. Stated briefly, GST/HST charged by Canadian suppliers or GST levied on importation can be recovered by registered persons to the extent that the acquisition or importation is made in the furtherance of commercial i.e., providing GST/HST-taxable activities.

In the province of Quebec, in addition to the federal GST, a Quebec Sales Tax (QST) is levied at 9.975%. Although QST is a provincial sales tax administered by the province, it is a VAT-style tax and is largely harmonized with the GST/HST.

In some provinces in Canada (Manitoba, Saskatchewan and British Columbia), in addition to GST, a PST is imposed on most goods, including the purchase and lease of company vehicles and related parts, and certain services, such as maintenance. The PST rates vary from province to province: in Manitoba it is 7% , in Saskatchewan it is 6% and in British Columbia it is 7%. PST is generally not recoverable by the purchaser. If PST is not charged by the vendor, the purchaser may be required to self-assess PST, or, in case of motor vehicle purchases, PST is usually levied at the time of vehicle registration.

5.2. Deduction

5.2.1. GST/HST

Generally, a passenger vehicle used in a registrant's commercial activities is considered to be capital personal property and is therefore governed by capital personal property rules. Essentially, no ITCs are allowed for the portion of the purchase price or cost of improvements to the vehicle (e.g., A/C or sunroof) that is in excess of \$30,000 CAD (total for the vehicle) or monthly lease cost of \$800 CAD net of GST/HST. To prevent double taxation, the previously disallowed ITCs are allowed to the seller (employer) when the passenger vehicle is sold, with the exception of ITCs that relate to the reduction in value of the vehicle since its purchase.

Care must be taken when defining a passenger vehicle for GST/HST purposes because although the term takes its definition from the Canadian Income Tax Act, the definition may be interpreted as ambiguous when dealing with pick-up trucks and vans. At a high level, a passenger vehicle means an automobile and an automobile means a motor vehicle designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and eight passengers with exclusions such as ambulances and taxis.

Where a GST/HST registered employer acquires or imports a passenger vehicle exclusively (90% or more) for the personal use of an employee, the employer will be denied an ITC.

Where a GST/HST registered employer purchases a passenger vehicle to be used primarily (more than 50%) in the course of commercial activities, the employer will be eligible for a full ITC (subject to the above limitation regarding the purchase price). However, where the passenger vehicle is acquired for use primarily in non-commercial activities of the employer, the employer will not be entitled to any ITC.

Where a GST/HST registered employer leases a passenger vehicle to be used exclusively in the course of its commercial activities, the employer will be eligible to claim a full ITC. However, where the use is less than exclusive the employer will be eligible to claim an apportioned ITC based upon the amount of commercial use of the property (in both cases subject to the above limitation regarding monthly leasing fee).

Note that if an income tax benefit is assessed against employees for their personal use of a company vehicle, a recapture of a portion of the ITC claimed by the employer on the purchase or lease of the vehicle may result, with specific rules in the legislation designed to deal with these types of scenarios (see section 7.1).

As well, in dealing with passenger vehicles for GST/HST registered individuals, partnerships or financial institutions in the course of commercial activities, special ITC rules apply.

The chart below summarizes the ITC entitlement in connection with purchases of passenger vehicles.

5.2.2. ITC entitlement

Percentage of use in commercial activities	General registrants and public sector bodies	GST/HST registered individuals and partnerships	Financial institutions
< 10%	No ITC	No ITC	
> 10% to 50%		ITC based on income tax amortization (CCA) ¹	ITC = actual % of use
> 50% to < 90%	Full ITC		
> 90%		Full ITC	

¹ ITC based on the portion of the capital cost of the vehicle deducted for income tax purposes

Until March 31, 2021, employers that qualify as large businesses (with taxable supplies made in Canada in the preceding recapture period of at least \$10M CAD, including supplies made by

associates) cannot claim an ITC for 25%⁸ of the provincial component of HST paid, i.e., 2.5% (=25% of 10%), in Prince Edward Island in relation to the purchase, lease or rental of motor vehicles licensed for highway use and weighing less than 3,000kg; for related parts and accessories acquired within one year after the purchase of the vehicle, unless the parts and service relate to routine maintenance; and fuel (except diesel) for such a vehicle.

From April 1, 2021, there is no more requirement to recapture the provincial component of the HST in Prince Edward Island with respect to such motor vehicles.

5.2.3. QST

The general rules for deductibility as described above for GST/HST also typically apply to input tax refund claims by persons for QST purposes.

5.2.4. PST

PST paid is generally not deductible or recoverable by the purchaser.

5.3. Hire purchase: Supply of goods?

For GST/HST and QST purposes, a hire-purchase contract and any other contract under which property in the goods passes on satisfaction of a condition (e.g., a conditional or installment sales contract) is generally considered to be a sale of property (goods).

However, any provision of a loan and interest associated with the hire purchase is treated as an exempt financial instrument for GST/HST or QST, respectively, and cannot be included in the total taxable amount for the hire purchase.

5.4. Leasing: Supply of services?

In Canada, a lease agreement which results in the use of a property, such as a passenger vehicle, by a lessee is considered to be a supply of a property and not a service. A contract that is considered a lease from a legal perspective, whether it incorporates a bargain purchase option, will generally be treated as a lease for GST/HST and QST purposes.

Generally, for GST/HST and QST purposes, the place of supply and the applicable tax rate for the lease depends on where “possession or use” of the property is given to the purchaser.

6. Company vehicle

6.1. Sales tax due on private use of company vehicles

The use of a vehicle by an employee for purposes other than for business is considered to be a taxable benefit to the employee. Consequently, such a taxable benefit may have to include an amount of GST/HST, and an amount related to such personal use may have to be paid by the employer as a recapture of a portion of the ITC claimed on the purchase or lease of the vehicle. This GST/HST applies to automobile benefits in respect of taxable supplies.

The automobile benefit is calculated as follows:

- A standby charge for the year,
- plus an operating expense benefit for the year,
- minus any reimbursements employees make in the year for benefits that are otherwise included in their income for the standby charge or the operating expense benefit.

The standby charge reflects the benefit employees receive when an employer’s automobile is available for their personal use. If the taxable benefit relates to the standby charge of an automobile, the registrant will be deemed to have collected GST/HST at a prescribed portion of the amount of the value of the taxable benefit reported for income tax purposes and on the amount of any reimbursement. For 2021, if the taxable benefit relates to the standby charge of an automobile in a GST-only province, the employer will be deemed to have collected GST equal to 4/104 of the amount of

⁸ The recapture rate is 0% starting April 1, 2021

the value of the taxable benefit reported for income tax purposes and on the amount of any reimbursement. In the HST provinces, HST equal to 12/112 applies in Ontario and 14/114 in Nova Scotia, Prince Edward Island, New Brunswick and Newfoundland and Labrador. Where a registrant individual or partnership purchases a vehicle that is not used exclusively in commercial activities, GST/HST need not be paid in respect of the employee standby charge benefit.

Automobile operating expense benefits are benefits that are based on the amounts paid by an employer or corporation for automobile operating expenses – such as gasoline and oil, maintenance and repairs, and licenses – incurred in relation to the personal use of an automobile by an employee or shareholder. Records have to be kept by employer and employee on the usage of the vehicle to monitor the total kilometres driven for personal use. Such a benefit amount is included in the employee’s or shareholder’s income for income tax purposes. In addition, GST or HST is applicable on the benefit, and the employer or corporation must account for and pay the GST/HST at a prescribed rate. The regulations prescribe the rates of GST and HST applicable to the value of the benefit reported by the employee or shareholder. The prescribed rates are lower than the GST and HST rates to reflect the fact that a portion of the total automobile operating expense benefit reported for income tax purposes relates to GST and HST-exempt expenses such as insurance.

For 2021, if the taxable benefit relates to the operating cost of an automobile, the employer will be deemed to have collected GST equal to 3% on the value of the benefit reported for income tax purposes and on any reimbursements. In the HST provinces, HST equal to 9% applies in Ontario; 11% applies in Prince Edward Island, New Brunswick, Newfoundland and Labrador, and Nova Scotia. GST/HST is not payable in respect of the operating cost benefit in certain cases where the legislation denies a recovery of GST/HST by the employer on the purchase/lease price, for example, due to exclusive personal use by an employee. Similar rules to the above apply for QST purposes, with rates specific to the QST. The employer is deemed to have collected QST equal to 6% on the value of the benefit reported for income tax purposes and on any reimbursements.

6.2. Company vehicle in personal tax returns – benefit in kind

When an automobile is provided to an employee or a person related to the employee, the employee usually will be considered to have received two benefits:

- Standby charge benefit (which applies when the employee has access to the vehicle for personal use)
- Operating cost benefit (which applies when the employer pays operating costs that relate to personal use)

The employer is required to compute both, and to report the aggregate to the employee and to the income tax authorities. In most cases, the employer must also remit GST/HST in respect of these.

6.2.1. Standby charge benefit

The standby charge must be computed whenever an automobile is made available for an employee’s personal use by virtue of his or her employment. It also must be computed whenever an automobile is made available, by virtue of the employee’s employment, for the personal use of a person related to an employee.

In general, when an employee has access to an employer-provided automobile for a full calendar year, the standby charge is computed as follows:

Company-owned automobile	Company-leased automobile
24% x original cost (Incl. GST/HST & PST)	2/3 x annual lease cost (Incl. GST/HST & PST)

The computation is more complicated if the employee

- does not have access to the vehicle for the full calendar year,
- can reduce the standby charge because of low personal use of the vehicle,
- reimburses the employer for use of the vehicle, or

- is an automobile sales person (for example, for the standby charge, a rate of 18% applies for company owned vehicles).

Similarly, the computation is more complicated if for leased vehicles, the employer makes a lump sum payment at the beginning or at the end of the lease term.

No personal use

The Canada Revenue Agency (CRA) provides relief to employees who do not actually use the automobile for personal driving. In this situation a standby charge will not arise, even if the vehicle was available to the employee for the entire year. This applies as long as the employer requires the employee to use the automobile in the course of employment.

The standby charge can be reduced if:

- the employer requires the employee to use the vehicle to carry out employment duties,
- the vehicle is driven “primarily” (generally, more than 50%) for business purposes (based on distance driven) and
- personal-use kilometres average less than 1,667 per month.

When the above criteria are met, the reduction factor is:

Personal kilometres/1,667
Number of months in the year the vehicle was available (number of days available divided by 30 and rounded to the nearest whole number)
To address the business lockdowns, reduced business activity, and other changes caused by the Covid-19 pandemic, the government has proposed to allow employees to use their 2019 automobile usage to determine whether they would be eligible for the reduced standby charge for 2020 and 2021. As such, employees who were eligible for the reduced standby charge in 2019 would be eligible to apply the reduced standby charge on their 2020 and 2021 personal kilometres.

6.2.2. Operating cost benefit

An operating cost benefit is included in the employee’s income when the employer pays operating costs that relate to personal use of an employer-provided automobile. The calculation of the operating cost benefit is illustrated below.

Operating cost benefit: Basic calculation
Personal kilometres driven in the year
x Prescribed amount (\$0.27 CAD for 2021)
= Operating cost benefit before reimbursements
– Reimbursements to employer (by February 15th of the following year)
= Operating cost benefit

The prescribed amount noted above for an auto salesperson is \$0.24 CAD for 2021.

An operating cost benefit will not arise if the employee reimburses the employer within 45 days after the end of the year for 100% of the personal-use portion of actual operating costs.

6.2.3. Business kilometres

As a general rule, for allowances paid in 2021, the CRA will accept as reasonable an allowance calculated in accordance with the following prescribed rates:

Distance driven	Reasonable allowance for 2021		
First 5,000km	\$0.59 CAD		+ \$0.04 CAD for each km driven in the Yukon, NWT or Nunavut
Each additional km	\$0.53 CAD		

7. Income taxes – drivers’ personal taxation

Please refer to section 4.2.

8. Selling vehicles

8.1. Taxable persons

In general, the sale of a passenger vehicle is subject to GST/HST (and QST in Quebec). A GST/HST registrant seller is required to collect GST/HST from an arm’s length purchaser on the selling price of the vehicle. In case of a retail sale, QST in Quebec is payable by the purchaser at vehicle registration. In practice, vehicle dealers usually take care of the registration and pay the QST on behalf of the purchaser and seek reimbursement of the QST paid from the purchaser.

A PST-registered motor vehicle dealer is generally required to collect PST from the purchaser on the selling price of the vehicle. In other cases – e.g., private sale (not by a registered dealer) – PST is payable by the purchaser at vehicle registration. In Manitoba, PST is payable on the greater of the selling price of the particular passenger vehicle or the average wholesale price of a comparable passenger vehicle.

If a person purchases a passenger vehicle from a GST registrant (e.g., a motor vehicle dealer) in British Columbia, in addition to the GST, the person is required to pay PST at the rate of 7% to 20% on the purchase price of the vehicle, as follows:

Purchase Price:

- Less than \$55,000 @ 7%
- \$55,000 – \$55,999.99 @ 8%
- \$56,000 – \$56,999.99 @ 9%
- \$57,000 – 124,999.99@ 10%
- \$125,000 – 149,999.99 @ 15%
- \$150,000 and over @ 20%

If a person purchases a vehicle that is not a passenger vehicle from a GST registrant in British Columbia, the person is required to pay PST, in addition to the GST, at the rate of 7% on the purchase price of the vehicle.

PST at the above rates is also payable on the depreciated value of a vehicle, if the vehicle is acquired at a sale that is a taxable supply from a GST registrant (e.g., motor vehicle dealer) outside British Columbia but within Canada, or a passenger vehicle is brought into British Columbia from outside Canada. The applicable rates are determined based on the original purchase price of the passenger vehicle.

For example, if a person purchased a passenger vehicle from a GST registrant in Alberta, Canada for \$60,000 CAD, and, at the time the person brought the vehicle into British Columbia, the depreciated

purchase price of the vehicle was \$40,000 CAD, the person is required to pay 10% PST on \$40,000 CAD.

GST/HST or QST is not chargeable by GST/HST or QST registrant individuals or partnerships, respectively, on the sale of passenger vehicles that are capital property and that were not used exclusively in the commercial activities of the registrants.

When the vehicle is exported from Canada (or Quebec) upon its sale, the supply may be zero-rated for GST/HST (or QST) provided certain conditions are met and the appropriate documentation is maintained for audit purposes. When the vehicle is sold and delivered by a PST-registered vendor to a purchaser outside the province of purchase, the sale is exempt from PST in the province of purchase.

Under certain circumstances, passenger vehicles sold to native Indians or Indian bands may not be subject to GST/HST, QST or PST.

As described in section 6.2, the seller is entitled to claim the previously disallowed ITC paid on the excess purchase price or lease cost when the passenger vehicle that was last used as capital property in its commercial activities is sold, with the exception of ITCs in respect of the reduction in value of the vehicle since its purchase; an adjustment to the recaptured input tax credits (RITC) previously reported may also be available. The same applies for QST purposes.

8.2. Private individuals

In principle, persons that are not registrants for GST/HST or QST, or not vendors for PST purposes – such as private individuals – do not need to charge GST/HST, QST or PST, respectively, on the sale of a passenger vehicle.

In order to level the playing-field between dealers and private persons in HST provinces, PST or other provincial tax at a rate that equals the applicable HST rate in the relevant province is payable by the purchaser on the purchase of a passenger vehicle from a private person not registered for GST/HST. The PST or other provincial tax is generally payable when the change in ownership is registered at the provincial licensing office.

In PST provinces, PST is collected from the purchaser by the provincial licensing office at vehicle registration.

The purchaser of a used passenger vehicle on which Saskatchewan PST has been paid in full in the past and which was used personally by the individual who is selling the vehicle is exempt from paying the PST if the purchase price of the vehicle was \$5,000 CAD or less. However, PST will apply in full if the purchase price is more than \$5,000 CAD. If a person purchases a passenger vehicle at a private sale or receives a passenger vehicle as a taxable gift in British Columbia, the person is required to pay PST at the rate of 12%, 15% or 20% on the purchase price of the vehicle, unless a specific exemption applies. The applicable rate is based on the purchase price as follows:

Less than \$124,999.99 - 12%

\$125,000.00 to \$149,999.99 - 15%

\$150,000.00 and over - 20%

If a person purchases a vehicle that is not a passenger vehicle at a private sale or receives it as a taxable gift in British Columbia, the person is required to pay PST at the rate of 12% on the purchase price of the vehicle.

If a person resident in British Columbia purchases a vehicle outside of British Columbia and then brings, sends or receives delivery of the vehicle in British Columbia, the person is required to pay PST on the vehicle, unless a specific exemption applies i.e., personal effects exemption, etc..

If the vehicle was acquired at a private sale outside British Columbia but within Canada, the person is required to pay PST at the rate of 12%, 15% or 20% on the depreciated purchase price of the vehicle as described above.

9. Zero-Emission Vehicles

Finance Canada introduced classes of zero-emission vehicles in 2019; Class 54 (Motor vehicles and passenger vehicles excluding taxicabs and automobiles used for lease and rent) and Class 55 (Automobiles for lease or rent and taxicabs). The capital cost allowance rates for these zero-emission vehicles under Class 54 and 55 purchased after March 18, 2019 and before January 31, 2028 are 30% and 40%, respectively, but a higher deduction (up to 100%) may apply for certain vehicles. The capital cost allowance for these vehicles will be deductible up to a limit of \$55,000 CAD for both income tax and ITC purposes, where normal passenger vehicles are only deductible up to \$30,000 CAD. For vehicles to qualify for this incentive, it must meet all of the following criteria:

- You acquired the zero-emission vehicle after March 18, 2019
- An assistance has not been paid by the Government of Canada under the federal purchase incentive
- The vehicle has not been used, or acquired for use, for any purpose before you acquired it
- The vehicle is a motor vehicle designed or adapted for use on streets and highways (excluding a trolley bus or a vehicle designed or adapted to be operated only on rails)
- Is a plug-in hybrid with battery capacity of at least 7kWh or is fully:
 - electric; or
 - powered by hydrogen.

However, the enhanced first year CCA will be phased out starting in 2024 based on the schedule below:

- 100% after March 18, 2019 and before 2024
- 75% after 2023 and before 2026
- 55% after 2025 and before 2028

The enhanced first year allowance will be calculated by:

Increasing the net capital cost in addition to the new class for property that becomes available for use before 2028, applying the prescribed CCA rate for the class as described below, and suspending the existing CCA half year rule.

For Class 54, applying the prescribed CCA rate of 30% to:

- $2 \frac{1}{3}$ times the net addition to the class for property that becomes available for use before 2024
- $1 \frac{1}{2}$ times the net addition to the class for property that becomes available for use in 2024 or 2025
- $\frac{5}{6}$ times the net addition to the class for property that becomes available for use after 2025 and before 2028

For Class 55, applying the prescribed CCA rate of 40% to:

- $1 \frac{1}{2}$ times the net addition to the class for property that becomes available for use before 2024
- $\frac{7}{8}$ times the net addition to the class for property that becomes available for use in 2024 or 2025
- $\frac{3}{8}$ times the net addition to the class for property that becomes available for use after 2025 and before 2028; and

The CCA will be applicable on any remaining balance in the new classes using the specific rate for the new class.

10. Future developments

As part of the 2021 Federal Budget which was delivered in April 2021, the Government of Canada announced its intention to introduce a new tax on select luxury goods (referred to as the “Luxury Tax”) including new passports, effective as of January 1, 2022. The budget proposal would introduce a tax on the deliveries in Canada by way of sale or similar arrangement, as well as importations into Canada, of a new car⁹ priced at over \$100,000.

With respect to new cars, the Luxury tax is intended to be applied in 1 of 2 ways. First, the Luxury Tax would apply to deliveries in Canada if the total price, which would include charges and fees, but exclude the applicable GST/HST or PST, of the new cars at the retail level exceeds the \$100,000 threshold. Second, the Luxury Tax would apply to imported new cars if the value of the new cars, as determined for the purposes of calculating the GST/HST on imported goods, at the time of import exceeds the \$100,000 threshold. It is proposed that Luxury Tax will be calculated at the lesser of 20% of the value above the \$100,000 threshold, or 10% of the full value of the luxury car.

In general, the Luxury Tax is intended to apply only if the new car is delivered in Canada to, or imported into Canada by, a person such as a consumer that acquires/imports it for their personal use.

The Government of Canada issued a consultation request in August 2021 which closed on September 30th. The outcome of this consultation is yet to be known.

We are not aware of any other developments for 2021.

11. Legal background

- Excise Tax Act, Act Respecting the Quebec Sales Tax, various PST legislations
- Customs Act, Customs Tariff
- Income Tax Act

⁹ Also applies to new aircraft priced over \$100,000 and new boats priced over \$250,000.



Alan Yam

China Automotive Tax Leader

p: +86 21 2323 2518

e: alan.yam@cn.pwc.com

Rex Chan

p: +86 10 6533 2022

e: rex.c.chan@cn.pwc.com

People's Republic of China (PRC)

1. Importation of cars

1.1. Customs duties

The import customs duties (CD) should be levied on the vehicles imported to China.

The Chinese purchaser (importer for records) should pay CD upon importation.

The CD rate varies depending on different categories of cars imported.

The Tariff Committee of the State Council issued a Public Notice to reduce the import duty rates on motor vehicles to 15% (from 25% for 135 items and 20% for 4 items) and reduce and unify the import duty rates on 79 items of auto parts of car to 6% (from 8%, 10%, 15%, 20% and 25%) effective from July 1, 2018.

On June 15, 2018, the US government released the list of goods imported from China into the US that are subject to an additional 25% duty upon importation into the United States. The Chinese government considered such an action is in violation to the principles of the World Trade Organization and the Tariff Committee of the State Council issued a Public Notice to impose additional duty of 25% on 659 import goods impacting approximately US\$ 50 Billion originated in the US, which includes additional duty on 545 import goods such as agricultural products, automobiles and water effective from 6 July 2018.

On July 11, 2018, the US government announced to impose an additional duty of 25% instead of 10% on the certain list of goods. In response, the Tariff Committee of the State Council issued a Public Notice to impose additional duty on 5207 import goods worth approximately US \$ 60 billion originated in the US, which include additional duty of 25% on 2493 imports goods, additional duty of 20% on 1078 import goods, additional duty of 10% on 974 import goods, and additional duty of 5% on 662 import goods. Calculation method of additional tariff on import goods is also provided in this Public Notice.

Under the Public notice of State Council Tariff Committee No. 7, the State Council Tariff Committee adjusted the <List of US-Originated Goods Subject to Additional Import Duty> and the adjusted list became effective since 12:01 am, August 23, 2018

On September 18, 2018, the Tariff Committee of the State Council issued a Public Notice to impose additional import customs duty on certain import goods worth approximately US\$ 60 billion from the US. The Public Notice is to impose an additional duty of 10% on 2,493 import goods and 1,078 import goods in two lists announced respectively, and an additional duty of 5% on 974 import goods and 662 import goods in other lists respectively. The additional duty became effective at 12:01 pm, September 24, 2018.

In September the State Council Tariff Committee issued a Public Notice to adjust the most-preferential-state tariff rate for 1585 import goods and cancel the most-preferential-state tariff rate for 39 import goods from November 2018.

To implement the consensus made between the presidents of China and US at the G20 summit held at Buenos Aires of Argentina, the Tariff Committee of the State Council issued a public Notice to suspend the additional duty on US-originated automobiles and components for a period of three months (i.e., from 1 January 2019 to 31 March 2019), which involves 211 items of goods (including certain automobiles and components

In December 2018, the Tariff Committee of the State Council issued a Tariff Scheme to adjust the import and export CD rates for certain goods in China, e.g., the most-preferential-state tariff rate, tariff

quota rate, and treaty rate, etc. This Tariff Scheme took effect from 1 January 2019. The updated CD cate applicable to certain automobiles and components shall be checked according to the HS code.

The State Council Tariff Committee issued the Tariff Schedule of the People's Republic of China for Imports and Exports (2019) which took effect on 1 January 2019. The Tariff Schedule adjusted the import and export taxable items, tax rates.

On March 31, 2019, the State council further issued a Public Notice to suspend the additional import duty on US-originated automobiles and components.

On 10 May 2019, the US government announced to impose an additional duty of 25% instead of 10% on certain goods imported from China into the US. In response, the Tariff Committee of the State Council issued a Public Notice to impose additional duty on 5207 import goods worth approximately US \$ 60 billion originated in the US, which include additional duty of 25% on 2493 imports goods, additional duty of 20% on 1078 import goods, additional duty of 10% on 974 import goods and additional duty of 5% on 595 import goods. This Notice took effect from 1 June 2019.

1.2. Import value-added tax (VAT)

Entities that are engaged in sale of goods, provision of processing, repair or replacement services within the PRC, or importation of goods are subject to VAT. For imported goods, such as vehicles, import VAT is collected by the customs authorities. Generally, the import VAT should be calculated as follows:

Import VAT = (CIF value + CD + Consumption Tax) x applicable VAT rate

1.3. Import consumption tax

1.3.1. Taxable event

Consumption tax (CT) is levied for manufacturing, importing or subcontracting the processing of specified goods. For import of vehicles, CT is generally applied.

1.3.2. Taxable person

In principle, the taxable person is the seller who produces or processes the car or the importer who imports the car.

1.3.3. Tax due

According to Caishui [2016] No.129, a subcategory of "super-luxury small motor cars" shall be introduced under the category of "small motor cars". This sub-category is "passenger vehicle" and "medium and light commercial buses" with a sales price of RMB 1.3 million or more (VAT exclusive). A CT of 10% shall be charged at the retail stage in addition to the CT charged at the production (import) stage.

Taxable Items	Tax Rate
<i>Passenger vehicle</i>	
Cylinder capacity (displacement, the same below) lower than 1.0L (including 1.0L)	1%
Cylinder capacity of 1.0–1.5L (including 1.5L)	3%
Cylinder capacity of 1.5–2.0L (including 2.0L)	5%
Cylinder capacity of 2.0–2.5L (including 2.5L)	9%
Cylinder capacity of 2.5–3.0L (including 3.0L)	12%
Cylinder capacity of 3.0–4.0L (including 4.0L)	25%
Cylinder capacity higher than 4.0L	40%
<i>Medium and light commercial buses</i>	5%
<i>Super-luxury small motor cars</i>	<i>The tax rate according to cylinder</i>

1.3.4. Tax period

Where taxable cars are imported by a taxpayer, CT on imported cars shall be paid at the time of importation.

2. Car registration

2.1. When does a car need to be registered?

When the car is to be used on the public road, it should be registered first.

2.2. Who can register a car?

A car needs to be registered in the name of the owner of the car, either under the name of the individual or a company.

2.3. Is a foreign owner allowed to register a vehicle in the country?

Yes. A foreign owner needs to provide the sales invoice for the vehicle, his residence permit, insurance information and so on to register his vehicle with the local authorities.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Generally, it is not possible to use a vehicle with foreign number plates on public roads. However, for special cases and with special permissions from the relevant authorities, it may be possible.

3. Car taxation

3.1. What are the different car taxes?

Generally, the following major taxes should be applied for the car:

- Vehicle purchasing tax
- Vehicle and vessel use tax

3.2. Vehicle purchasing tax (VPT)

3.2.1. Taxable event

A taxpayer who purchases a taxable vehicle shall report and pay tax at the local tax authorities where the vehicle is registered.

3.2.2. Taxable person

The unit or the individual who purchases a taxable vehicle should be the taxpayer.

3.2.3. Tax due

The vehicle purchase tax is levied on vehicles sold to end customers on the basis of purchasing price (excluding VAT) at 10%. For imported vehicles for self-use, the tax basis is the price including the purchasing price, import CD and CT (excluding import VAT).

The VPT Law, which took effect from July 1, 2019, sets forth a set of comprehensive regulation on the collection and administration of VPT in China, including: scope of taxpayers, definition of key terms, calculation of tax payable, determination of taxable price, preferential treatment, collection and administrative matters, VPT refund process and as well as legal responsibility, etc. Meanwhile, the prevailing “Provisional Regulations on the VPT” was abolished at the same time. In order to ensure the effective implementation of the VPT Law, the MOF and STA issued a public notice to clarify the implementations under the VPT law.

Comparing to the Provisional Regulation on the VPT, the major update in the VPT law is as follow:

- For the tax basis, the description of additional charges apart from the price has been deleted under the VPT law;
- Under the provision regulation, the tax basis of VPT for the vehicle, achieved through self-production, gift, awards, etc., shall be the minimum taxable value. Under VPT law, the taxable basis for self-produced vehicles shall be the sales price of the same category of vehicle, excluding VAT. The tax basis for the vehicle achieved through gift, awards or other sources shall be determined according to the relevant supporting documents for the purchase of this vehicle, excluding VAT;
- National comprehensive fire control and rescue vehicles with special plates for emergency rescue could be exempted from VPT under the VPT law. This is not contained in the provision regulation;
- Under the provisional regulation, the VPT shall be settled one-off. This requirement has been deleted from VPT law;

According to Announcement of the Ministry of Finance, the State Administration of Taxation, the Ministry of Industry and Information Technology and the Ministry of Science and Technology [2017] No. 172, from January 1, 2018 to December 31, 2020, the qualified new energy automobiles purchased shall be exempt from vehicle purchase tax. Administration of new energy automobiles exempt from the vehicle purchase tax shall be implemented in accordance with the Catalogue of Models of New Energy Automobiles Exempt from Vehicle Purchase Tax (hereinafter referred to as the "Catalogue"). For new energy automobiles included in the Catalogue before December 31, 2017, the policy of exempting them from vehicle purchase tax shall remain effective.

According to Public Notice [2020] No. 21 issued by STA, the exemption for new energy automobiles shall remain effective as of 31 December 2022.

According to Public Notice [2019] No. 26 issued by STA clarifies the procedures, timeline and place for filing of VPT, determination on the assessable price, refund policies, simplified documentation requirements as well as other transitional arrangements as well as e-profile of vehicles, etc.

3.2.4. Tax period

The vehicle purchasing tax shall be a one-off imposition on vehicles. Acquisition of a motor vehicle on which vehicle purchasing tax has previously been paid shall not be subject to vehicle purchasing tax.

3.3. Vehicle and vessel use tax

3.3.1. Taxable event

In principle, this is due by the person who has registered the vehicle under his name or actually manages the vehicle.

3.3.2. Taxable person

The owners or manager of the vehicles and vessels within the territory of the People's Republic of China are the vehicle and vessel taxpayer and shall pay vehicle and vessel tax.

3.3.3. Tax due

Tax item	Calculation unit	Year base tax amount	Remarks
Passenger cars (bracketed based on engine cylinder capacity (displacement))			
Under 1.0L (included)	per set	60–360 RMB	Permitted number of passengers under 9 (included)
1.0–1.6L (included)		300–540 RMB	
1.6–2.0L (included)		360–660 RMB	

Tax item	Calculation unit	Year base tax amount	Remarks
2.0–2.5L (included)		660–1200 RMB	
2.5–3.0L (included)		1200–2400 RMB	
3.0–4.0L (included)		2400–3600 RMB	
Over 4.0L		3600–5400 RMB	
Commercial vehicles			
Passenger cars	Per set	480–1440 RMB	Permitted number of passengers over 9, including trolley buses
Cargo cars	Per ton (curb weight)	16–120 RMB	Including semi trailer tractors, three-wheeled cars and low-speed cargo cars, etc
Trailers	Per ton (curb weight)	As 50% of tax amount on cargo cars	
Other vehicles			
Special operation vehicles	Per ton (curb weight)	16–120 RMB	Excluding tractors
Wheeled special machinery vehicles		16–120 RMB	

According to Caishui [2018] No. 74, the vehicle and vessel tax shall be reduced by half on qualified energy-saving vehicles. The vehicle and vessel tax on new energy vehicles and vessels may be exempted. The vehicle and vessel tax on new energy vehicles and vessels may be exempted. New energy vehicles on which vehicle and vessel tax may be exempted refer to the pure electric commercial vehicles, plug-in (including extended-range) hybrid vehicles, or fuel battery commercial vehicles. Pure electric passenger vehicles and fuel battery passenger vehicles, which are not within the collection scope of vehicle and vessel tax, shall be exempted from vehicle and vessel tax.

3.3.4. Tax period

Obligations for vehicle and vessel use tax payment arise in the month when the ownership or management right of the vehicles and vessels is obtained. Vehicle and vessel use tax returns and tax payments shall be made on an annual basis.

4. Income taxes – taxable persons

According to the PRC's corporate income tax (CIT) regime, when calculating the taxable income, a company is allowed to deduct reasonable related expenses that have actually been incurred and are related to the generation of income, including costs, expenses, taxes, losses and other expenditures. There is no special rule on the deduction of car-related expenses.

From an individual income tax (IIT) perspective, there is no concept regarding the deduction of car-related expenses in China. Expatriate employees might be able to get exemptions from taxable income for IIT purposes for certain benefits-in-kind including automobiles offered from the employer.

5. VAT

5.1. General

The applicable tax rate for general VAT taxpayers and the small-scale taxpayers are generally 13% and 3% respectively. Other VAT rates of 9%, 6% and 5% also apply on specific items.

5.2. Deduction

The amount of VAT paid or borne by a taxpayer at the time purchasing goods or receiving taxable labor services shall be the amount of input VAT.

The following amounts of input VAT generated from purchase or importation could be creditable against the output VAT on sale provided that proper invoices could be obtained:

- VAT indicated on the special VAT invoices obtained from the seller.
- VAT indicated on import VAT memos obtained from the customs authorities. Input VAT = sales considerations x applicable VAT rate

Taxpayers could apply for the incremental excess input VAT refund from April 1, 2019 under certain conditions.

5.3. Hire-purchase: Supply of goods?

If sales sum is collected by instalments, the date on which payment is receivable as agreed upon in the contract should be the date for obligation of VAT. If there is no contract or there is no date specified in the contract, the date on which the goods are shipped should be the date for obligation of VAT.

5.4. Leasing: Supply of services?

A VAT pilot program was launched in China starting from January 1, 2012 in Shanghai for some selected industries subject to business tax previously, the VAT pilot program was nationally implemented since August 1, 2013 and BT has been replaced by VAT since May 1, 2016. After the VAT reform, the lease of tangible movable properties including the supply of operational and financing leasing services should fall into China's VAT and the applicable tax rate is 13%, while financing sale-leaseback, categorized as financial service, would be applicable to 6% VAT.

6. Company car

IIT exemption might be available for expatriate employees

7. Income taxes – driver's personal taxation

N/A

8. Selling a car

The sales of goods (including cars) should be subject to VAT. Export goods attract a zero rate of VAT. The VAT implication for exportation for manufacturing companies and trading companies are different.

8.1. For manufacturing enterprises: exemption-credit- refund (ECR) method

Under the ECR method, export sales are exempted from VAT, relevant input VAT will be credited against output VAT on domestic sales and remaining input VAT would be refundable.

According to Circular [2012]24 and Circular [2012]39, under the ECR method, relevant VAT liability and refundable amount should be calculated according to the following formulae:

VAT payable for the current month = Output VAT on domestic sales - (input VAT - NCNR tax) - uncredited input VAT brought forward (if any)

The above NCNR refers to non-creditable and non-refundable input VAT, which shall be absorbed as the cost of the goods. It should be calculated as follows:

$NCNR = (\text{FOB of export sales} - \text{value of tax-free raw materials}) \times (\text{normal VAT rate} - \text{export VAT refund rate})$

However, if all of the raw materials and products are sourced from China, there would not be a “value of tax-free raw materials”.

Refundable VAT amount for the current month is the amount of the period-end uncredited VAT, (i.e., negative VAT payable) and ECR amount, whichever is lower.

Whereas, $\text{ECR amount} = (\text{FOB of export sales} - \text{value of tax-free raw materials}) \times \text{export VAT refund rate}$

Note:

Public Notice No. 28 specifies that upon the enactment of the Urban Maintenance and Construction Tax (“UMCT”) Law, the exempt-credit VAT shall be subject to UMCT, by stipulating that VAT and CT actually paid by taxpayers, refer to the VAT and CT payable calculated in accordance with relevant laws, regulations and tax policies, adding the exempt-credit VAT, deducting directly reduced/exempted amounts of the two taxes and the refund amount of end-of-period excess input VAT.

8.2. For trading companies: exemption and refund method

Under the exemption and refund method, export sales are exempted from VAT. The input VAT paid for purchasing of exported goods will be refunded or partially refunded.

$\text{VAT refund for export} = \text{Purchase price of exported goods} \times \text{export VAT refund rate}$

The leakage is referred to as the non-creditable and non-refundable input VAT, which shall be absorbed as the cost of the goods. It is calculated as follow:

$\text{VAT leakage} = \text{purchase price of exported goods} \times (\text{VAT rate} - \text{export VAT refund rate})$

It is obvious that for both manufacturing companies and trading companies and for the exporter, the decrease of the export VAT refund rate would result in an increase in the VAT leakage (i.e., NCNR), which shall be absorbed as the cost of the goods.

9. Future developments

Within the 14th Five Year Plan, there might be further changes on tax regulations governing the automotive industry. It is suggested to keep a close eye on the announcement of STA, MOF and other related governmental authorities.

10. Legal background

- PRC value-added tax regulations
- PRC business tax regulations
- PRC consumption tax regulations
- PRC vehicle purchasing tax regulations
- PRC vehicle and vessel tax regulations
- PRC corporate income tax regulations
- PRC individual income tax regulations

Czech Republic



Jan Fischer

Automotive Tax Leader

p: +420 251 152 539

e: jan.fischer@cz.pwc.com

Ales Reho

Tax Manager

p: +420 251 152 650

e: ales.reho@cz.pwc.com

Czech Republic

1. Car registration

1.1. When does a car need to be registered?

The moment a new or second-hand vehicle is put into operation on Czech public roads, the obligation to register such a car arises. The registration should be applied for via a form (issued for this purpose) from the authorised municipal office.

At the moment of its registration, the car must have an approval of technical ability (a certificate of roadworthiness) and be insured to cover damage caused to other vehicles. If the car is acquired from another EU member state and qualifies as a new means of transport, proof that Czech VAT on acquisition has been paid must be provided.

1.2. Who can register a car?

A vehicle needs to be registered in the name of the owner or in the name of the operator of the vehicle (if the operator differs from the owner). The person registering the vehicle should be an individual whose permanent address (or residence permit address) is in the Czech Republic or a legal person with its registered seat in the Czech Republic that is allowed to use the vehicle.

However, if the duration of stay of the physical person (Czech non-resident) owning/operating a vehicle in the Czech Republic does not exceed 185 days within the relevant calendar year, there is no obligation to register the vehicle in the Czech Republic.

If the owner or operator of a vehicle in whose name the registration was made changes, an obligation to notify the municipal office arises within ten days of the day the owner/operator changed.

1.3. Is a foreign owner allowed to register a vehicle in the country?

A foreign owner (physical person) is allowed to register his vehicle on the condition that he has a permanent address (or residence permit address) in the Czech Republic. The legal person is obliged to register a vehicle if he has a seat in the Czech Republic or if the vehicle is operated by a Czech resident (i.e. by an individual with a permanent address in the Czech Republic or staying in the Czech Republic for over 185 days within the calendar year, or a legal person with its registered seat in the Czech Republic).

1.4. Can a vehicle with a foreign number plate be used on public roads?

If a vehicle is operated by a Czech physical person (non-resident) for less than 185 days, it can be used on Czech public roads with foreign number plates. If a vehicle is operated by a legal person not having its seat in the Czech Republic, it can be used on Czech public roads with foreign number plates (unless it fulfils any of the conditions set in 1.2 and 1.3 above)

1.5. Registration fee

In case of registration fee, the following administrative fee is required:

Administrative fee	Fee
Motor vehicle with at least 4 wheels	800 CZK
Trailer with weight maximum 750 kg	500 CZK
Trailer with weight over 750 kg	700 CZK

When a vehicle is registered for the first time in the Czech Republic, the registration fee due is as follows.

Emission limit	Fee
Euro 3 and above	0 CZK
Euro 2	3,000 CZK
Euro 1	5,000 CZK
No limit	10,000 CZK

2. Car taxation

2.1. What are the different car taxes?

There is only one car tax, called the road tax (which is applied to vehicles used for business purposes), in the Czech Republic.

2.2. Road tax (applied to vehicles used for business purposes)

2.2.1. Taxable event

Cars and trailers registered and operated in the Czech Republic, if used by a payer of corporate income tax with taxable income or a payer of personal income tax who uses the car for his taxable business activity, are subject to tax. Lorries and cargo trailers with a maximum permitted weight of over 3.5t registered in the Czech Republic are subject to tax regardless of whether they are used for business purposes. There are several exemptions from the road tax, e.g. for vehicles used by diplomats (based on a reciprocity principle), public traffic vehicles, first-aid vehicles, electric-driven, hybrid vehicles, vehicles using as a fuel E85 (a mixture of 85% ethanol and 15% gasoline), LPG (Liquefied Petroleum Gas) or CNG (Compressed Natural Gas). Further conditions for exemption apply.

2.2.2. Taxable person

A taxable person is

- the operator of the car stated in the car documentation;
- an employer paying an allowance to an employee for his using of his private car for business purposes (if the tax liability did not arise for the operator of the vehicle);
- a branch of a foreign entity or a permanent establishment that has been established for corporate tax purposes.

2.3. Tax due

The road tax liability arises starting from the month the above-mentioned conditions are fulfilled.

The taxable period is a calendar year, and a road tax return has to be filed by January 31 of the following calendar year. A taxpayer is obliged to pay tax advances on a quarterly basis by April 15, July 15, October 15 and December 15.

For passenger cars, the tax is dictated by the engine's cylinder capacity.

Engine's cylinder capacity (cc)	Annual amount of road tax*
< 800	1,200 CZK
800–1,250	1,800 CZK
1,250–1,500	2,400 CZK
1,500–2,000	3,000 CZK
2,000–3,000	3,600 CZK
> 3,000	4,200 CZK

For other cars and trailers, the tax is dictated by the maximum permitted weight, the number of axles or the maximum permitted weight on axles and varies from 1,800 CZK to 37,800CZK.

2.4. Tax reductions

The tax is reduced by

- 48% during the first 36 months following the first registration of the car,
- 40% during the following 36 months and
- 25% during the following 36 months.

Lorries and trailers qualify for an additional reduction scheme.

For cars imported from abroad, a taxpayer can declare an entitlement to a tax reduction by producing a certificate or other document confirming the first registration of the car. This document should be issued either by a foreign registration authority or, if all required information is at hand, by a Czech registration authority.

An employer using its employee's private passenger car for business purposes can use a special scheme if it is more beneficial than the above rates. Under this scheme, the tax is 25 CZK for every day the car is used within the Czech Republic.

3. Income taxes

3.1. Depreciation

The purchase price of a vehicle used for business purposes can be depreciated for tax purposes by its legal owner.

The depreciation period for most vehicles is five years (second depreciation group). Either a straight-line or accelerated depreciation method can be used. In this respect, the following depreciation rates/coefficients must be applied:

Depreciation	First-year depreciation	Depreciation rate/coefficient	Depreciation rate/coefficient for increased input price
Straight-line depreciation	11	22.25	20
Accelerated depreciation	5	6	5

The tax depreciation may be claimed in the full amount even if the entrepreneur or his employees use the vehicle partly for private purposes.

Due to the COVID 19 pandemic, extraordinary tax depreciation regime has been introduced for tangible fixed assets belonging to the first and second tax depreciation groups (vehicles are in the second depreciation group) and acquired in the period from January 1, 2020 to December 31, 2021 (retroactively optional from 2020). In this regard, vehicles as tangible assets in the second tax depreciation category (which is the case at hand) may be depreciated up to 60% over a period of the first 12 months and 40% over the next 12 months, on a straight-line basis. In respect of this extraordinary tax depreciation regime, the depreciation charges are set for months, not for years and application of the extraordinary tax depreciation regime is voluntary.

Costs related to the reconstruction or modernization of a vehicle exceeding CZK 80,000 within one tax period which qualify as a technical appreciation (improvement) should be capitalized into the input value of the car and depreciated together with the car for tax purposes.

3.2. Operational lease

The lessor, being the owner of the vehicle, can depreciate it for tax purposes (straight-line or accelerated depreciation).

The rent generally represents a tax-deductible cost for the lessee. Specific conditions must be met if the lessee buys the vehicle after the end of the operational lease (i.e., the conditions for financial lease were not met).

In case there is a purchase of the vehicle during or after the term of the contract by the lessee - for the paid lease instalments to remain a tax-deductible cost, the purchase price of the car must not be lower than the tax net book value of the car calculated using the straight-line depreciation method. In case this condition is not met, all the lease instalments which were paid in the past become tax non-deductible in the current period when the purchase took place. The purchase price of the vehicle might be increased by the lessee/purchaser by these amounts (i.e., they will be tax deductible expense in the form of tax depreciation).

3.3. Financial lease

In respect of a financial lease with subsequent purchase of the leased vehicle or with the right of the lessee to purchase the vehicle, lease payments should be recognised as tax-deductible expenses by the lessee on condition that:

- the term of the lease is at least a minimum tax depreciation period reduced by 6 months (i.e., 54 months for most vehicles), however, in case of vehicles which leasing starts in the period from January 1, 2020 to December 31, 2021 the minimum lease term is reduced to 24 months;
- on termination of the lease, ownership of the vehicle is immediately transferred from the lessor to the lessee and the purchase price of the vehicle does not exceed the tax net book value that such vehicle would have had if depreciated by the straight-line method of depreciation as at the day of such purchase (if, as at the day of purchase, a leased vehicle has accumulated depreciation equal to 100% of the input price, this condition shall not apply);
- on termination of the financial lease, the lessee includes the subsequently purchased vehicle in his business assets (i.e. records it in accounts);
- during the term of the contract the rights to use the vehicle, duties of care and risks associated with the use of the vehicle are transferred to the lessee.

The lessor, being the owner of the vehicle, can depreciate the vehicle in a standard way (straight-line, accelerated or extraordinary tax depreciation method).

3.4. Hire purchase

Czech income tax law does not prescribe a specific treatment for this type of sale. Therefore, the income tax treatment of hire purchase will be determined to a large extent by the legal treatment – in particular, the transfer of title of the vehicle. If the title passes at the beginning (effectively a purchase loan), the tax treatment will be the same as for a standard purchase. The debtor may depreciate the car for tax purposes. The creditor will generate taxable income.

If the title passes after payment of the last instalment, the hire purchase will likely be treated in the same way as a financial lease.

If ownership of a car is transferred from the debtor to the creditor in order to secure the related debt, the debtor can depreciate the vehicle based on a contract to borrow for the period for which the debt will be secured through the transfer of ownership.

4. VAT

4.1. General

Generally, the standard rate of 21% VAT applies to all car-related transactions that are deemed for VAT purposes to take place in the Czech Republic.

4.2. Deduction

Under general conditions a VAT payer is entitled to claim full VAT deduction on the acquisition or technical improvement of all types of cars if the VAT payer is using a car solely for business purposes. It is also possible to claim full VAT deduction on the lease of a vehicle. However, an input VAT claim is possible only if the VAT payer holds a valid tax document in the respective period.

If a car (purchased or leased by way of a financial lease) is being used for both business and private purposes by an entrepreneur or by his employee, the entrepreneur is entitled to claim a VAT deduction only to the extent to which the vehicle is used for business purposes. This is done via an estimated coefficient. If, however, the actual use differs by more than ten percentage points from the estimated coefficient, the taxpayer may correct the claim (if the actual claim was higher than the estimate) and must correct it (if the actual claim was lower than the estimate). Also, there is a mechanism for correcting the claim in subsequent years (in total, five years are subjected to this clawback provision).

In the case of an operational lease, the taxpayer can choose to deduct 100% of the input VAT upon each instalment and to tax the subsequent private use of the business car (see more in section 4.4). The option to choose between the application of the coefficient or deduction 100 % of the input VAT and taxation of the private consumption is applicable only to operational lease. It is not applicable to purchased cars or leased cars by way of a financial lease.

VAT on other related costs (especially fuel) should also be claimed only to the extent the vehicle is used for business purposes.

4.3. Hire purchase

Czech VAT law does not prescribe a specific treatment for this type of sale. Therefore, the VAT treatment of hire purchase will be determined to a large extent by the legal treatment – in particular, the transfer of title of the vehicle.

If the title passes at the beginning (effectively a purchase loan), the tax treatment will be the same as for a standard purchase. The debtor may claim input VAT from the price of the vehicle as described in section 4.2 above.

If the title passes after payment of the last instalment, the hire purchase will be treated for VAT purposes in the same way as either a financial lease or an operational lease depending on whether the transfer of the vehicle was agreed in the lease agreement (see sections 4.4 and 4.5 below).

4.4. Operational lease

Generally, an operational lease is considered to be a supply of services (similar to a rental agreement), where it is neither obvious nor contractually agreed that the ownership of the vehicle will be transferred to the lessee. Operational leases are subject to Czech VAT at the standard rate of 21%. VAT should be calculated on each payment made.

The lessee is allowed to deduct all VAT incurred with respect to an operational lease where the vehicle is used for economic activities. If mixed use is made of the car, the taxpayer can choose either to deduct 100% of the input VAT at the beginning and tax the subsequent private use or to claim only a respective proportion of the VAT.

In general, the place of supply of an operational lease is the place where the lessee's business is established or the place where the lessee has a fixed establishment if the supply of an operational lease is provided to that fixed establishment. If the lessee's business is established in a non-EU country, but it is VAT registered in the Czech Republic and, at the same time, the actual use of the vehicle is in the Czech Republic, the place of supply is in the Czech Republic.

However, different rules apply for short term operational leases. If the operational lease does not exceed 30 days (i.e., short term lease), the place of supply is the place where the vehicle is physically put at the disposal of the lessee. If the vehicle is put at the disposal of the lessee in a non-EU country but it is actually used in the Czech Republic, use and enjoyment rules will apply and Czech VAT will be due. If, on the other hand, the vehicle is put at the disposal of the lessee in the Czech Republic, but it is actually used in a non-EU country, Czech VAT will not be due.

Special rules apply for the long-term lease of vehicles to non-taxable persons.

4.5. Financial lease

A financial lease is generally considered a supply of goods according to the Czech VAT Act, where it is either obvious or contractually agreed that the ownership of the vehicle will be transferred to the lessee.

The lessee is entitled to deduct VAT from the full amount paid to the lessor under a financial lease of a vehicle. This applies provided the VAT payer will use the vehicle for business purposes only. In the case of using the vehicle for both business and personal purposes, the same approach as indicated in section 4.2 will be applied.

Provided that it is not agreed that the owner of the vehicle will transfer the ownership right to the goods to the user of the goods, the lease is treated as an operational lease from the VAT point of view (see section 4.4 above).

4.6. Car manufacturing

A specific regime applies to car manufacturers. In the course of the production of cars, input VAT from related costs can be claimed by the manufacturer. However, in the case of cars from own production, which the manufacturer uses for purposes not entitling him to a full deduction (mostly if he is letting his employees use company cars for private purposes), output VAT must be declared and paid as soon as the car is put to use, and a partial input VAT deduction should be claimed in the way described in section 4.2 above.

5. Company car

5.1. VAT due on private use of company cars

If the employer allows his employee to use a company car for private purposes for free, he is obliged to reduce the input VAT claimed (from either the acquisition price or financial lease fees, as applicable) proportionately between the private and business use of the particular employee. Documentation and evidence should be kept justifying the deduction. In case the car of the employer has been hired based on an operational lease, the employer can choose to deduct 100% of the input VAT upon each instalment and to tax the subsequent private use of the business car. For more details please refer to section 4.2.

5.2. Company car

An employee who can use a company car not only for business but also for private purposes has his tax base for personal income tax purposes increased by an amount equal to 1% of the price of the car (including VAT) per month. The increase is at least 1,000 CZK per month.

In the case of non-business trips, company costs on fuel are generally not deductible for corporate tax purposes (unless it is an employee benefit declared in an internal bylaw or work contract). The company's fuel used for private journeys is liable to personal income tax for the employee.

Commuting is not considered travelling for business purposes, and the company's fuel used for commuting is generally non-tax-deductible for the employer (unless it is an employee benefit declared in an internal bylaw or work contract). The company's fuel used for private journeys is subject to personal income tax for the employee.

A lump-sum deduction for using a car for business purposes may be applied. A taxpayer can either claim the expenses in their actual amount supported by documentation or as a monthly lump-sum deduction (5,000 CZK per car per month). This lump sum covers fuel and parking expenses. This lump-sum deduction cannot be applied in case the vehicle could be used by the employee for private purposes. If the car is only partly used for business purposes, the lump-sum deduction would be reduced by 20%, to 4,000 CZK. Other related costs including tax depreciation must be reduced accordingly (i.e., by 20%).

One taxpayer is entitled to claim expenses as a lump sum (or reduced lump sum) for a maximum of three vehicles. In this respect, the reduced lump sum can only be applied to one car, whereas the full lump sum will always apply to the other two cars (although these cars are also used only partly used for business purposes).

However, a lump-sum rule does not apply to VAT. VAT payers are still obliged to prove that purchased fuel or other expenses subject to input VAT claims are used for their business activities. One of the ways of doing this is justification through a mileage book.

6. Income taxes – driver’s personal taxation

An employee using his private car for the company’s business purposes is entitled to compensation for the use of the car and for the fuel consumed. The fuel is compensated based on the actual price, while the use of the car is compensated by way of a fixed allowance of 4.40 CZK per kilometre (fixed allowance is set yearly by the Ministerial decree). These compensations do not affect the driver’s tax base for personal income tax purposes and are tax-deductible for the company.

7. Electric vehicles

Electric vehicles, hybrid vehicles, CNG or LPG vehicles and vehicles using ethanol 85 (E85) are exempt from road tax.

8. Future developments

No major amendments to the legislation regarding car taxation are expected.

9. Legal background

- Road Tax Act
- VAT Act
- Income Taxes Act
- Act on Conditions for Operating Vehicles on Public Roads
- Other

Denmark



Joan Faurskov Cordtz

Tax Partner

p: +45 3945 9463

e: joan.feurskov.rasmussen@pwc.com

Maria Füchsel

Senior Manager Tax

p: +45 2463 1890

e: maria.fuechsel@pwc.com

Denmark

1. Car registration

1.1. When does a car need to be registered?

A new or second-hand car used by a Danish resident on Danish public roads needs to be registered in Denmark.

1.2. Who can register a car?

In Denmark a car needs to be registered in the name of the owner(s) resident in Denmark. In order to enable a (legal) person to register his car in Denmark and to receive Danish number plates, it must have an address (be established) in Denmark.

In practice the car dealer carries out the car registration, but other persons could also do this on behalf of the owner.

1.3. Is a foreign owner allowed to register a vehicle in the country?

In cross-border situations, i.e., the owner of the vehicle is not Danish; the vehicle could be registered in the name of both the owner and the user of the vehicle whereby the Danish address of the user will be used in order to register the vehicle.

1.4. Can a vehicle with a foreign number plate be used on public roads?

In principle, if resident in Denmark, the owner or the main user of a vehicle that is driven on Danish public roads needs to register the vehicle in Denmark.

An exception is only applicable for Danish-resident employees who work for a company established outside of Denmark provided the overriding use is outside Denmark (more than 50% of the days within a period of 12 months or 50% of the kilometers driven within a period of 12 months).

Furthermore, it is possible under certain circumstances to apply for an exception for the use of a vehicle with foreign number plates between the home and the border, or when a person's stay in Denmark is less than 6 months.

In all cases an exemption has to be granted by the Danish Motor Vehicle Agency.

If a vehicle is used in Denmark by a person not resident in Denmark, the vehicle with foreign number plates can be used on Danish public roads as long as the user does not stay in Denmark for a period longer than 185 days in total within one year.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Denmark, several yearly car taxes become due, namely

- registration tax,
- annual circulation tax,
- petrol and diesel tax and
- bridge toll (formally not a tax).

2.2. Registration tax

2.2.1. Taxable event

When registering a passenger car, a registration tax is charged. The registration tax is charged at the time of the first registration of the car in Denmark.

2.2.2. Taxable person

In principle the registration tax is due by the person who has registered the car in his name. In practice the registration tax is paid by the dealer on behalf of the owner.

Leasing companies are also entitled to pay themselves for the cars in their respective leasing fleet.

2.2.3. Tax due

The registration tax depends on the type of vehicle. The registration tax will only be paid once.

Registration tax in Denmark for a new car is mainly based on the car's sales price, but to some extent also on technical equipment etc.

Registration tax for second-hand cars is based on an estimated value. The estimated value is based on the sales price for a similar car purchased in Denmark including VAT, but without registration tax.

The registration tax for new private petrol and diesel vehicles is 25% for the car's value (sales price) up to 65,000 DKK, 85% for the value up to 202,200 DKK and 150% for the value exceeding 202,200 DKK.

The registration tax for new petrol and diesel vans or lorries (2.5t to 4t) is 0% for the car's value (sales price) up to 75,000 DKK, and 50% for the rest of the car's value.

There is a general basic deduction before calculating the registration tax for private petrol and diesel vehicles on 21,700 DKK and 30,000 DKK for petrol and diesel van or lorries.

Note that it is possible to bring a vehicle to Denmark for a limited period of time (e.g., two years) and only pay a quarterly registration tax for this period of time (these two years), plus interest. Such a payment arrangement requires an agreement with the Danish Motor Vehicle Agency.

Also, it is possible only to pay registration tax for the period of which the car is leased. The tax will be paid by the leasing company.

2.2.4. Tax period

The date of first registration.

2.3. Annual circulation tax

2.3.1. Taxable event

An annual circulation tax is levied due to the fact that a vehicle is registered in Denmark.

2.3.2. Taxable person

The annual circulation tax is, in principle, due by the person mentioned on the registration form of the vehicle.

2.3.3. Tax due – private vehicle registered October 3, 2017 - June 30, 2021

Please find an overview table below.

Petrol vehicle registered October 3, 2017 - June 30, 2021				2021
				<i>Tax per 6 months (DKK)</i>
Km/L minimum	50.0			330
Under	50.0	but not under	44.4	370
Under	44.4	but not under	40.0	390
Under	40.0	but not under	36.4	410

Under	36.4	but not under	33.3	430
Under	33.3	but not under	28,6	460
Under	28,6	but not under	25.0	500
Under	25.0	but not under	22,2	540
Under	22.2	but not under	20.0	580
Under	20.0	but not under	18.2	890
Under	18.2	but not under	16.7	1,190
Under	16.7	but not under	15.4	1,5100
Under	15.4	but not under	14.3	1,820
Under	14.3	but not under	13.3	2,120
Under	13.3	but not under	12.5	2,4380
Under	12.5	but not under	11.8	2,730
Under	11.8	but not under	11.1	3,040
Under	11.1	but not under	10.5	3,350
Under	10.5	but not under	10.0	3,660
Under	10.0	but not under	9.1	4,2610
Under	9.1	but not under	8.3	4,900
Under	8.3	but not under	7.7	5,510
Under	7.7	but not under	7.1	6,120
Under	7.1	but not under	6.7	6,730
Under	6.7	but not under	6.3	7,360
Under	6.3	but not under	5.9	7,970
Under	5.9	but not under	5.6	8,580
Under	5.6	but not under	5.3	9,220
Under	5.3	but not under	5.0	9,830
Under	5.0	but not under	4.8	10,440
Under	4.8	but not under	4.5	11,0500
Under	4.5			11,680

Diesel vehicle registered October 3, 2017 - June 30, 2021				2021	
				<i>Tax per 6 months (DKK)</i>	
Km/L minimum				<i>Tax</i>	<i>Additional tax for diesel vehicles*</i>
	56.3			330	160
Under	56.3	but not under	50.0	370	160
Under	50.0	but not under	45.0	390	160
Under	45.0	but not under	41.0	410	160
Under	41.0	but not under	37.3	430	160
Under	37.3	but not under	32.1	460	160
Under	32.1	but not under	28.1	500	740
Under	28.1	but not under	25.0	540	1,320
Under	25.0	but not under	22.5	580	1,420
Under	22.5	but not under	20.5	890	1,570
Under	20.5	but not under	18.8	1,190	1,690
Under	18.8	but not under	17.3	1,510	1,820
Under	17.3	but not under	16.1	1,820	1,960
Under	16.1	but not under	15.0	2,120	2,100
Under	15.0	but not under	14.1	2,430	2,260
Under	14.1	but not under	13.2	2,730	2,400
Under	13.2	but not under	12.5	3,040	2,560
Under	12.5	but not under	11.9	3,350	2,680
Under	11.9	but not under	11.3	3,660	2,810
Under	11.3	but not under	10.2	4,260	3,110
Under	10.2	but not under	9.4	4,900	3,370
Under	9.4	but not under	8.7	5,510	3,630

Under	8.7	but not under	8.1	6,120	3,950
Under	8.1	but not under	7.5	6,730	4,180
Under	7.5	but not under	7.0	7,360	4,440
Under	7.0	but not under	6.6	7,970	4,770
Under	6.6	but not under	6.2	8,580	5,020
Under	6.2	but not under	5.9	9,220	5,290
Under	5.9	but not under	5.6	9,830	5,600
Under	5.6	but not under	5.4	10,440	5,880
Under	5.4	but not under	5.1	11,050	6,240
Under	5.1			11,680	6,530

**The additional tax for diesel vehicles was increased February 15, 2021. The table shows the rate following the increase.*

2.3.4. Tax due – private vehicle registered from July 1, 2021

From July 1, 2021 the circulation tax was amended, hereafter the circulation tax for vehicles registered from July 1, 2021 and onwards is calculated on the basis of the carbon emission per km. The additional tax for diesel vehicles still applies.

Vehicles registered from July 1, 2021		
Tax per 6 months (DKK)		
Grams of CO ₂ / km	All vehicles - Carbon based circulation tax	Diesel vehicles – Carbon based circulation tax and additional tax for diesel vehicles
No more than 58	330	490
Above 58 not more than 65	370	530
Above 65 not more than 73	390	550
Above 73 not more than 80	410	570
Above 80 not more than 87	430	590
Above 87 not more than 102	460	620

Above 102 not more than 116	500	1240
Above 116 not more than 131	540	1,860
Above 131 not more than 145	580	2,000
Above 145 not more than 160	890	2,460
Above 160 not more than 174	1,190	2,880
Above 174 not more than 189	1,510	3,330
Above 189 not more than 203	1,820	3,780
Above 203 not more than 218	2,120	4,220
Above 218 not more than 232	2,430	4,690
Above 232 not more than 246	2,730	5,130
Above 246 not more than 262	3,040	5,600
Above 262 not more than 277	3,350	6,030
Above 277 not more than 290	3,660	6,470
Above 290 not more than 319	4,260	7,370
Above 319 not more than 350	4,900	8,270
Above 350 not more than 377	5,510	9,140

Above 377 not more than 409	6,120	10,070
Above 409 not more than 433	6,730	10,910
Above 433 not more than 461	7,360	11,800
Above 461 not more than 492	7,970	12,740
Above 492 not more than 519	8,580	13,600
Above 519 not more than 548	9,220	14,510
Above 548 not more than 581	9,830	15,430
Above 581 not more than 605	10,440	16,320
Above 605 not more than 645	11,050	17,290
Above 645	11,680	18,210

2.3.5. Tax due – vans and lorries (registered with yellow number plates)

Please find an overview table below.

Excise rate 2021*: Tax per year (DKK)						
Weight	0–500kg	501–1,000kg	1,001–2,000kg	2,001–2,500kg	2,501–3,000kg	3,001–4,000kg
Vans or lorries registered after April 25, 2007 – partly commercial use						
Petrol	4,185	4,485	5,375	7,015	7,785	13,940
Diesel	4,905	5,525	6,785	8,775	9,785	16,210

**The rates on diesel vehicles were increased on February 15, 2021. The table shows the rate following the increase.*

2.4. Tax for private use

Please find an overview table below.

Excise rate 2021: Tax per year (DKK)						
Weight	0-500kg	501-1,000kg	1,001-2,000kg	2,001-2,500kg	2,501-3,000kg	3,001-4,000kg
Vans or lorries registered after April 25, 2007 - private use only						
Petrol	7,310	7,610	8,500	10,140	10,910	23,220
Diesel	8,030	8,650	9,910	11,900	12,910	25,490

*The rates were increased on February 15, 2021. The table shows the rate following the increase.

If the van is used for professional purposes only, the tax will be lower.

2.5. Classic cars

Cars older than 35 years and destined for private collections, for entertaining or cultural purposes, can be imported and registered in Denmark. The value of the car used for calculation of the registration tax is 75 pct. of the value of the car as new.

2.6. Petrol and diesel tax

2.6.1. Taxable event

In Denmark the petrol and diesel tax become taxable when supplied to the retailer.

2.6.2. Tax due

Petrol and Diesel Tax	2021		
Petrol	4.759		DKK per L
Diesel	3.243		DKK per L

2.7. Bridge toll

2.7.1. Taxable event

In Denmark bridge toll is charged when crossing Storebæltsbroen and Øresundsbroen.

2.7.2. Taxable person and period

The bridge toll is charged to the user of the vehicle when crossing the bridge.

2.7.3. Tax due

Bridge Toll		2019
Storebæltsbroen	245	DKK
Øresundsbroen	395	DKK

Lower rates for cars passing the bridge are frequently available.

3. Income taxes – taxable persons

For direct tax purposes, all costs relating to private cars are in principle fully deductible for the employer.

For the self-employed, all costs relating to business activity are fully deductible. There is no deduction for costs related to private use of the car. The split between business and private use is normally based on an estimate, however it is also possible to make a deduction based on actual business kilometers driven multiplied by the maximum mileage allowance rates.

4. VAT

4.1. General

Danish VAT at the standard rate of 25% is due on all supplies of goods and services. No other VAT rates apply.

In principle, taxable persons are entitled to recover input VAT paid in connection with VAT-taxable activities. However, special conditions apply to motor vehicles (e.g., passenger cars, lorries, trucks), in which case input VAT may be recoverable only partly or not at all, even if the vehicle is used for the purpose of VAT-taxable transactions only.

4.2. Deduction

Several costs related to motor vehicles are barred from deduction or refund of input VAT, even when it can be argued that they relate to VAT-liable activities. In general, the following rules applies:

Passenger cars: input VAT on purchase, short-term (less than 6 months) rent/lease and use of cars carrying up to nine persons cannot be deducted.

Commercial and cargo vehicles (vans, lorries, etc.):

With total weight up to 3t: input VAT on purchase can be deducted only if the vehicle is exclusively used for VAT-taxable activities. Input VAT related to the use of such vehicles can be deducted in full, even if the vehicle is only partly used for VAT-taxable activities.

With total weight more than 3t: input VAT on purchase and operation can be deducted in accordance with the general rules (normally based on a fair estimate of the actual use of the car).

VAT can be deducted on costs related to the acquisition and use of car phones to the extent that the phone is used for VAT-taxable purposes.

If the company's main activity is the sale or lease of passenger cars, input VAT on the purchase and use of passenger cars can be deducted according to special regulations. VAT on cars purchased and used for a driving school's activities is subject to the same special regulations.

Please note, that in respect to passenger cars, VAT on the bridge toll for the Oresund Bridge can be deducted if the driving relates to VAT-taxable activities. However, VAT is not deductible on the bridge toll for the Storebælt Bridge.

4.3. Deduction of input VAT related to car rental

In general, VAT related to the leasing/rental of passenger cars is not deductible. However, VAT on the lease of passenger cars can be partially deducted if the leasing/rental period exceeds six months and at least 10% of the annual driving of the car is used for VAT-taxable purposes. The lessor must show on the invoice the monthly deductible amount. The deductible proportion will in most cases amount to 50% to 70% of the total VAT amount on the monthly leasing payment.

For leased commercial/cargo vehicles with weight less than 3t that are also used for non-VAT-taxable purposes (such as for private use), one-third of the VAT on the lease can be deducted. If such vehicle is exclusively used for VAT-taxable purposes, 100% of the VAT on the lease is deductible.

For leased commercial/cargo vehicles with weight over 3t, VAT on the lease is deductible in proportion with the VAT-taxable activities.

4.4. Leasing and VAT

A lease agreement will be defined as an operational or a financial lease agreement.

An operational lease agreement is considered in Denmark to be a taxable service for VAT purposes. As the owner of the car is the lessor, the lessee can deduct the input VAT partially as described above in section 4.3.

A financial lease agreement, on the other hand, is in Denmark treated as a supply of goods for VAT purposes. However, most leasing contracts are regarded as operating leases regarding VAT.

5. Company car

Private use of a company car normally triggers taxation of the employee, adjustment of input VAT deducted upon the acquisition of the car by the company, and an additional tax for private use.

5.1. VAT due on private use of company cars

As businesses have no right to deduct input VAT incurred for purchases of cars used for passenger transport or for other costs related thereto, the private use of the company car has no VAT consequences.

VAT consequences of the private use of commercial and cargo vehicles (registered with yellow number plates) depend on the weight of the vehicle in question, the period since the purchase, but mainly whether the car is intended for both private and business use. We refer to section 4.2. If the use of the car is changed within five years after the year of purchase, a regulation mechanism may apply.

In general, all driving between the employee's home and place of work is regarded as private use, except in the case of driving between changing places of work and driving connected to duty schemes, etc.

5.2. Tax due on private use of company cars (vans and lorries) – only private use

Private use of company cars is taxed with an additional tax. Vans or lorries used for both private and commercial use are taxed with 50% of the tax for private use.

Please find an overview table of the additional tax for private use below. For a table overview of the tax level including circulation tax, the additional tax on diesel vehicles and tax for private use, see section 12.3.4 and 12.4.

Excise rate 2021: Tax per year (DKK)						
Weight	0– 500kg	501– 1,000kg	1,001– 2,000kg	2,001– 2,500kg	2,501– 3,000kg	3,001– 4,000kg
Vans or lorries registered after April 25, 2007 – private use only						
Petrol and diesel	6.250	6.250	6.250	6.250	6.250	18.560

If the van is used for both business and private purposes, the tax will be lower.

5.3. Company car – income taxes

When an employer provides the employee with a company car for both business and private purposes, this is a taxable benefit under Danish tax rules.

The taxable value is independent of the actual operating costs (including insurance, petrol, maintenance, etc.) for the employer. Likewise, the taxation is independent of whether it is a petrol, diesel or electric car. Instead, the yearly taxable value (until 1 July 2021) is calculated as the sum of

- 25% of the value of the car up to 300,000 DKK and 20% of the value exceeding 300,000 DKK. The calculation base cannot be less than 160,000 DKK;
- an amount equal to 1.5 times the annual circulation tax (please see section 2.3 above).

If the employee (from net salary) pays to the employer fully or partly for having the company car the paid amount will be deducted from the taxable value of the company car.

In Denmark the determination of the value of the car depends on whether the car is more than 36 months old (after its first registration date) at the time the employer purchases/leases/rents the car.

The car is 36 months or less old

With respect to cars acquired no more than 36 months after their first registration date, the basis of calculation is determined based on the new car price. The new car price equals the list price/the car's first registration value including car tax, VAT, costs of delivery and ordinary accessories.

This new car price is used as the basis of calculation in the 36 months after the first registration. After this period, the calculation basis is 75% of the new car price.

The car is more than 36 months old

With respect to cars acquired more than 36 months after their first registration date, the basis of calculation equals the actual acquisition price paid by the employer including any costs of delivery, repairs and ordinary accessories.

From July 1, 2021

In 2021 the Danish government passed a new bill on company car taxation effective from July 1, 2021. Over the next five year the above-mentioned calculation method will be changed.

As of July 1, 2021, the taxable value of company car is calculated as such:

- 24.5% of the value of the car up to 300,000 DKK and 20.5% of the value exceeding 300,000 DKK. The calculation base cannot be less than 160,000 DKK;
- an amount equal to 2.5 times the annual circulation tax.

The 24.5% taxation rate will be reduced yearly by 0.5% and the 20.5% taxation rate will increase yearly by 0.5%. These adjustments will be made until the 2 rates meet at 22.5% in 2025.

Further, the 2.5 times the annual circulation tax will increase yearly until 2025 where it will reach 7.0 times the annual circulation tax.

5.4. Company car – no VAT and income taxes to be paid

It is possible to buy a ticket (dagsbevis) that allows a person to use a company car under 3t registered for commercial use only) without having to pay income taxes and without the company having to repay deducted VAT. The ticket price is DKK 225 for such cars.

For a company car between 3-4t (registered for commercial use only) the ticket price is DKK 185.

The ticket is valid for one day (from 00:00 to 23:59). There is a maximum of 20 tickets per car and employee per calendar year.

5.5. Private car in the personal tax return

For employees without a company car, the car costs in respect of the private use of a car are not deductible in the employee's personal tax declaration.

Instead it is possible for an employee to get a mileage deduction ("kørselsfradrag") for transport between the residence and the workplace for transport exceeding 24 km per day. This applies to transportation in private cars, buses, trains, etc.

Mileage deduction	2021
0 – 24 km	No deduction
25 – 120 km	1.90 DKK per km
< 120 km	0.95 DKK per km

Special rules apply for persons with low income and/or for persons living in "fringe areas".

5.6. Mileage allowance

Should the employee use his private car for business purposes in the interest of the employer, the employer can pay the employee a tax-free mileage allowance per driven kilometre (kørselsgodtgørelse).

The allowance is 3.44 DKK per kilometre for the first 20,000 km per calendar year and 1.90 DKK per kilometre for mileage above 20,000 km per calendar year. The allowance should cover all costs related to both the operating and depreciation of the car, except for bridge and road tolls plus parking.

Mileage allowance cannot be used as a substitute for salary, and a number of requirements in relation to documentation and employer review apply. Should these requirements not be fulfilled, the allowance will be considered a taxable cash payment instead, i.e., tax will have to be withheld and the income reported.

6. Electric Vehicles

6.1. Registration tax and annual circulation tax

Registration tax has been introduced on electric vehicles from January 1, 2016. Registration tax on electric vehicles will gradually be introduced. The vehicle registration tax for electric vehicles is calculated as a percentage based on the general rules for cars, vans and lorries.

Registration tax per year (per cent)					
Year	2021-25*	2026	2027	2028	2029
	40 %	48 %	56 %	64 %	72 %

*Tax rate applies from December 18, 2020 - December 31, 2025.

Following the tax on electric vehicles and the new tax rates effective from December 18, 2020 new deductions also apply which in effect can make the tax rate zero.

Deduction in registration tax for electric vehicles and vans or lorries (DKK):

	Electric vehicle		Van or lorries
Year	Deduction (DKK)		Deduction (DKK)
2022	167.500		78.750
2023	165.000		77.500
2024	162.500		76.250
2025	160.000		75.000
2026	155.400		73.000
2027	150.800		71.000
2028	146.200		69.000
2029	141.600		67.000
2030 -	137.000		65.000

From December 18, 2020 it is possible to make an additional deduction in the taxable value depending on the electric vehicle or vans battery capacity (kWh). For each kWh a deduction on DKK 1,700 can be made (not exceeding 45 kWh).

Plug-in hybrid vehicles (low emission) include cars propelled by a combination of electricity and petrol, diesel, natural gas or biogas, which are charged by external power supplies. A new and similar tax scheme has been introduced to plug-in hybrid vehicles with an increasing registration tax, a bottom deduction and an additional deduction based on battery capacity.

7. Future developments

In order to meet the standards stated in the Kyoto Protocols, the signatory states try to encourage the purchase of environmentally friendly cars, which is reflected in a taxation which is tending towards incentives for environmentally friendly passenger cars.

Denmark is in this respect no different. Denmark is looking more and more to tie car taxation to CO₂ emissions. This will then also be linked to more transparent car taxation with an increased focus on the use of a vehicle rather than on the possession of it. The principle that the polluter pays will therefore become more and more the rule. But a very long transition period (10 to 20 years) is expected, as the present, mainly value-based taxation of cars is of high importance to Danish society.

8. Legal background

- Danish VAT legislation
- Registration Tax Act
- Weight Duty Act
- Tax Assessments Act

Estonia



Hannes Lentsius

Director

p: +372 6 141 937

e: hannes.lentsius@pwc.com

Karel Romet Pedajas

Senior Associate Tax

p: +372 6 141 800

e: karel.pedajas@pwc.com

Estonia

1. Car registration

1.1. When does a car need to be registered?

Any car which is used in Estonia by either a resident individual (or a person with a residence permit) or an Estonian legal person should be registered in Estonia within 5 working days from the initial usage in Estonia.

All vehicles owned by natural person domiciled in foreign country, foreign legal person and sole proprietors must be registered in case the vehicle has been in Estonia for a time period exceeding one year.

1.2. Who can register a car?

A car is registered upon an application of the owner or its representative acting under power of attorney.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, on the condition that the principal user of such vehicle either has Estonian citizenship or is registered as an Estonian legal person or an individual with a residence permit.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Generally, a resident individual or a person with a residence permit may use a foreign-registered car in Estonia. However any vehicle being used for traffic in Estonia must be registered within 5 working days from the initial usage in Estonia. In case the vehicle being used in Estonia is owned by foreign legal entity the vehicle may be used for a continuous period of 12 months, after which the car should be registered in Estonia.

2. Car taxation

2.1. What are the different car taxes?

There are no car taxes in Estonia yet. However, state fees are payable upon any act registered by the Estonian Traffic Register.

2.1.1. Heavy-goods vehicles tax

Heavy-goods vehicles are taxed in accordance with the Heavy-Goods Vehicles Tax Act. Heavy-goods vehicles are deemed to be:

- trucks with a maximum authorised or gross laden weight of not less than 12 tonnes which are registered in the Traffic Register; or
- road trains composed of trucks and one or more trailers with a maximum authorised or gross laden weight of not less than 12 tonnes, whereas the trucks of the road trains must be registered in the Traffic Register.

Heavy-goods vehicle tax rates depend on:

- the maximum authorised weight, the number of axles and the type of suspension of the driving axle of the truck. If the maximum authorised weight of a truck has not been entered on the registration certificate thereof, the tax shall be imposed according to the gross laden weight, the number of axles and the type of suspension of the driving axle thereof.

-
- the maximum authorised weight or gross laden weight of a road train on the basis of the characteristics concerning trucks specified above, the number of axles of the trailers used in the composition of the road train at the same time and the maximum weight of the trailers which the owner or user of the truck has reported to the Estonian Road Administration and through the Estonian Road Administration to the Tax and Customs Board for performance supervision.

2.1.2. Road toll

From January 1, 2018, it is required to pay road toll for all heavy goods vehicles that weigh over 3.5 tonnes and are used on the public road network.

Trucks and its trailers, which belong to specific defence forces and international aid providers are exempt from the road toll. Also under certain conditions such trucks and trailers, which are mainly used for rescue work and vintage vehicles.

Road toll is regulated by the Traffic Act.

Road toll depends on:

- the maximum authorised mass of the heavy goods vehicle and its trailer, the number of axles and the emission class of the heavy goods vehicle;
- the time when the roads are used.

2.2. Taxable event and period

Generally, a state fee shall be paid before the submission of an application, performance of an act or issuance of a document.

Generally, the heavy-goods vehicles tax is paid quarterly by the 15th day of the first month of the quarter.

Generally, the road toll should be paid before proceeding to the road.

2.2.1. Taxable event

A payer of the heavy-goods vehicle tax is

- the owner, if the latter is an individual residing in Estonia on a permanent or temporary basis, legal persons registered in Estonia or state and local government agencies;
- the user, if the latter uses the heavy-goods vehicle on the basis of a contract for use or contract of sale with a reservation on ownership and if the name, personal identification code or registry code and the address of the residence or seat of the user are entered in the Traffic Register;
- the person in possession of the heavy-goods vehicle which is entered in the Traffic Register, if the owner of it is a person other than specified in the first point above.

A payer of the road toll is

- the owner;
- the authorised user, if it has been entered in the traffic register.

2.2.2. Tax due

2.2.2.1. State fee rates

Most common state fee rates are disclosed as follows:

	Traffic Register acts	State fee
1	Registration of a vehicle	130 EUR
2	Issue of a general purpose number plate	62 EUR
3	Amendments to register data related to change of owner of a vehicle (if performed electronically via e-services)	61 EUR / (48 EUR)
4	Amendments to register data other than change of owner of a vehicle (if performed electronically via e-services)	20 EUR / (16 EUR)

2.2.2.2. Tax rates

The quarterly tax rates for heavy-good vehicles are in the range from 0 EUR to 232.60 EUR.

Road toll rates are in the range from 9 EUR to 1,300 EUR.

3. Income taxes – taxable persons

For direct tax purposes, all costs relating to cars are 100% deductible, provided that cars are used only for business purposes.

4. VAT

4.1. General

Estonia's standard VAT rate is 20%. Input VAT on goods and services is 100% deductible by taxable persons if the purchases are attributable to taxable supplies.

4.2. Deduction of VAT on company passenger cars – general rule

Only 50% of input VAT on acquisition of company passenger cars or other related costs (later referred to as “car related costs”), including running and maintenance, can be deducted.

Passenger cars are defined as vehicles of category M1 (including M1G) used for the carriage of passengers and which have eight seats at the most in addition to the driver's seat and whose maximum weight does not exceed 3.5 tons.

The vehicles outside of this category (including N1 and N1G, also known as pick-up trucks) are not considered as passenger cars, 100% of input VAT can be deducted on acquisition and other related costs.

4.3. Exceptions to the general rule

There are some exceptions allowing deduction of whole input VAT paid in relation to passenger car related costs. These exceptions comprise:

- passenger cars purchased for resale or for hire;
- passenger cars that are mainly used as a taxi or for driving lessons.
- passenger cars that are exclusively used for business purposes.

There are no specific rules in the Estonian VAT law as to how “the exclusive use of a company car for business purposes” should be proved, but upon a tax dispute the taxpayer has to defend its position by presenting relevant evidence.

4.4. VAT due on private use of company's passenger cars

Private use of a company passenger car free of charge or for a fee is generally outside of VAT scope. However, if the passenger cars are mainly used as a taxi or for driving lessons, VAT is due on the tax base calculated on the car's power capacity (kW) and age (similarly to fringe benefit taxes).

4.5. Adjustment periods

Should there be a change in the use of the company passenger car during first 24 months after its acquisition, deducted input VAT shall be adjusted.

4.6. Specific rule for leasing companies

Generally, input VAT on repair and maintenance costs cannot be deducted by leasing companies, unless

- the leasing company supplies these services to lessees, or
- the leasing company is responsible for repairs and maintenance of leased assets under the leasing contract and supplies derived from the contract, including interest, are taxable with VAT.

The Estonian VAT Law does not provide a definition of hire purchase, or financial or operating lease. However, the law stipulates that any delivery of assets under an agreement providing for the transfer of title to the user of the assets at the end of the agreement will be treated for VAT purposes as the supply of goods.

The law also provides that a supply of services is generally any transaction concluded in the course of business which does not constitute a supply of goods. The transaction, under which the user of the asset has an option to purchase the asset at the end of the agreement, will be therefore treated for VAT purposes as the supply of services.

5. Company car

5.1. VAT due on private use of company cars

Private use of company passenger cars is generally not deemed to be a taxable event for VAT purposes.

Private use of a company vehicle which falls into the N1 (including N1G) category, is taxable based on the method used when calculating fringe benefit. VAT due on private use is either calculated on:

- the car's power capacity (kW) and age, or
- the market price, or
- the difference between the market price and discounted price.

5.2. Company car – income taxes

If company passenger cars are used for private purposes of staff and directors free of charge or at a preferential price, it is deemed to be fringe benefits furnished to them. Fringe benefits are taxed by income and social tax at the level of a company and not at the level of the individual. In the case of company passenger cars, from January 1, 2018, the fringe benefit taxes are tied with a car's power capacity (kW). In general, the tax base is 1.96 EUR per kW per month but in the case the car is older than five years, the tax base is 1.47 EUR per kW per month.

In case of a hybrid cars the maximum engine power (kW) of the internal combustion engine indicated in the traffic register or in the technical passport must be used. In case of electric and gas cars the engine power (kW).

As mentioned above, if company vehicles, which fall into the N1 (including N1G) category, are used for private purposes, the tax base may also be calculated on the basis of the car's power capacity and age, market price or the difference between the market and discounted price.

No fringe benefit shall arise during the taxation period when the car has been deleted from the traffic register temporarily or the register entry has been suspended.

If the company passenger car is used only for business purposes, the employer shall notify the Road Administration (notification without an applicable state fee) that shall make a notation in the data of the car in the traffic register, which is public information. If the respective note is absent from the traffic register, then the car is considered to be used also for private purposes.

6. Income taxes – driver’s personal taxation

If a car is possessed and used by an employee (or a director) for business purposes of an employer, a compensation for the car paid to the employee (or the director) is exempted from income tax if paid according to a logbook. The compensation exceeding 335 EUR or calculated based on higher rates of use than 0.3 EUR/km is treated as fringe benefits and taxed accordingly at the level of the employer.

The fringe benefits taxable at the level of employer are not included in the personal income tax return.

7. Electric vehicles

There are no specific tax rules for electric vehicles. In some specific parking zones in larger towns such as Tallinn (the capital of Estonia), Tartu and Pärnu, no parking fees are imposed in the public parking area for electric vehicles whose CO₂ emissions are zero.

8. RDE and WLTP

From September 1, 2017, two new fuel economy and emissions tests WLTP (“Worldwide Harmonised Light-Duty Vehicles Test Procedure”) and RDE (“Real Drive Emissions”) will apply to new car type registrations in the European Union (incl. Estonia). New types of cars are vehicle models introduced to the market for the first time. From September 1, 2018, WLTP will apply to all new car registrations.

9. Future developments

Currently there are no amendments under discussion related to company cars or restrictions faced/incentives provided to “good” technologies or e-mobility.

10. Legal background

- Estonian Income Tax Act and regulations
- Estonian VAT legislation
- Heavy-Goods Vehicle Tax
- Traffic Act and regulations

Finland



Juha Laitinen

Automotive Tax Leader

p: +358 20 787 7409

e: juha.laitinen@pwc.com

Finland

1. Car registration

1.1. When does a car need to be registered?

In principle, a person permanently residing in Finland is not allowed to drive a foreign registered vehicle, which has not been taxed in Finland. When a new or second-hand vehicle is put into free circulation on Finnish public roads, the vehicle should be registered in Finland.

Additionally, in case a vehicle changes owner and is intended to be used on Finnish public roads, a new registration for the vehicle needs to be requested.

1.2. Who can register a car?

A car needs to be registered by the owner of the car.

1.3. Is a foreign owner allowed to register a vehicle in the country?

If the foreign owner of a vehicle used on public roads has a Finnish address, the foreign person can register the vehicle in Finland himself.

However, if the foreign person does not have a Finnish address, a Finnish resident must be informed for registration purposes as the holder of the car, i.e., the foreign owner of the vehicle will be mentioned as the owner of the car, but a Finnish resident is mentioned as the user of the car.

1.4. Can a vehicle with a foreign number plate be used on public roads?

A vehicle registered in another EEA member state may be used by a Finnish resident in Finland temporarily without Finnish registration, but strict restrictions apply. If the conditions are not met a Finnish resident or his family members can use the car for 14 days once in a calendar year. Such use needs to be reported before the car is taken into use.

Generally, a person residing abroad may use a vehicle registered in a foreign country on public roads for 6 months. However, the use can be extended by one year if an application is made to the Tax Authorities. There may be some foreign countries whose residents will need a permit from the Finnish authority to use a vehicle temporarily on public roads for a limited time.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Finland, several car related taxes become due, namely

- car tax,
- vehicle tax
- Basic tax
- Driving force tax (generally applies to all non-petrol-powered vehicles),
- fuel fee and
- recycling fee on tires.

2.2. Car tax

2.2.1. Taxable event

Taxable vehicles are passenger cars, vans, other buses with an unloaded weight of less than 1,875 kg, light cars, motorcycles, motorized tricycles and heavy quadricycles.

According to the Finnish Car Tax Act, car tax shall be levied before the vehicle is registered or taken into use in Finland regardless of whether the vehicle has been manufactured in Finland, acquired as an intra-Community supply from another EU country or imported from outside the EU. Special provisions are applied to the temporary use of cars in Finland.

If a car is used in Finland after more than 50% of the parts of the car have been changed, the car tax shall be levied on the car as if the car was registered or used in Finland for the first time.

2.2.2. Taxable person

The liability to pay car tax lies primarily with the person who is registered as the owner of the vehicle in the Finnish vehicle register. If the vehicle has been sold through a hire purchase contract and is subject to the retention of the ownership, the liability lies with the buyer who is entered in the register as the holder of the vehicle. The taxable event is the registration of the vehicle.

The owner or holder defined above may be liable to pay car tax even if the taxation procedure should have been taken care of on his behalf by an agent, e.g., the company who imported the vehicle. The owner or holder would still have the liability to pay the tax even though he could show that he has paid the tax amount to the agent or to the agent's representative. However, in case the importer of the vehicle is a registered agent for car taxation, the liability lies with the agent and the agent pays the tax on behalf of the car tax liable person. The liability can, however, be transferred by a written contract, e.g., to the buyer of the vehicle. The Finnish Tax Administration shall be notified of the transfer. If this notification is not made, the person who handed over the vehicle and the person who received it are jointly liable.

If the car tax cannot be collected from the registered agent, the liability to pay the tax lies with the owner entered in the vehicle register, except in case the owner can prove that he has paid the tax amount to the registered agent or to the agent's representative. If the vehicle has been taken into use without registration or no other liable person can be established, the liability to pay the car tax lies with the person who took the vehicle into use. If it is not possible to establish that person or the tax cannot be collected from him, the liability lies with the owner of the vehicle which has been taken into use. If the car tax is not paid in accordance with the Car Tax Act, the vehicle may not be used on the public roads in Finland, irrespective of who is liable to pay the tax or who is responsible to pay it on his behalf.

2.2.3. Tax due

The car tax rate on passenger cars in 2022 varies between 0 % and 48.9 % of the taxable value depending on the CO₂ emissions of the car. If the information on the emissions is not available, the car tax rate is determined based on the weight and driving force of the car. The car tax rate for an average vehicle with emissions at 190g/km is 27.8% or 33.4% depending on whether the CO₂ emissions have been determined according to the Euro 5 and Euro 6 rules (WLTP) or not.

The taxable value of a new passenger car imported into Finland from another EU member state or from outside the EU is the actual retail price of a similar car in Finland at the time of importation, reduced by an amount corresponding to usual discounts. The retail price is defined as the price which would be paid on a similar car in the market. The amount that corresponds to usual discounts, which are reduced from the retail price when calculating the taxable value of a new vehicle, is 5.5% and 250 EUR, but 20% of the value of the vehicle at most. The reduction is calculated based on the price of a new vehicle including value-added tax but excluding car tax. No reduction is calculated, however, if the vehicle is listed for sale in a price list with prices on which no discounts are granted (a so-called 'net price list').

The Finnish Tax Administration publishes the retail prices for most car types. The retail price information is based on data collected from car importers and car dealers. Car importers and other persons liable to pay car tax shall inform the Finnish Tax Administration of the planned retail price of the car. Car tax on used vehicles is based on the estimated retail price of a similar used car in Finland at the time of importation. If such value is not available, the general retail value is determined based on the price at which similar vehicles would generally be put for sale, reduced by an amount corresponding to usual discounts. The Finnish Tax Administration publishes information regarding the car tax decisions of used cars on a monthly basis for reference purposes.

The amount of car tax is determined based on the car tax percentages that were applicable when the car was originally taken into use.

2.3. Vehicle tax

2.3.1. Taxable event

Vehicle tax is payable on passenger cars registered in Finland and used on public roads.

2.3.2. Taxable person

In principle, the taxable person is the person who has registered the vehicle in his name.

2.3.3. Tax due

In 2020, the amount of vehicle tax on passenger cars levied per day varies between 0.146 EUR and 1.793 EUR depending on the emissions of the car. If the information on emissions is not available, the amount is determined based on the weight of the car and it varies between 0.61 EUR and 1.732 EUR per day. The rate for an average vehicle with emissions at 190g/km is 0.701 EUR or 0.797 EUR per day depending on whether the CO₂ emissions have been determined according to the Euro 5 and Euro 6 rules (WLTP) or not.

Additionally, the amount of vehicle tax is increased by a driving force tax if the driving force of the car is other than petrol. The amount of the tax is determined based on the type of car and type of driving force. The amount of tax relating, e.g., to personal vehicles with a diesel engine is 0.055 EUR per 100kg of the total mass of the car levied per day. The driving force tax is slightly lower if the car runs entirely or partly on electricity.

2.4. Fuel fee

2.4.1. Taxable event

A fuel fee is payable on vehicles using fuel that is taxed less than diesel oil or petrol. The fee is payable for vehicles registered in Finland and abroad.

2.4.2. Taxable person

The fee is payable by the owner of the vehicle, or if used by another person, the possessor of the vehicle.

2.4.3. Tax due

The amount of fuel fee is 330 EUR to 1,500 EUR per day for cars (330 EUR for passenger cars) and 100 EUR to 670 EUR for other vehicles.

2.5. Recycling fee on tyres

The purchaser of new car tyres has to pay a recycling fee to the supplier (1.74 EUR, including VAT, per passenger car tyre in 2020). Finland has one of the highest recycling rates for car tyres, as 90% of passenger car tyres are recycled.

3. Income taxes – taxable persons

According to the Finnish Business Income Tax Act, all expenses and losses that arise from acquiring or preserving income in business activities are tax deductible.

In the case of corporations, all costs relating to cars should generally be tax deductible. Please note that in case of private use of a company's car, the benefit should be taxed as earned income of the individual employee—in some cases the benefit may be taxed as a disguised distribution of dividend.

However, in case of private businessmen and partnerships, the deductibility of car related costs is limited. First, one has to establish whether the car owned by the private businessman or partnership is part of the business assets or of the other assets. A car is part of the business assets if more than 50% of the driving kilometres are connected to business activities. In such a case, the car-related costs can be deducted in the taxation of the private businessmen or partnerships to the extent that the costs arise from business activities.

4. VAT

4.1. General

Finnish VAT at the standard rate of 24% is, in principle, due on most supplies of goods and/or services. VAT at the rate of 24% is generally due on the import, supply and acquisition of a car in Finland. Only diplomats and employees of international organisations may import or purchase a car in Finland without VAT.

For taxable persons with a right to deduct VAT, input VAT incurred for their purchases in respect of their VAT taxable business activities is, in principle, deductible up to 100%.

4.2. Deduction

In general, Finnish companies and private businessmen cannot deduct the input VAT on passenger cars or cost related thereto. If the car is used even partly for private purposes, the input VAT on the purchase price, and on any costs related to the use of the passenger car, is not deductible. This also applies to the VAT on leasing fees paid to the leasing company.

Companies that purchase passenger cars solely for their VAT taxable business purposes, such as leasing companies and car retailers, may deduct the input VAT paid on the purchase price or in importing the car. This may require that the employees of the company keep a logbook showing the purpose of the use of the car. The same applies for any other company using a passenger car 100% for VAT deductible business purposes.

The Finnish VAT Act does not include specific rules regarding various forms of leasing contracts. However, in case of a financial lease, the leasing company will account for output VAT when the car is delivered to the lessee. This is due to Finnish tax legislation treating leasing agreements as a supply of goods if the title to the leasing object is agreed to be transferred (without an option) to the lessee after the lessee has paid all or part of the leasing fees.

If the title will not pass to the lessee or there is only an option to purchase the vehicle according to the leasing agreement, and the purchase price is not only nominal, but the leasing is also regarded as an operational lease or “pure lease”, and thus a supply of services for VAT purposes. The lessor will account for VAT on the lease rentals when the rentals are invoiced, or the payments received.

Some businesses may deduct a proportion of the input VAT on the purchase of a passenger car and on the costs related to the use of the car. For example, driving schools and taxis may deduct a percentage of the input VAT that relates to the proportion of the business mileage driven compared to total mileage driven.

5. Company car

5.1. VAT due on private use of company cars

VAT related to a passenger car used as a company car is fully non-deductible for most companies due to private use of the car. Due to the restricted right to deduct input VAT, private use of a company car is not additionally taxed for VAT purposes.

For certain companies such as car retailers, VAT on a passenger car used solely as a company car is also non-deductible. However, a car retailer may benefit from a partial VAT deduction related to a company car. Under certain circumstances VAT related to passenger cars used both as a company car and demonstration car is deductible to the extent the car is used for demonstration purposes. Splitting of input VAT can be made e.g. based on mileage.

5.2. Company car – income taxes

If an employee or his family member uses the employer's passenger car or van for private purposes, this gives rise to a taxable company car benefit. Commuting between home and the employee's usual workplace is considered as private driving for tax purposes. If the employee uses the company car only for business travel, no taxable benefit occurs. It should be noted that the absence of private use has to be proved to the tax authorities if required, since even minor private use is considered to create a taxable company car benefit. Thus, if the car is not used for private purposes, the employee should keep a driver's log.

The value of benefits received from an employer is included in the employee's taxable employment income and taxed at a progressive tax rate according to the tax rate in the employee's tax withholding card.

The taxable value of the company car benefit depends on the year when the vehicle was taken into use (i.e., registration date). The value is also affected by the nature of the car benefit, i.e., whether the benefit is regarded as an unlimited or limited company car benefit. The benefit is considered to be unlimited company car benefit if the employer pays for all expenses related to the company car (including expenses from private use), whereas the benefit is regarded as a limited company car benefit if the employee pays at least for the fuel costs from both business and private use. The taxable values for the most common benefits are determined annually by the Decision of the Finnish Tax Administration on the valuation of taxable in-kind benefits.

The value of the benefit can be calculated on a monthly basis or alternatively based on kilometres of private use, in which case a driver's log has to be kept.

In 2020 the value of car tax benefit has been determined as follows:

- Age group A (vehicles taken into use from 2019 to 2021)
 - Unlimited company car benefit: The value of the benefit per month is 1.4% of the car's replacement price plus 270 EUR, or 0.18 EUR per kilometre.
 - Limited company car benefit: The value of the benefit per month is 1.4% of the car's replacement price plus 105 EUR, or 0.07 EUR per kilometre.
- Age group B (from 2016 to 2018)
 - Unlimited company car benefit: The value of the benefit per month is 1.2% of the car's replacement price plus 285 EUR or 0.19 EUR per kilometre.
 - Limited company car benefit: The value of the benefit per month is 1.2% of the car's replacement price plus 120 EUR, or 0.08 EUR per kilometre.
- Age group C (before 2016)
 - Unlimited company car benefit: The value of the benefit is 0.9% per month of the car's replacement price plus 300 EUR, or 0.20 EUR per kilometre.
 - Limited company car benefit: The value of the benefit is 0.9% per month of the car's replacement price plus 135 EUR, or 0.09 EUR per kilometre.

In the case of all-electric cars which run entirely on electricity, the taxable value of an unlimited company-car benefit is reduced, by subtracting either 0.08 EUR per kilometre, or alternatively, 120 EUR from the monthly value. The aforementioned is not applicable to the limited company-car benefit.

If the car has zero emissions and is registered 2020 or later, 170 euros is reduced from the car benefit value for each month. This reduction is temporary and valid until the end of 2025.

The employee must keep a driver's log or provide the Finnish Tax Administration with some other reliable documentation if the benefit is valued based on the amount of kilometres. The following facts regarding work-related driving must be entered daily in the driver's log:

- Start and end hours
- Start and end locations, and the route driven, as necessary
- Odometer readings at start and end
- Distance travelled
- Purpose of the trip
- User of the vehicle

The taxable value for the company car benefit is calculated based on the estimation that the amount of private use is 18,000km per calendar year. The tax authorities may increase the taxable value of the company car benefit in the final tax assessment in case it is obvious that the kilometres relating to private driving obviously exceed 18,000km. Also, if work-related driving exceeds 30,000km during the calendar year or if the employee constantly switches from one vehicle to another, the basic value of the benefit can be reduced by 20%.

6. Income taxes – drivers' personal taxation

6.1. Private use

The costs for the private use of a car are not deductible with the exception of the cost for commuting to and from work (for more information please see section 6.2.).

6.2. Commuter traffic

The costs from commuting to and from work are deductible in the employee's taxation as costs for commuting to and from work. The maximum deductible amount is 7,000 EUR per year and the self-risk is 750 EUR per year, so that in order to be eligible for full deduction, the costs can be up to 7,750 EUR. The costs are deductible according to the least expensive means of travel, which in most cases is public transportation.

In case public transportation is not available, the costs for the use of an employee's own car can be deducted. The deductible amount is 0.25 EUR per kilometre in 2020.

In the case the taxpayer has a company car benefit, the deductible amount is also calculated according to the least expensive means of travel. In case the costs are calculated according to the use of an employee's own car, the deductible amount if the taxpayer has a company car benefit (limited or unlimited) is 0.19 EUR per kilometre in 2020.

6.3. Business kilometers

Work-related travel costs are reimbursable by the employer tax-free. The maximum tax-exempt reimbursement is 0.44 EUR per kilometre and 0.10 EUR per kilometre if the taxpayer has a limited car benefit (tax year 2021). The maximum reimbursement of 0.44 EUR can be raised in situations indicated in the Decision of the Tax Administration on tax-exempt allowances for travel expenses for the appropriate tax year.

If the employee has used his own car for work-related travel and the costs have not been reimbursed by the employer, the costs are deductible as work-related expenses. In this case the actual costs are deductible. However, a standard deduction of 750 EUR per year is automatically deducted from employment income to cover work-related expenses, so in practice only costs exceeding 750 EUR per year are deductible. If the taxpayer is unable to show the actual costs, the costs for the use of the taxpayer's own car is determined to be 0.25 EUR per kilometre and 0.10 EUR per kilometre if the taxpayer has a limited car benefit.

7. *Electric vehicles*

In general, electric vehicles are taxed in the same way as all the other cars in Finland. As the car tax rates and the amount of daily vehicle tax are mostly calculated based on the emissions of the car in question, the amount of tax paid can, in most cases, be lower than for a normal vehicle. If the driving force of the car is solely electricity, the amount of vehicle tax on the passenger car levied per day is 0.146 EUR, i.e., it is determined based on the lowest rate applicable to cars in Finland.

Relating to vehicle tax, the power force tax is 0.015 EUR per 100kg of the total mass of the car levied per day if the power force of the car is electricity only. The power force tax is 0.005 EUR per 100kg of the total mass of the car levied per day if the car works with both petrol and electricity and 0.049 EUR if the car works with both diesel oil and electricity.

From 1.10.2021 onwards, car tax is no longer applicable for fully electric cars and hydrogen cars. The exemption only relates to electric cars, which are registered for the first time after 1.10.2021. The vehicle tax is raised by 0,178 euros per day for these vehicles.

8. *Legal background*

- Finnish VAT Act
- Finnish Car Tax Act
- Ordinance on registration of vehicles
- Act on fuel fee
- Act on vehicle tax
- Act on tire fee
- Finnish Income Tax Act
- Decision of the Finnish Tax Administration on the valuation of taxable in-kind benefits to be applied in 2021
- Decision of the Tax Administration on tax-exempt allowances for travel expenses in 2021

France

1. Car registration

1.1. When does a car need to be registered?

From the moment a new or second-hand vehicle is put into free circulation on French public roads, the vehicle should be registered in France.

Also, whenever a vehicle changes ownership and is intended to be used on French public roads, a new registration for the vehicle has to be requested.

The registration must be completed within one month from the acquisition, regardless whether the vehicle was acquired in France or abroad. The registration is completed either online or through a habilitated car professional intermediary.

1.2. Who can register a car?

A car must be registered in France in the name of the legal owner.

The individual holder of the registration certificate of the vehicle must hold the corresponding driving license. If the individual owner does not possess the driving license, the registration must be carried out on behalf of a person who holds the corresponding driving license and who is designated by the owner.

Within the national vehicle registration system, the registration may be completed anywhere in France, regardless of the department where the owner resides or has its registered office.

1.3. Can a vehicle with a foreign number plate be used on public roads?

In principle, if resident in France, the owner of a car that is driven on French public roads needs to register the car in France.

In case of transfer of permanent residence to France, the registration shall be completed in France within one month from arrival.

A car with foreign number plates can be used on French public roads by a person not resident in France.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in France, several car taxes become due, including, in particular, the following:

- vehicle registration tax,
- supplemental taxes for vehicles with high CO₂ emissions, and
- tax on company cars.

2.2. Vehicle registration tax

2.2.1. Taxable event

Registration tax must be paid to obtain the issue of the registration certificate (the so-called “carte grise”). The amount of tax is based on the horsepower of the vehicle and varies depending on the region of permanent residence of the owner, the lessee (in case of financial lease or lease of at least two years) or the establishment to which the vehicle is allocated if the owner is a legal entity or an entrepreneur using the vehicle for professional purposes.

Non-polluting vehicles equipped for running exclusively or partially on electricity, natural gas, liquefied petroleum gas (LPG) or superethanol E85 may be wholly or partially exempted from registration tax through a deliberation of the competent regional council.

Vehicles using exclusively electric energy, hydrogen, or the combination of two, are exempt from the registration tax as of right since 1 January 2020.

This tax is also charged upon re-registration, further to a change of ownership of a vehicle already registered in France.

2.2.2. Taxable person

In principle, the tax is due by the person in whose name the vehicle is registered.

2.2.3. Tax due

Registration tax is based on both the cylinder capacity of the vehicle (expressed in taxable or fiscal horsepower) and the power of the engine (kilowatt hours). The tax due is proportional and fixed. The amount of the proportional tax depends on the unit rate, by horse, fixed for each region by the regional council.

2.2.4. Tax period

Whenever a vehicle is (re-)registered by a new owner/user.

2.2.5. Additional tax

Additional registration tax is applicable upon (re-)registration of road transport vehicles. The amount of this tax depends on the gross vehicle weight and varies from € 30 to € 305.

2.3. Supplemental tax for vehicles with high CO₂ emissions

In order to encourage the purchase and use of vehicles with low CO₂ emissions, a surcharge assessed on the basis of the CO₂ emissions of each vehicle is applied to the vehicle registration tax.

The tax rules vary depending on whether the vehicle was registered before January 1, 2008.

2.3.1. Vehicles registered before January 1, 2008

2.3.1.1. Taxable event

Polluting vehicles owned, leased or used from January 1, 2006 and that were put into circulation from June 2004 are subject to a registration tax surcharge when their CO₂ emissions rate exceeds 200g/km.

This tax is not applicable for vehicles registered for the first time in France after January 1, 2008.

2.3.1.2. Taxable person

In principle, the tax is due by the person in whose name the vehicle is registered.

2.3.1.3. Tax due

For private cars having been granted EC Type Approval within the meaning of Directive 70/156/EEC regarding the approximation of the laws of the member states relating to the Type Approval of motor vehicles and their trailers, the tax is based on the number of grams of carbon dioxide emitted per kilometre:

Number of g/km of CO ₂	Amount per g [€]
Up to 200	0
Over 200 and less than or equal to 250	2
Over 250	4

For private cars other than those mentioned above, the tax is based on the engine rating for administrative purposes (article 1010 bis of the French Tax Code):

Taxable hp	Tax (flat amount in €)
Lower than or equal to 9	0

Higher than or equal to 10 and less or equal to 11	100
Higher than or equal to 12 and less or equal to 14	300
Higher than or equal to 15	1000

The tax is reduced by one-tenth per year since the date of first registration.

2.3.1.4. Tax period

Whenever a vehicle is (re-)registered by a new owner/user.

2.3.2. Vehicles registered for the first time after January 1, 2008

In order to encourage the purchase and use of environmentally friendly vehicles, a bonus malus system has been in force since January 1, 2008.

Under this system, a supplemental tax (“*Ecopastille*”) is payable on registrations of vehicles with high CO2 emissions performed for the first time in France after that date.

On the other hand, until April 2015, purchasers or hirers of a new vehicle replacing a scrapped vehicle more than 15 years old, obtained a bonus of € 200 in 2013, 2014 and 2015. Since April 2015, a new superbonus system has been in force (“*prime de conversion*”).

2.3.3. Supplemental tax (“*écopastille*” or malus system)

Taxable event

The *écopastille* supplemental tax is due for any new private vehicle registered for the first time in France (Article 1011 bis of the French Tax Code):

- that has been granted EC Type Approval and whose CO2 emissions rate is higher than 155g/km in 2010, 150g/km in 2011, 141g/km in 2012, 135g/km in 2013 and 130g/km in 2014, 2015, 2016, 126g/km in 2017, 119 g/km in 2018, 116g/km in 2019 and 110g/km in 2020;
- that has not been granted EC Type Approval, but whose taxable horsepower is higher than 5hp in 2014, 2015, 2016, 2017, 2018, 2019 and 2020.

Subsequent registrations of second-hand cars that were registered for the first time in 2008 are exempt from the supplemental tax.

The second-hand cars registered in another country and imported into France benefit from an allowance. The tax is reduced by a tenth for each starting year since their registration.

Taxable person

The “*écopastille*” is in principle payable by the first person who registers the vehicle in his name.

Tax due

For a private vehicle that has been granted EC Type Approval and whose CO₂ emissions exceed a certain level, the amount of supplemental tax is as follows (Article 1011 bis of the French Tax Code):

Amount of supplemental tax (€)	
<i>Year of registration</i>	<i>2018</i>
<i>CO₂ emissions rate (g/km)</i>	
Rate ≤ 119	0
120	50
121	53
122	60
123	73
124	90
125	113
126	140
127	173
128	210
129	253
130	300
131	353
132	410
133	473
134	540
135	613
136	690
137	773
138	860
139	953
140	1 050
141	1 153
142	1 260
143	1 373
144	1 490
145	1 613
146	1 740
147	1 873
148	2 010
149	2 153

150	2 300
151	2 453
152	2 610
153	2 773
154	2 940
155	3 113
156	3 290
157	3 473
158	3 660
159	3 853
160	4 050
161	4 253
162	4 460
163	4 673
164	4 890
165	5 113
166	5 340
167	5 573
168	5 810
169	6 053
170	6 300
171	6 553
172	6 810
173	7 073
174	7 340
175	7 613
176	7 890
177	8 173
178	8 460
179	8 753
180	9 050
181	9 353
182	9 660
183	9 973
184	10 290
Rate \geq 185	10 500

Amount of supplemental tax (€)	
<i>Year of registration</i>	<i>2019</i>
<i>CO2 emissions rate (g/km)</i>	
Rate ≤ 116	0
117	35
118	40
119	45
120	50
121	55
122	60
123	65
124	70
125	75
126	80
127	85
128	90
129	113
130	140
131	173
132	210
133	253
134	300
135	353
136	410
137	473
138	540
139	613
140	690
141	773

142	860
143	953
144	1 050
145	1 101
146	1 153
147	1 260
148	1 373
149	1 490
150	1 613
151	1 740
152	1 873
153	2 010
154	2 153
155	2 300
156	2 453
157	2 610
158	2 773
159	2 940
160	3 113
161	3 290
162	3 473
163	3 660
164	3 756
165	3 853
166	4 050
167	4 253
168	4 460
169	4 673

170	4 890
171	5 113
172	5 340
173	5 573
174	5 810
175	6 053
176	6 300
177	6 553
178	6 810
179	7 073
180	7 340
181	7 613
182	7 890
183	8 173
184	8 460
185	8 753
186	9 050
187	9 353
188	9 660
189	9 973
190	10 290
Rate \geq 191	10 500

Since 1 March 2020, the new European method, namely Worldwide Harmonized Light Vehicles Test Procedure, applies in France.

The following scale is applicable until March 1, 2020:

Amount of supplemental tax (€)	
<i>Year of registration</i> 2020	
<i>CO2 emissions rate (g/km)</i>	
Rate ≤ 110	0
110	50
111	75
112	100
113	125
114	150
115	170
116	190
117	210
118	230
119	240
120	260
121	280
122	310
123	330
124	360
125	400
126	450
127	540
128	650
129	740
130	818
131	898
132	983
133	1 074
134	1 172

135	1 276
136	1 386
137	1 504
138	1 629
139	1 761
140	1 901
141	2 049
142	2 205
143	2 370
144	2 544
145	2 726
146	2 918
147	3 119
148	3 331
149	3 552
150	3 784
151	4 026
152	4 279
153	4 543
154	4 818
155	5 105
156	5 404
157	5 715
158	6 039
159	6 375
160	6 724
161	7 086
162	7 462
163	7 851
164	8 254
165	8 671
166	9 103

167	9 950
168	10 011
169	10 488
170	10 980
171	11 488
172	12 012
173	12 552
174	13 109
175	13 682
176	14 273
177	14 881
178	15 506
179	16 149
180	16 810
181	17 490
182	18 188
183	18 905
184	19 641
Rate \geq 184	20 000

Since 1st March 2020, the following scale is applicable:

Amount of supplemental tax (€)	
<i>Year of registration 2020</i>	
<i>CO2 emissions rate (g/km)</i>	
Rate \leq 138	0
138	50
139	75
140	100
141	125
142	150
143	170

144	190
145	210
146	230
147	240
148	260
149	280
150	310
151	330
152	360
153	400
154	450
155	540
156	650
157	740
158	818
159	898
160	983
161	1 074
162	1 172
163	1 276
164	1 386
165	1 504
166	1 629
167	1 761
168	1 901
169	2 049
170	2 205
171	2 370
172	2 544
173	2 726
174	2 918
175	3 119

176	3 331
177	3 552
178	3 784
179	4 026
180	4 279
181	4 543
182	4 818
183	5 105
184	5 404
185	5 715
186	6 039
187	6 375
188	6 724
189	7 086
190	7 462
191	7 851
192	8 254
193	8 671
194	9 103
195	9 950
196	10 011
197	10 488
198	10 980
199	11 488
200	12 012
201	12 552
202	13 109
203	13 682
204	14 273
205	14 881
206	15 506
207	16 149

208	16 810
209	17 490
210	18 188
211	18 905
212	19 641
Rate \geq 212	20 000

Since January 1, 2021, the following scale is applicable:

Amount of supplemental tax (€)	
Year of registration	
CO2 emission rate (g/km)	
Rate \leq 132	
133	50
134	75
135	100
136	125
137	150
138	170
139	190
140	210
141	230
142	240
143	260
144	280
145	310
146	330
147	360
148	400
149	450

150	540
151	650
152	740
153	818
154	898
155	983
156	1 074
157	1 172
158	1 276
159	1 386
160	1 504
161	1 629
162	1 761
163	1 901
164	2 049
165	2 205
166	2 370
167	2 544
168	2 726
169	2 918
170	3 119
171	3 331
172	3 552
173	3 784
174	4 026
175	4 279
176	4 543
177	4 818
178	5 105

179	5 404
180	5 715
181	6 039
182	6 375
183	6 724
184	7 086
185	7 462
186	7 851
187	8 254
188	8 671
189	9 103
190	9 550
191	10 011
192	10 488
193	10 980
194	11 488
195	12 012
196	12 552
197	13 109
198	13 682
199	14 273
200	14 881
201	15 506
202	16 149
203	16 810
204	17 490
205	18 188
206	18 905
207	19 641

208	20 396
209	21 171
210	21 966
211	22 781
212	23 616
213	24 472
214	25 349
215	26 247
216	27 166
217	28 107
218	29 070
Rate \geq 218	30 000

For a private vehicle that has not been granted EC Type Approval, the amount of supplemental tax due in 2021 is as follows (note: for previous years, see our previous editions):

Taxable hp	Tax (€ Taxable hp)
Tax (€) Taxable hp \leq 4	0
5	250
6	2 825
7	3 425
8	5 950
9	6 550
10	9 075
11	9 675
12	12 200
13	12 800
14	15 325
15	15 925
16	18 450

17	19 150
18	22 500
19	25 000
20	27 500
≥ 21	30 000

Tax exemption and allowance

Since January 1, 2009 vehicles acquired by handicapped persons are exempt. Cars acquired by large families (at least three children) benefit from a reduction of tax.

From July 1, 2019 the tax also applies to pick-up vehicles with at least 5 seats (except those used exclusively in ski lifts and ski resorts).

For the purpose of the scales above, vehicles that have been granted EC Type Approval and running on superethanol E85 benefit from a 40% allowance on CO₂ emission rates, except if the number of g/km of CO₂ exceeds 250.

As of 2020, an exemption is also granted to vehicles used by a public person when the certificate is issued following a transfer/withdrawal of their jurisdiction. The exemption applies to the proportional regional tax, supplemental taxes on used vehicles, powerful vehicles and professional training (Articles 1599 sexdecies, 1010 bis, 1010 ter of the French Tax Code).

For registration certificates delivered as from January 1, 2021:

- are exempt from the surtax: (i) vehicles acquired by handicapped persons or by persons with a handicapped child, (ii) vehicles using exclusively electric energy, hydrogen or the combination of two;
- specific allowances apply to (i) vehicles using superethanol E85, (ii) vehicles acquired or leased by large families and (iii) vehicles with at least 8 seats acquired or leased by companies.

For vehicles registered as of January 1, 2022, the surtax should be capped to 50% of the acquisition price of the vehicle.

Tax period

When a car is registered for the first time in France by a new owner/user.

2.3.4. Bonus system

Purchasers or hirers of new environmentally friendly vehicles are awarded a bonus. This bonus is awarded, upon request, by the Agency of Services and Payment (*Agence des Services et de Paiement*) or is deducted by the seller from the price of the vehicle.

Bonus is awarded subject to several conditions. The amount of the bonus depends on the characteristics of the vehicle (Article D. 251-7 of the Energy Code).

As of January 1, 2017, only plug-in hybrid electric vehicles can benefit from the bonus.

The purchasers or lessors of the new private vehicle registered for the first time in France must be domiciled in France and must not sell the vehicle within six months following the acquisition or without having travelled less than 6,000 km.

Amount of the bonus (€)						
CO2 emissions rate (g/km)	2016	2017	2018	2019	2020	2021
Rate ≤ 20	6,300 capped at 27% of the purchase price	6,300 capped at 27% of the purchase price	6,000 capped at 27% of the purchase price	6,000 capped at 27% of the purchase price	6,000 (below 45,000) and 3,000 (between 45,000 and 60,000) capped at 27% of the purchase price for	6,000 (below 45,000) and 3,000 (between 45,000 and 60,000) capped at 27% of the purchase price for
20 < rate ≤ 60	1,000	1,000	0	0	0	1,000 provided the CO2 rate remains ≤ 50
60 < rate ≤ 110	750	0	0	0	0	

As of 2020, with the exception of light commercial vehicles and hydrogen-powered vehicles for which a bonus of € 3,000 (reduced to € 2,000 as from July 2021) is granted, vehicles with a purchase value of more than € 60,000 are not eligible for the bonus.

As of 2021, a bonus of € 1,000 for the acquisition or the leasing of used electric vehicles with a CO2 rate below 20g/km is available provided that, notably, the vehicle (i) was registered for at least 2-year at the time of its acquisition and (ii) is not sold within a 2-year period following the acquisition/renting.

Superbonus system (“*prime de conversion*”)

In addition to the abovementioned bonus, a superbonus could be granted to purchasers of a new vehicle replacing a scrapped vehicle.

Since 1st August 2019, the conditions of allocation and the amount of the superbonus are modified. To be eligible, the vehicle shall cost less than € 60,000 and emit less than 117gCO₂/km and the household must have a reference tax income per unit of less or equal to € 13,489 (Article D.251-3 of the Energy Code).

The amount of the bonus is no longer aligned with the taxable or non-taxable status of the household but with the reference tax income per unit.

The vehicle acquired must be registered for the first time and must not be sold within six months following the acquisition.

Where the fiscal household of the purchaser is taxable or for corporations, the superbonus is not granted anymore for “Crit’air 2” vehicles.

The superbonus amount is added to the bonus amount as follows:

For 2018:

Vehicle	Amount of superbonus	Maximum amount including bonus and superbonus
New electric vehicle	2,500	8,500
Electric scooter	100	350
Second-hand electric vehicle	1,000	0

For 2019:

If the fiscal household of the purchaser is effectively subject to income tax:

Vehicle	Amount of superbonus	Maximum amount including bonus and superbonus
New electric vehicle	2 500	8 500
Electric scooter	100	1 000
Second-hand electric vehicle	1 000	0

If the fiscal household of the purchaser is not effectively subject to income tax:

Vehicle	Amount of superbonus	Maximum amount including bonus and superbonus
The distance between the purchaser's home and her/his workplace is higher than 30km	80% of the purchase price (€ 5 000 maximum)	€ 11 000
The purchaser drives more than 12,000km per year with her/his personal vehicle for her/his work		
The purchaser's reference taxable income per unit is less than or equal to € 6 300		
Without condition	2 500	8 500
Electric scooter	1 100 (within the limit of the purchase cost including VAT)	2 000

As of 1st August 2019, the amount of the superbonus system is determined as follows:

- € 2,500 for the purchase of a new or second-hand electric or plug-in hybrid vehicle;
- € 1,500 for the purchase of a thermic vehicle Crit'air 1;
- € 1,500 for the purchase of a Crit'air 2 thermic vehicle registered after 1st September 2019.

These amounts are doubled for households whose reference tax income per unit is less or equal to € 6,300, as well as for households eligible for the bonus and living more than 30 kilometers away from their work or driving more than 12,000 kilometers a year in their personal vehicle for work.

As of 1st January 2020, a general reduction of the amounts of the bonus entered into force. For private individuals, the bonus is maintained at € 6,000 for vehicles under € 45,000 value and reduced to € 3,000 in the event of the acquisition of a vehicle priced between € 45,000 and € 60,000. For companies, the aid may not exceed € 3,000.

For vehicles with acquisition cost of more than € 60,000, the amount of the bonus is reduced to zero, except for light commercial vehicles and hydrogen vehicles, which retain a purchase aid of € 3,000.

As of 1st July, 2021, the super bonus is capped to (i) € 5,000 for electric and hybrid vehicles (€ 3,000 if the autonomy is lower than 50 km) provided that the acquisition price does not exceed € 60,000 and € 3,000 for vehicles identified as "Crit'Air 1" provided that the acquisition price does not exceed € 50,000.

2.4. Tax on company cars

2.4.1. Vehicles subject to tax on company cars

Companies with a registered office or a branch in France must declare the vehicles they own, lease, or use and pay an annual tax on company cars (irrespective of the state in which the vehicles are registered).

Fall within the scope of this tax:

- All private vehicles owned or used by a company, irrespective of how the vehicle is used;
- Company cars registered outside France are also taxable insofar as they are used in France. The tax also applies to industrial cars, station wagons and minibuses with less than ten seats, excluding cars designed exclusively for commercial or industrial activities (trucks, pickups, public transport vehicles and special purpose vehicles, such as ambulances);
- Advertising vehicles;
- Private cars used by employees for business purposes also fall within the scope of the tax on company cars, depending on the mileage allowance paid by the company (if the number of kilometers is less than or equal to 15,000km: exempt; if greater than 15,000km: the tax is due);
- Since January 1, 2019 the tax on company cars also applies on pick-up vehicles with at least 5 seats.

The tax on company cars is not deductible for corporate income purposes.

2.4.2. The two components of the tax

The tax on company cars is composed of two components: (i) the 1st component is based on CO₂ emissions and (ii) the 2nd component is based on the type of fuel used.

With respect to cars owned, leased or used by a company from January 1, 2006 that were put into circulation as from June 1, 2004 and that do not fall within the scope of the new registration system, the 1st component of the tax varies depending on the CO₂ emission rate:

CO ₂ emissions rate (g/km)	Tax per CO ₂ g (€)
≤ 20	0
> 20 ≤ 60	1
> 60 ≤ 100	2
> 100 ≤ 120	4.5
> 120 ≤ 140	6.5
> 140 ≤ 160	13
> 160 ≤ 200	19.5
> 200 ≤ 250	23.5
> 250	29

As from 1 March 2020, revised rates are applicable to the 1st component of the tax with respect to vehicles subject to the new registration system, defined as vehicles falling within categories M1, M2, N1 and N2 for which the first registration in France is issued as from March 1, 2020 (note: this system does not apply to vehicles for which the CO₂ emissions have not been determined or cannot be determined):

CO ₂ emissions rate (g/km)	Tax per CO ₂ g (€)
≤ 20	0
> 20 ≤ 50	1
> 50 ≤ 120	2
> 120 ≤ 150	4.5
> 150 ≤ 170	6.5
> 170 ≤ 190	13
> 190 ≤ 230	19.5
> 230 ≤ 270	23.5
> 270	29

As from January 1, 2021, the revised rates applicable to the 1st component of the tax is as follows:

Year of registration 2021			
CO ₂ emission rate (g/km)	Amount of supplemental tax (€)	CO ₂ emission rate (g/km)	Amount of supplemental tax (€)
21	17	147	500
22	18	148	518
23	18	149	551

24	19	150	600
25	20	151	664
26	21	152	730
27	22	153	796
28	22	154	847
29	23	155	899
30	24	156	952
31	25	157	1 005
32	26	158	1 059
33	26	159	1 113
34	27	160	1 168
35	28	161	1 224
36	29	162	1 280
37	30	163	1 337
38	30	164	1 394
39	31	165	1 452
40	32	166	1 511
41	33	167	1 570
42	34	168	1 630
43	34	169	1 690
44	35	170	1 751
45	36	171	1 813
46	37	172	1 875
47	38	173	1 938
48	38	174	2 001
49	39	175	2 065
50	40	176	2 130
51	41	177	2 195
52	42	178	2 261

53	42	179	2 327
54	43	180	2 394
55	44	181	2 480
56	45	182	2 548
57	46	183	2 617
58	46	184	2 686
59	47	185	2 757
60	48	186	2 827
61	49	187	2 899
62	50	188	2 970
63	50	189	3 043
64	51	190	3 116
65	52	191	3 190
66	53	192	3 264
67	54	193	3 300
68	54	194	3 337
69	55	195	3 374
70	56	196	3 410
71	57	197	3 448
72	58	198	3 485
73	58	199	3 522
74	59	200	3 580
75	60	201	3 618
76	61	202	3 676
77	62	203	3 735
78	117	204	3 774
79	119	205	3 813
80	120	206	3 852
81	122	207	3 892

82	123	208	3 952
83	125	209	3 992
84	126	210	4 032
85	128	211	4 072
86	129	212	4 113
87	131	213	4 175
88	132	214	4 216
89	134	215	4 257
90	135	216	4 298
91	137	217	4 340
92	138	218	4 404
93	140	219	4 446
94	141	220	4 488
95	143	221	4 531
96	144	222	4 573
97	146	223	4 638
98	147	224	4 682
99	149	225	4 725
100	150	226	4 769
101	162	227	4 812
102	163	228	4 880
103	165	229	4 924
104	166	230	4 968
105	168	231	5 036
106	170	232	5 081
107	171	233	5 150
108	173	234	5 218
109	174	235	5 288
110	176	236	5 334

111	178	237	5 404
112	179	238	5 474
113	181	239	5 521
114	182	240	5 592
115	184	241	5 664
116	186	242	5 735
117	187	243	5 783
118	189	244	5 856
119	190	245	5 929
120	192	246	6 002
121	194	247	6 052
122	195	248	6 126
123	197	249	6 200
124	198	250	6 250
125	200	251	6 325
126	202	252	6 401
127	203	253	6 477
128	218	254	6 528
129	232	255	6 605
130	247	256	6 682
131	249	257	6 733
132	264	258	6 811
133	266	259	6 889
134	295	260	6 968
135	311	261	7 047
136	326	262	7 126
137	343	263	7 206
138	359	264	7 286
139	375	265	7 367

140	392	266	7 448
141	409	267	7 529
142	426	268	7 638
143	443	269	7 747
144	461	>269	29 x g/km
145	479	-	-
146	482	-	-

For cars that do not meet the above conditions (e.g., cars put into circulation before June 2004), the amount of tax per vehicle is as follows:

Taxable hp	Annual tax (€)
3 or less	750
4-6	1,400
7-10	3,000
11-15	3,600
Above 15	4,500

The 2nd component of the tax on company cars depends on the type of fuel used and the year of first registration and is determined as follows:

Year of first registration of the vehicle	Petrol & assimilated (€)	Diesel & assimilated (€)
Until December 31 st 2000	70	600
From 2001 to 2005	45	400
From 2006 to 2010	45	300
From 2011 to 2014	45	100
From 2015	20	40

For the purpose of the 2nd component, “Diesel & assimilated” refers to diesel driven vehicles as well as vehicles combining an electric motor and diesel motor emitting (i) more than 120 CO₂ g/km in case of vehicles subject to new registration system or (ii) 100 CO₂ g/km for other vehicles. “Petrol & assimilated” refers to all other vehicles. This 2nd component is not applicable to fully electric vehicles.

As of January 1, 2022, the tax on company cars will be replaced by two new taxes comprising the first and second components of the TVS.

2.4.3. Tax exemptions

The tax is not payable on vehicles intended exclusively for sale, short-term rental, or for transportation purposes (e.g., taxis), when such activities are part of the company’s normal business operations or for vehicles used for agriculture.

Temporary exemption from the 1st component of the tax applies during a period of 12 trimesters starting from the 1st day of the trimester during which the vehicle is put into circulation, to hybrid vehicles combining (i) electric energy with petrol, liquefied petroleum gas, natural gas or E85 superethanol or (ii) petrol with natural gas or liquefied petroleum gas and (iii) whose CO₂ emission rates are lower or equal to:

- 120g/km for vehicles subject to the new registration system;
- 100g/km for other vehicles,

This exemption is final for (i) vehicles subject to the new registration system provided their CO₂ emissions are lower or equal to 50g/km and (ii) for other vehicles provided their CO₂ emissions are lower or equal to 60g/km.

2.4.4. Tax period

The tax on company cars is an annual tax, payable in quarterly installments.

Since 2018, the tax period corresponds to the calendar year (for the record, the past tax period was from October 1, n to September 30, n+1).

3. Corporate income tax

3.1. Level of deduction

The annual depreciation rate for vehicles is generally 20% to 25%.

There are, however, some exceptions. For example, new vehicles acquired before January 1, 2010 and running, exclusively or not, on electricity, natural gas, LPG or superethanol E85 were eligible to accelerated depreciation for tax purposes over 12 months.

Also, for new “clean energy” trucks, running on electricity, natural gas, biomethane, ED95, hydrogen, B10 and acquired before 31 December 2021, additional depreciation is allowed for tax purposes (ranging from 20% to 60% depending on the authorized loaded weight and type of energy used) as per the provisions of Article 39 *decies* A of the French Tax Code.

3.1.1. Limitation on amortizable basis applicable to passenger vehicles

Vehicles are subject to depreciation on the basis of their acquisition cost. However, for passenger vehicles, the deduction of depreciation allowance for tax purposes is capped to a portion of the acquisition price depending on the acquisition date and CO₂ emission rates of the vehicle.

This limitation applies to passenger cars put into circulation for the 1st time as from 1 June 2004. Pursuant to the French tax authorities, are outside the scope of this limitation cars used for the purposes of persons’ transport activities, including taxis, driving school vehicles, ambulances, car rental companies.

For cars leased under a financial lease of three months or more, the lessee must add back to its taxable basis the portion of the lease charges corresponding to the lessor’s depreciation exceeding the applicable cap.

Accumulators and other specific GPL or GNV equipment can be excluded from the calculation basis subject to the cap if they are invoiced and recorded separately on the balance sheet.

All expenses, other than depreciation (e.g., fuel, repairs, maintenance costs etc) are deductible for corporate income tax purposes under standard rules.

For passenger vehicles subject to the new registration system, in the meaning of Article 1007, 4° of the French Tax Code, the applicable depreciation basis cap is:

- € 30,000 if CO₂ emission rate is below 20g/km;
- € 20,300 if CO₂ emission rate is higher or equal to 20g/km and below 50g/km;
- € 18,300 if CO₂ emission rate is higher or equal to 50g/km and below 160g/km;

- € 9,900 if CO₂ emission exceeds 160g/km for vehicles acquired as from January 1, 2021.

For all other passenger vehicles, the depreciation basis cap is (i) € 30,000 if CO₂ emission rate is below 20g/km or (ii) € 20,300 if CO₂ emission rate is higher or equal to 20g/km and below 60g/km or (iii) € 18,300 if CO₂ emission rate is higher and equal to 60g/km and below 130g/km. The cap is reduced to € 9,900 if CO₂ emission rate exceeds:

- 155g/km for vehicles acquired between 1 January 2017 and 31 December 2017;
- 150g/km for vehicles acquired between 1 January 2018 and 31 December 2018;
- 140g/km for vehicles acquired between 1 January 2019 and 31 December 2019;
- 135g/km for vehicles acquired between 1 January 2020 and 31 December 2020;
- 130g/km for vehicles acquired as from 1 January 2021.

4. VAT

4.1. General

The purchase or lease of cars, as well as the various services or goods in connection with vehicles, are subject to the standard 20% VAT rate.

4.2. Deduction

VAT incurred on the purchase price or car lease rentals is generally not deductible, regardless of the use of the vehicle (private or mixed use).

Thus, input VAT is generally not deductible, subject to the following exceptions eligible for VAT deduction:

- Vehicles that are intended to be re-sold as new;
- Vehicles to be leased;
- Road vehicles with eight seats or more (in addition to the driver's seat) that are used by companies to transport their staff to their place of work;
- Vehicles acquired by public transport companies and used exclusively for transportation purposes, e.g., taxis, hearses, buses;
- Vehicles used exclusively for driving tuition;
- Trucks, pickup trucks, vans, etc.

Vehicle spare parts, accessories and services of any type whatsoever cannot be deducted when related to vehicles not eligible for VAT deduction. Car phones installed in vehicles are not considered to be accessories and consequently are eligible for VAT deduction (if used for business purposes) as are car park charges, motorway tolls and 80% of the VAT on diesel fuel.

VAT incurred on liquefied petroleum gas (LPG) and natural gas used is deductible, without restriction. Since January 1, 2008, the coefficient of admission of these products is equal to one.

VAT incurred on petroleum gas and kerosene is deductible at a 50% rate. The coefficient of admission of these products is equal to one when related to vehicles eligible for VAT deduction.

VAT incurred on petrol used as fuel is fully deductible when related to car tests (engine manufacturing).

Since January 1, 2017, in order to align the VAT treatment of petrol and diesel, the non-deductible portion of VAT on petrol is progressively reduced as follows:

As of	% of VAT recovery right	
	Vehicles not eligible for VAT deduction	Vehicles eligible for VAT deduction (utility vehicle...)
1 st January 2017	10%	0%
1 st January 2018	20%	20%
1 st January 2019	40%	40%
1 st January 2020	60%	60%
1 st January 2021	80%	80%
1 st January 2022	80%	100%

As from 1 January 2022, VAT on petrol used as fuel mentioned in Table B of Article 265 of the French Customs Code shall be deductible under the same conditions as those applicable to gasoil:

- the admission coefficient is equal to 80% for petrol when used as fuel for the vehicles excluded from the VAT recovery right mentioned in 6° of 2 of IV of article 206 of the Appendix II to the French Tax Code;
- the admission coefficient is equal to 100% for petrol when it is used as fuel for vehicles other than those excluded from the VAT recovery right mentioned in 6° of 2 of IV of article 206 of the Appendix II to the French Tax Code.

According to the Article 273 *septies* B of the French Tax Code, VAT incurred on electricity is deductible if the vehicles (purchased or leased) are used for business purposes.

A VAT exemption applies to supplies of cars to diplomatic missions or international organizations under certain conditions.

4.3. Second-hand car

Since July 1, 2015, any person reselling second-hand cars brought into France via an intra-community acquisition of goods is required to prove the VAT regime under which the vehicle was acquired in the other member state. This information is mandatory in order to register the cars in France. The purpose of this measure is to prevent resellers in France using the second-hand VAT regime (so called “VAT margin scheme”) for vehicles which are not eligible to this regime.

4.4. VAT due on private use of company cars

The private use of a car, which is also a business asset, does not normally give rise to a taxable “self-supply” unless the car is eligible for VAT recovery and VAT was actually recovered on the purchase of the car.

5. Income taxes – drivers’ personal taxation

The private use of a company car (including journeys to and from work) gives rise to a benefit in kind (“*avantage en nature*”), subject to social security contributions and personal income tax in the hands of the beneficiary.

Employers can estimate the value of the fringe benefits either based on the actual costs incurred (including fuel, depreciation, insurance and maintenance) or on a lump-sum basis. This is determined based on the following rules, which apply both for social security contributions and income tax purposes.

- If the company car has been purchased
 - Actual-cost method: The computation basis of the benefit in kind includes depreciation allowance over 5 years at 20% rate per year of the acquisition value (10% if the car is over five years old), as well as insurance, maintenance and fuel costs paid by the employer. The value of the benefit in kind corresponds to the total of the costs listed above, multiplied by the ratio of private miles to total miles.
 - Lump-sum cost method: The benefit in kind is based on the acquisition cost of the vehicle and amounts to 12% or 9% of this cost, depending on whether the company pays or not the fuel costs (or respectively 9% or 6% if the car is over five years old). Alternatively, fuel costs can be taken into account for their actual amount.
- If the company car has been rented
 - Actual-cost method: If the car is rented or leased with a purchase option, the value of the benefit is equal to the aggregate costs including maintenance, insurance and if so the fuel costs.
 - Lump-sum cost method: If the car is rented or leased with a purchase option, the value of the benefit in kind is equal to 30% of the aggregate costs including rentals, maintenance and insurance. If the employer pays the fuel costs, the value of the benefit in kind is equal to the said costs for 30% and fuel costs for their actual amount, or 40% of the aggregate costs including rentals, maintenance, insurance and fuel.

Company car purchased			
		Lump-sum cost method	Actual-cost method
Less than 5 years	Employers bear the gas expenses	Either 9% of the purchase price and fuel costs for their actual amount; Or 12% of the purchase price.	<ul style="list-style-type: none"> • 20% of the purchase price; • The insurance cost; • The maintenance costs; • The fuel costs, if any.
	Employers does not bear the gas expenses	9% of the purchase price.	
More than 5 years	Employer bear the gas expenses	Either 6% of the purchase price and fuel costs for their actual amount; Or 9% of the purchase price.	<ul style="list-style-type: none"> • 10% of the purchase price; • The insurance cost; • The maintenance costs; • The fuel costs, if any.
	Employer does not bear the gas expenses	6% of the purchase price.	

Company car rented		
	Lump-sum cost method	Actual-cost method
Employer bear the gas expenses	<p>Either 30% of the aggregate costs including rentals maintenance, insurance, and fuel costs for their actual amount;</p> <p>Or, 40% of the aggregate costs including rentals, maintenance, insurance and fuel costs.</p>	The aggregate costs including maintenance, insurance and if so the fuel costs.
Employer does not bear the gas expenses	30% of the aggregate costs including rentals, maintenance, insurance.	

If the employer puts at disposal of the employee for permanent use a vehicle running exclusively on electric energy, the private use of this vehicle is taxed as a fringe benefit under the same rules as above.

However, for vehicles put at disposal of the employee between January 1, 2020 and December 31, 2022, the expenses taken into consideration for the calculation of the taxable fringe benefit exclude electricity expenses paid by the employer for the recharge of the vehicle and are valued with 50% rebate and €1,800 annual cap.

Furthermore, from January 1, 2019 and until December 31, 2022, when an employer puts at disposal of an employee a charging terminal for electric vehicles, the benefit corresponding to the use of this terminal by the employee is valued nil.

6. Electric vehicles

Several specific exemptions are applicable to electric vehicles including, notably the following:

- Exemption from the proportional registration tax applicable since 1 January 2020 (Article 1599 *novodecies* A of the French Tax Code);
- Exemption from the tax on company cars (both components) for fully electric vehicles provided their CO₂ emissions are below 20g/km.

7. Others

From January 16, 2017, Paris has become the first municipality in the country to put in place the restricted traffic zone. A system of discs (known as “*Crit’Air*”) categorises passenger cars according to the type of powertrain, segment and date of first registration. Passenger cars registered before January 1, 1997 have been banned from Paris since July 2017.

Since January 1, 2018, vehicles are no longer in the scope of the French wealth tax as the latter applies now only to real estate.

8. Legal background

- French Tax Code (*Code général des impôts*)
- French Highway Code (*Code de la route*)
- French tax authorities’ guidelines published in the BOFiP-Impôts.

Germany



Dr. Alexander Unfried
Automotive Tax Leader

p: +49 711 25034 3216
e: alexander.unfried@pwc.com

Eva Mohr
Senior Manager Corporate Tax

p: +49 711 25034 3230
e: eva.mohr@pwc.com

Jens Müller-Lee
Indirect Tax Partner

p: +49 711 25034 1101
e: jens.mueller-lee@pwc.com

Annette Schuster
Manager P&O

p: +49 711 25034-1356
e: annette.schuster@pwc.com

Germany

1. Car registration

1.1. When does a car need to be registered?

New cars or second-hand cars have to be registered with the local municipality in order to obtain a local number plate as soon as they are going to be used on German public roads. Each vehicle requires a separate number plate and registration.

Since October 01, 2019, the option for internet-based processing of registration transactions, which has already been implemented in parts, has been extended to all business transactions (now also including new registration, transfer and all variants of re-registration) and automation has been expanded even further.¹⁰

1.2. Who can register a car?

In general, the person who acts as the economic owner of the car is obliged to register it. The economic owner of the car can be an individual, a company or a partnership, and does not necessarily have to be the legal owner of the car.

The economic owner in this sense is the person who bears the costs in connection with running the car and who has the right to use the car. Thus, in a long term lease it is usually the lessee who is responsible for registering the leased car.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Basically, a car can only be registered by using a German address. However, it is possible to register a car in the name of the foreign owner (legal person), mentioning the German address of the principal user (e.g., in the case of a company car). Furthermore, a foreign vehicle owner with a residence permit with a valid identity card can register his vehicle.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Cars that have been registered in another EU-country and are used in Germany have to be registered in Germany at least after one year or – earlier - if the car is usually located in Germany (e.g. if it is used by a foreign or German national who is permanently or temporarily resident in Germany). Exemptions are possible for cross-border commuters.

2. Car taxation

2.1. What are the different car taxes?

The German government levies various taxes and other charges on motoring, such as the motor vehicle tax (“Kraftfahrzeugsteuer”) but also the VAT (“Umsatzsteuer”) and excise duties on the purchase of a car and direct taxation on private use of company cars. In addition, there are other taxes in Germany directly or indirectly related to the use of vehicles, such as the fuel tax (“Energiesteuerergesetz” EnergieStG) and the truck toll (“LKW-Maut”), which are not dealt with in more detail in this article, however.

¹⁰<https://www.bmvi.de/SharedDocs/DE/Artikel/StV/Strassenverkehr/internetbasierte-fahrzeugzulassung.html>

2.2. Registration tax

There is no tax on the registration of cars in Germany. However, to obtain a number plate, a service charge (fee) is levied by the local municipality. The cost of registration depends on the municipality where the car is registered, although this sum can amount to as much as 170 EUR including the cost of the number plates.

2.3. Motor vehicle tax

2.3.1. Taxable event

Cars that are registered in Germany are subject to the German motor vehicle tax. Foreign-registered cars are subject to the German motor vehicle tax if they are used in Germany for a period of one year or more. This conforms to the registration requirements for cars used or located in Germany. If the car is used not only temporarily in Germany and accordingly needs to be registered in Germany (see section 1.4) the motor vehicle tax becomes due anyway.

Car registration is now strictly linked to a control process with the tax authorities ensuring that the registered owner or user has paid the due taxes, i.e., any delay in payment of car taxes will block the car registration process for the person who is liable to pay the taxes.

The motor vehicle tax is levied and collected by the regional customs office (“Hauptzollamt”).

2.3.2. Taxable person

The taxable person is, in general, the economic owner of the car. If a foreign-registered car runs in Germany for a period of one year or longer, the person using the car in Germany is liable to pay the car tax.

2.3.3. Tax due

The system of taxation for cars is quite complex, with a number of limited exemptions for cars with lower emissions of harmful substances, and altogether there are over 40 different tax rates which are partly still in place for older vehicles beside the new emissions-based system which is applicable for motor vehicles registered after July 1, 2009. It must be determined whether the first registration of a motor vehicle is before July 1, 2009, after June 30, 2009 or after December 31, 2020 to calculate the accurate tax due (see below).

Federal Court of Finance has confirmed that the tax rate for SUV depends on whether the SUV is designed and equipped for the transport of passengers or mainly for the transportation of goods. If the SUV classifies as passenger car the rate depends on the emissions and cubic capacity like other passenger cars (see table below). If it qualifies as commercial car/truck (transport of good) the tax rate is measured according to its weight.

Former concessions for diesel vehicles are no longer available. Tax incentives granted for the retrofitting of diesel vehicles with fine particle filters have expired on November 15, 2016. New programs for the retrofitting of diesel cars are not held out. Moreover, drivers of diesel vehicles will have to face temporary bans on driving into cities with high nitrogen oxide pollution.

The taxation for motor vehicles registered after July 1, 2009 has changed from a mere engine capacity-based tax to a mixed tax also taking CO₂-emissions into account. For cars with a date of first registration from November 5, 2008 until June 30, 2009 the financial authorities are obligated to apply the more advantageous tax legislation (article 18 section 4(a) of the Motor Vehicle Tax Act, article 3d section 2 of the Motor Vehicle Tax Act (Kraftfahrzeugsteuergesetz, or KraftStG)).

These taxation rules (article 9 section 1(2)(b) KraftStG) applicable to motor vehicles registered after July 1, 2009 have an engine capacity-based component of currently 2 EUR per 100cc for petrol engines and 9.50 EUR for each 100cc for diesel-driven cars. In addition, each emitted gram per kilometer of CO₂ exceeding the base emission of 95g/km is taxed by 2 EUR. For cars that have been registered for the first time between July 1, 2009 and December 31, 2011 the excess amount is calculated on a base emission of 120g/km and for cars with a first registration date between January 1, 2012 and December 31, 2013 the base emission is 110g/km, and from January 1, 2014 95g/km. This regulation applies until January 1, 2021. After December 31, 2020 the tax rate increases from the previous 2 EUR for each gram per kilometer of CO₂ emission exceeding the base emissions of 95g/km up to 4 EUR. The steps are shown below in the table.

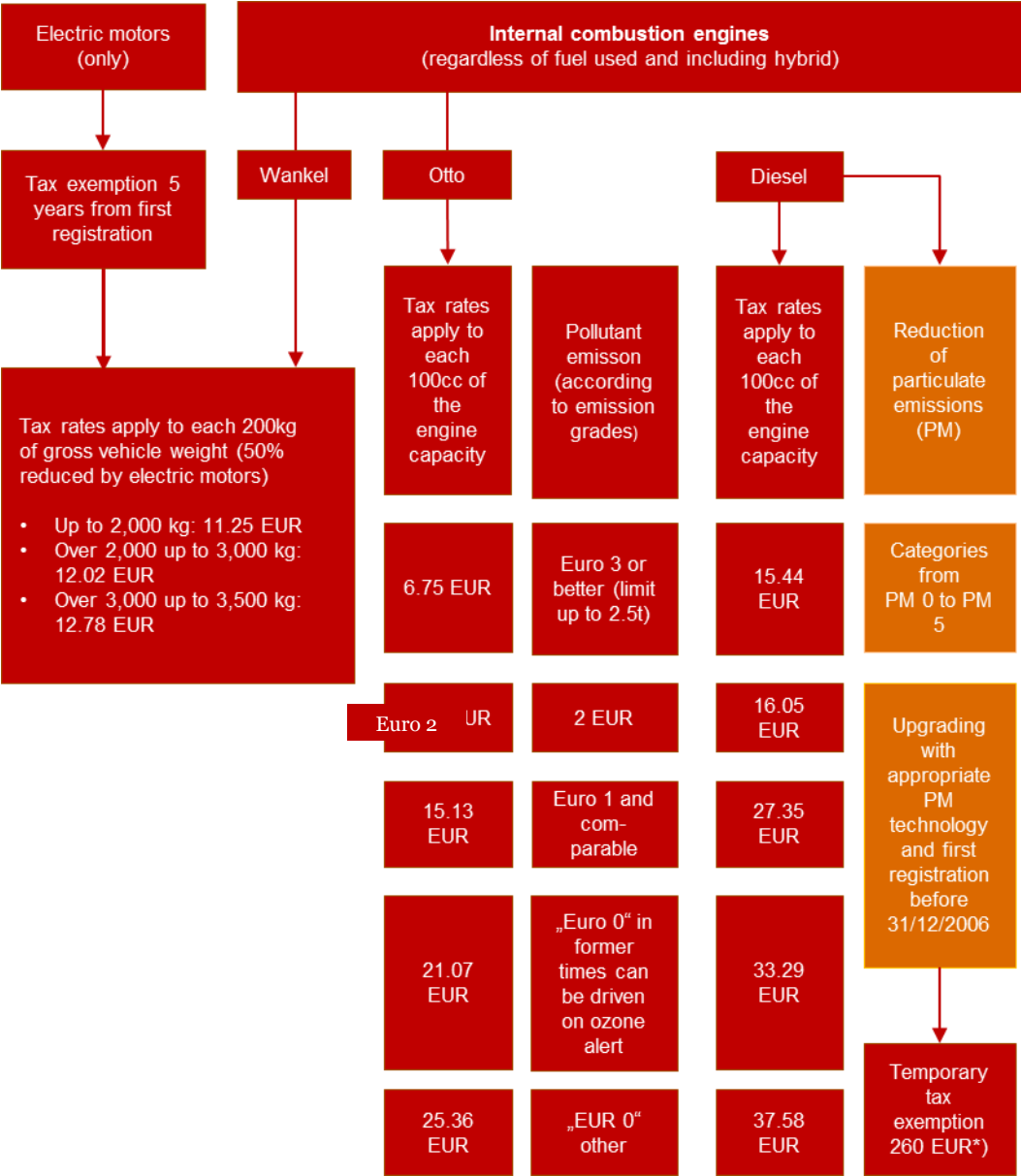
Electric cars registered between January 1, 2009 and May 17, 2011 had been tax-exempt for 5 year. Electric cars (not including full hybrid and plug-in hybrid cars) with a date of their first registration after May 17, 2011 are tax-exempt for a period of ten years. The exemption will apply to cars registered (for the first time) until December 31, 2025 or until December 31, 2030 (article 3d Section 1 of the Motor Vehicle Tax Act) and can also be claimed for cars that initially have been registered abroad. In the period from May 18, 2016 to December 31, 2025, vehicles later converted into a purely electric vehicle will be exempt from motor vehicle tax for a period of 10 years in accordance with article 3d section 4 KraftStG, irrespective of the date of first registration. In this case, the tax exemption begins on the day on which the vehicle registration office determines that the conditions have been fulfilled (day of retrofitting).

The tables below show a scheme of the different taxation of cars depending on their date of registration. The tax amounts mentioned in the table apply to each 100cc displacement of the engine. Hence, the nominal cubic capacity of the car has to be divided by 100 and multiplied by the tax amount in the table to calculate the determine amount of car tax.

Along with the implementation of the rules for a worldwide harmonized light duty test procedure (WLTP) the calculation of the CO₂-emission based part of the motor vehicle tax will refer to the WLTP-indicated CO₂ value for cars registered from September 1, 2018, instead of the currently applied “new European driving cycle”-based value assessed by the car manufacturers. In addition, the WLTP test has been gradually supplemented by the Real Driving Emissions (RDE) test since September 2017. While the WLTP test is conducted in a laboratory, the RDE test takes place on public roads. RDE effectively limits emissions of nitrogen oxides (NO_x) and particulates in real-world driving.¹¹

¹¹ <https://www.bmvi.de/SharedDocs/DE/Artikel/StV/Strassenverkehr/informationen-zu-wltp-tests.html>

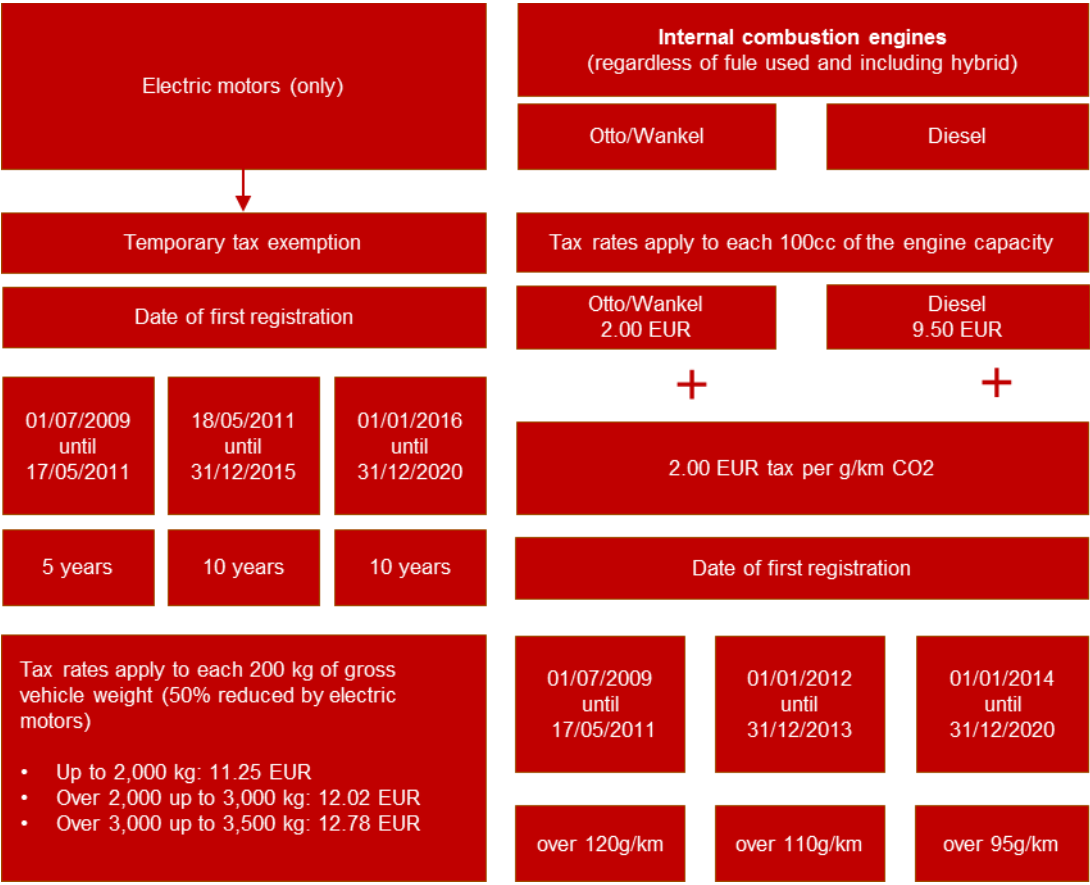
Overview of motor vehicle tax for passenger cars with registration until 30/06/2009 - Germany



Source: Main customs office (Hauptzollamt), translated by PwC

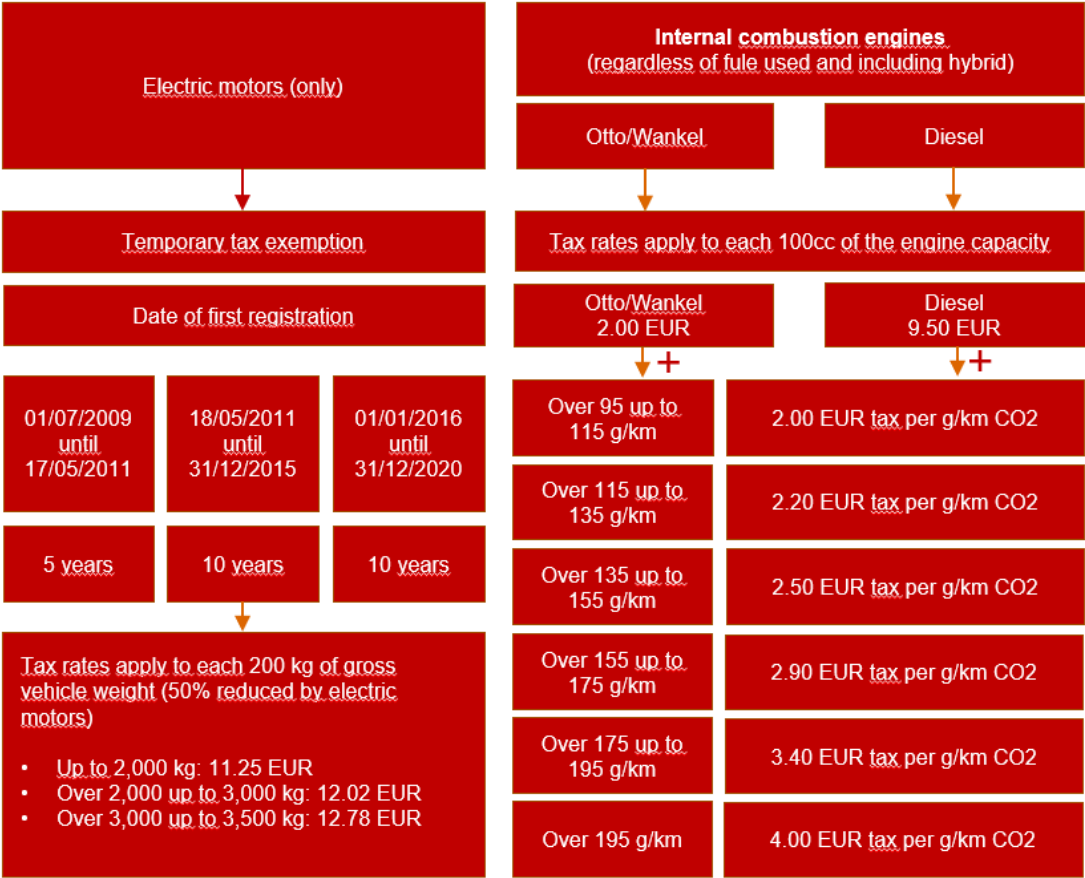
*) If upgrade is done by September 30, 2016 and registered by November 15, 2016.

Overview of motor vehicle tax for passenger cars with registration since 01/07/2009 until 31/12/2020-Germany



Source: Main custom office (Hauptzollamt), translated by PwC

Overview of motor vehicle tax for passenger cars with registration since 01/01/2021 – Germany, which only contains changes regarding the tax rate per g/km CO₂.



Source: Main custom office (Hauptzollamt), translated by PwC

2.3.4. Non-tax subsidy

For the purchase / lease of new electric cars (solely battery-operated) and fuel cell cars acquired after May 17, 2016, the owner / holder is entitled to a state supported premium of in total EUR 6,000 upon application. For plug-in hybrid cars the premium was in total EUR 4,500 with a maximum net list price of €40,000. The total premium is split into a state payment and a reduction of the purchase price. Above a net list price of 40,000 to a maximum of 65,000 euros, the environmental bonus rose to 5,000 euros for purely electric vehicles and to 3,750 euros for plug-in hybrids. The program will expire at the end of 2025. Half of the so-called “Umweltbonus” is provided by the auto dealer (dealer share) and half by a federal subsidy (federal share).

Currently, the federal government doubles the federal share for e-cars and plug-in hybrids. This innovation measure applies until the end of 2022. Electric vehicles with a net list price of up to 40,000 euros will now receive a total subsidy of 9,000 euros until the end of 2022. The federal government doubles its share to 6,000 euros, while the cardealers' own contribution remains at 3,000 euros. For plug-in hybrids, the subsidy increases to a total of 6,750 euros in the same price segment. For a new electric car with a net list price of 40,000 to a maximum of 65,000 euros, the federal government now gives a bonus of 5,000 euros, while the manufacturer contributes 2,500 euros, making a total subsidy of 7,500 euros. For a plug-in hybrid in the same price segment, the federal government doubles the share to 3,750 euros, while the manufacturer's share remains 1,875 euros, making a total subsidy of 5,625 euros.¹²

As an additional requirement plug-in hybrid must reach a minimum range of 60 kilometers due to electric drive or CO₂ emission less than 50 g/km.

Leased vehicles are eligible to the subsidy depending on the leasing period. The full subsidy is granted without reduction if the leasing period is more than 23 months.

2.4. Truck Toll System – “Lkw-Maut”

The vehicle toll system that is already applicable to trucks (vehicles for the transportation of goods with a vehicle weight of 7.5 tons and above) for the use of motorways will be extended to the use of all federal trunk roads effective as from July 1, 2018. New rates for truck tolls in Germany have been in force since October 1, 2021. The toll rate for infrastructure costs will fall retroactively to October 28, 2020, while the rate for air pollution costs will rise. Overall, the toll rates per kilometer will fall slightly depending on the pollutant class.^{13,14}

3. Direct taxation

Costs incurred to run an own or leased vehicle (passenger cars, trucks and buses) that is used for business purposes can be deducted as business expenses for direct tax purposes. The costs are deductible as depreciation of the asset or as operating expenses. All expenses must be duly supported by relevant documentation, i.e., invoices and contracts. The amortization period of passenger cars is usually five- or six years (Bundesministerium für Finanzen, 15.12.2000, BStBl. 2000 I S. 1532 (tax authority decree) and deduction is made by equal fractions. A shorter period is not accepted, even if a company expects to keep a car for less than five years.

A special depreciation for small and medium-sized electric delivery vehicles will be granted from 2020 to 2030 and will be a one-time 50 percent of the purchase costs. The special depreciation also applies to e-trucks with a minimum transport volume of one cubic meter and a payload of at least 150 kilograms.

As a further tax incentive for the lease of electric vehicles in the business sector the portion of lease expenses that regularly cannot be deducted for trade tax purposes (= effectively 5% add-back of the lease expenses for cars to the trade tax basis – not CIT) is halved for e-vehicles and plug-in hybrid cars (reducing the add-back for trade tax purposes to effectively 2.5% of the lease expense) – **if** the lease contract has been concluded after December 31, 2019.

For plug-in hybrid cars a certificate (according to Annex IX of Directive 2007/46/EC) is required stating that the vehicle has a carbon dioxide emission of not more than 50 grams per kilometer or a range of at least 60 kilometers (for contracts closed as of from January 1, 2025 – at least 80 kilometers) under exclusive use of the electrical engine.

¹² https://www.carwow.de/ratgeber/elektroauto/foerderungen-fuer-e-autos-2020-welche-zuschuesse-gibt-es?utm_source=google&utm_medium=cpc&utm_campaign=71700000040215901&utm_group=58700005407086166&utm_keyword=pr%C3%A4mie%20elektroauto&utm_term=pr%C3%A4mie+elektroauto&network=g&gclid=Cj0KCQjw5oiMBhDtARIsAJi0qk0IV6Od9kFdg_5TQiyy6MLCXb7cGtFVODCaF_-OBIUgK7rN3ive6uQaAsUKEALw_wcB&gclidsrc=aw.ds

¹³ https://www.toll-collect.de/de/toll_collect/bezahlen/maut_tarife/maut_tarife.html

¹⁴ <https://www.bmvi.de/SharedDocs/DE/Artikel/StV/Strassenverkehr/lkw-maut.html>

The reduction of the add-back rate for trade tax purposes shall apply until (and including) the tax year 2030.

4. VAT

4.1. General

The standard German VAT rate is 19% and applies to the purchase of a car itself as well as to various services or goods purchased in connection with the car. However, certain VAT exemptions are available, such as the exemption granted for intra-Community supply of goods and for the supply of goods and services to diplomatic posts and international organisations. Car insurance is also VAT-exempt.

4.2. Deduction

Companies with the right to full deduction of input VAT (i.e., not full or partly exempt businesses) can reclaim all VAT invoiced if they only use a car for business purposes (whereas the taxable provision of a company car can also qualify as a business purpose).

4.3. Hire-Purchase

Hire-purchase contracts provide the transfer of title to the asset to the lessee on conclusion of the contract due to the intended sale of the car at the end of the rental agreement. From a tax point of view, it has to be treated as a purchase from the beginning.

4.4. Leasing

Whether car leasing qualifies as a supply of service or a supply of goods for VAT purposes should generally be in line with its treatment for direct tax and accounting purposes. If a car is recorded on the tax balance sheet of a lessor, this is to be seen as a strong indication that the lease is to be qualified as a supply of service for VAT purposes. If a car is recorded as an asset on the tax balance sheet of a lessee, then the lease should be qualified as a supply of goods. Lease contracts qualify as a financial lease if the lease contract is concluded for a fixed time and if the lease payments made by the lessee in this fixed time cover at least the acquisition/manufacturing costs and related costs borne by the lessor. Otherwise, the lease qualifies as an operating lease. Typically, German leasing companies offer a financial lease with a leasing period of three or four years.

However, it should be highlighted that with the Federal Ministry of Finance ruling of 18.03.2020 on the VAT treatment of hire and leasing contracts as a supply or other service (the implementation of the ECJ ruling of 4.10.2017 - C-164/16 (Mercedes-Benz Financial Services UK Ltd.) the principle that VAT assessment according to the income tax attribution rules no longer applies. Instead, the following rule shall now be applied (simplified). For the assumption of a supply of goods under a leasing contract or a hire contract with the right to purchase, two conditions must be met. First, the contract between the lessor and the lessee must contain an explicit transfer of ownership clause. Second, ownership of the leased asset should pass automatically to the lessee upon scheduled performance of the contract.

4.4.1. Operating lease

In the case of an operating lease, the depreciation is treated as an operating expense in the profit and loss account of the lessor. The lease payments under this type of contract are treated as income in the profit and loss account of the lessor. Operating lease contracts, others than the one mentioned above, may be treated differently depending on what the parties agreed, especially with regard to the sale of the car at the end of the lease period.

4.4.2. Financial lease

If the lease contract qualifies as a financial lease, the tax and accounting treatments depend on whether the lessee has an option to buy the car or an option to extend the lease period. Further, it has to be distinguished between full-payout and non-full-payout lease agreements.

Depending on several conditions (minimum non-cancellable term, the useful life of the vehicle, the price of any lessee option to purchase the vehicle, etc.), the vehicle is treated as a fixed asset of the lessor or the lessee. In most of the cases, the vehicle has to be recorded as a fixed asset by the lessor with the consequences as described above.

5. Company car

5.1. VAT due on private use of company cars

Input VAT for acquiring, running or renting motor vehicles used for the economic activities for at least 10% can be fully deducted and the non-entrepreneurial use is subject to VAT, notwithstanding the fact whether the entrepreneur or the employee uses the car for private purposes.

The VAT on the private use (by the employees or the taxable person) has to be calculated according to the cost of the private use. There are various mechanisms to calculate this cost for VAT purposes, although the German tax authorities allow using the “1% Regulation”. Businesses generally apply this method to calculate VAT on private use.

Not applying this simplification, the value is calculated from the private mileage shown in the driver’s logbook in relation to the total annual mileage of the car multiplied by the total car-related costs booked as business expenses.

The “1% Regulation” deems the value of the private use of a company car for one calendar month to be 1% of the list price of the new car, including VAT. This amount has to be increased for the use of the car for commuting between home and office (0.03% of the list price of the car multiplied by the kilometer distance between home and office) and for trips to the family in case of a double household (0.002% of the list price of the car by the kilometer distance between place of employment and place of the household). Special calculation schemes apply for electric vehicles and plug-in hybrid vehicles according to the conditions outlined under 5.2 for income taxes but are not applicable for VAT purposes, i.e. for VAT purposes general rules do also apply for such vehicles. However, as one family trip per week is permissible as deductible professional expenses for the assignee in his annual income tax return, for employment tax purposes only the exceeding number of family trips, has to be considered in the payroll. Regardless of this employment tax ruling, all family trips have to be communicated to the accounting for VAT purposes.

Finally, due to an amendment of the income tax law, the “1% Regulation” is only applicable if the business use exceeds 50% of the total use. This restriction is applicable for fiscal years which start after December 31, 2005 (although respective legislation was enacted only in the course of the 2006 calendar year). Private use by employees (company car) is always considered to be business use, as the private use is deemed to be a taxable supply from the employer to the employee. This amendment is also decisive for VAT.

The German VAT treatment of the private use of company cars is currently questioned by the German jurisdiction and is subject to an ECJ case C-288/19.

According to the ECJ judgement dated January 20, 2021, there is no consideration for the taxable hiring of vehicle if the employee does not contribute any payment for the use of the vehicle assigned to the company, nor does the employee waive any other benefits. Instead, it is treated as a benefit in kind pursuant to section 3 para. 9a no. 1 of the German VAT Act if the vehicle gave rise to a full or partial input VAT deduction. The place of supply is determined in accordance with section 3a para. 1 of the German VAT Act. So far the German tax authorities or the Federal Ministry of Finance have not clearly communicated the impact of this judgement on German VAT application.

5.2. Company car – income taxes

The private use of a company car by an employee is considered to be a benefit in kind for German income tax purposes. The managing directors of a company are usually deemed to be employees in this context. The value of the private use is subject to wage tax and to social security contributions as well. The value of the private use can be calculated based on a driver’s logbook of business and private

journeys. The total costs of the use of the car will be divided according to the ratio between the business and private kilometers recorded in the driver's logbook. Please note, that the German tax authorities have set up high requirements for the acceptance of a driver's logbook, e.g. there is not the possibility to use a simple excel-sheet. Regardless of these requirements, it may in some cases be significantly more beneficial to use the logbook-method. For this reason, the tax implications of both methods should be examined in borderline cases.

Alternatively, the monthly benefit in kind can be calculated based on the simplified method described above (section 5.1.) as 1% of the list price of the car. In this case, the amount based on the "1% Regulation" is considered to be the value of the private use of the company car per month and subject to wage tax and social security contributions.

If the employee reimburses his employer an amount at least equal to the taxable amount of the benefit in kind, no benefit in kind will be withheld.

The wage tax on the non-cash benefit from the private use of **electric vehicles and externally rechargeable hybrid electric vehicles** (qualified within the meaning of article 3 EmoG¹⁵) is either halved or even reduced to a quarter depending on the list price. The tax relief is granted if the vehicle is used more than 50% for the purpose of the company and has been provided by the employer to the employee (including the allowance for private use) for the first time after December 31, 2018 and before January 1, 2031. Effective from January 1, 2020 full electric vehicles with a list price of up to €60,000 only have to pay tax at 25% of the 1% of the list price per year. If the list price is above €60,000, the fraction applied is only 50%. Hybrids with a minimum range of 40 kilometers with pure electric drive or maximum CO² emissions of 50 g/km will be favored from January 1, 2019 until December 31, 2021. The advantage is that only 50% of the list price is taxable per year. From January 1, 2022 to December 31, 2024, the required minimum range increases to 60 kilometers and for the last period from January 1, 2025 to December 31, 2030, the required minimum range increases to 80 kilometers. The value for the maximum CO² emissions of 50g/km remains identical over the periods. The above tax relief cannot be combined with the deduction of the lump-sum for the battery-system.

Reduction of the 1% for electric vehicles:

Acquisition period	Requirements	Assessable Fraction
January 1, 2019 – December 31, 2030	List price up to €60.000	1/4
January 1, 2019 – December 31, 2030	List price of more than €60.000	1/2

¹⁵ (Capacity covering at least 40 kilometers purely electrically or emitting a maximum of 50 grams of CO² per kilometer according to the new WLTP standard)

Reduction of the 1% for hybrid vehicles:

Acquisition period	Requirements	Assessable Fraction
January 1, 2019 – December 31, 2021	CO ₂ emission of maximum 50g/km or minimum range of 40 km electric drive	1/2
January 1, 2022 – December 31, 2024	CO ₂ emission of maximum 50g/km or minimum range of 60 km electric drive	1/2
January 1, 2025 – December 31, 2030	CO ₂ emission of maximum 50g/km or minimum range of 80 km electric drive	1/2

In case of an electric or plug-in hybrid vehicle which are acquired before January 1, 2023 and do not qualify for the above reduction of the 1%, the actual acquisition cost of the vehicle can be reduced by certain lump-sums for the inherent cost of a battery system when determining the total cost of the company for the benefit in kind. This also applies if the benefit in kind is determined by the “1% Regulation”. In this case the lump-sum for the battery-system can be deducted from the initial list price (if the battery-system is included). This lump sum depends on the year of first registration and the kWh of battery power. For cars registered in 2020 the lump sum is EUR 150 per kWh of battery power limited to EUR 6,500; for 2021 the lump sum is EUR 100 per kWh, max. EUR 6.000; for 2022 the lump sum is EUR 50 per kWh, max. EUR 5.500. For cars registered earlier the lump sums are higher.

The Federal Ministry of Finance has made it clear that in this context the date when the car has been made available to an employee for the first time is relevant rather than the acquisition date (date when the car has been purchased or leased by the employer). The new tax relief does not apply to a company car that has already been provided to any employee of the company for private use before January 1, 2019 (even if the car is let to another employee after that date). In this case the previous valuation rules for electric and plug-in hybrid vehicles (deduction for battery-system) apply.

The new tax relief is granted by using only half (respectively 25%) of the actual acquisition cost and thus the annual depreciation cost (borne by the employer or included in the leasing fee) for calculating the taxable benefit if the employee has recorded the business and private trips in a logbook. Other cost included in the total cost to be allocated count without that reduction. Under the flat-rate method (“1%-Regulation”), the initial list price (calculation basis) is halved accordingly.

Employees who can charge their electric / electro hybrid cars at a charging point station of their employer free of charge or at reduced prices - are not taxed if the benefit is provided in addition to the owed salary. The same applies if the employer provides charging equipment to the employee for private use. In this case the tax exemption only applies to the benefit derived from private use, but not from transfer of ownership. The electric power drawn from this equipment at the employee’s home is also not favored. This program will be applicable until 2030. For detailed information on the prerequisites, please refer to article 6 section 1 No. 4, EStG (income tax code), article 3 section 46, EStG (income tax code) and Bundesministerium für Finanzen (BMF), 21.09.2017 - IV C 5 S 2334/11/10004-02 (tax authority decree)

6. Income taxes – driver's personal taxation

6.1. Commuter traffic

Expenses stemming from commuting between home and the office are considered income related expenses of the employee. The employee can deduct a lump sum of 0.30 EUR per full kilometer of the distance between his home and workplace from his taxable income, regardless whether the employee has used a company car, private car or public transportation. For distances of more than 20 kilometers a lump sum of 0.38 EUR applies from kilometer 20 and above. Generally, commuting expenses can be deducted up to 4,500 EUR per annum, expenses exceeding the limit are deductible if the expenses are incurred by the employee using his own vehicle or a vehicle that has been made available to him for commuting and / or for his private use.

6.2. Business kilometres

If an employee uses his private car for business trips other than commuting between home and the office, he can deduct the expenses which are not reimbursed to him by his employer as business expenses in his personal income tax statement. Instead of deducting the actually incurred expenses, the employee can deduct a lump sum in accordance with the German Travel Expenses Act ("Bundesreisekostengesetz"), i.e., 0.30 EUR per kilometer. Exemptions to this rule apply, if the employee does not regularly commute to a specific office, but operates in a wide-ranging area. An employer can reimburse an employee for using his own car at business journeys up to a maximum of 0.30 EUR per kilometer, without the reimbursement being subject to wage tax or social security contributions. However, if an employee is reimbursed by his employer for business journeys, he is only entitled to deduct the excess motoring cost as business expense in his personal income tax return.

6.3. Recharging of batteries at workplace

As of from January 1, 2017 employers can grant a tax exempt non-cash benefit to their employees with private electric or hybrid cars and privately used (electric/hybrid) company cars (if the employee is charged for this benefit per kilometer) by allowing them to use charging facilities and infrastructure at the workplace for the recharging of the vehicles' batteries free of charge or at a reduced rate. The tax exemption does only apply if the benefit is granted in addition to the agreed salary and is not deducted from the due salary.

Employer's subsidies (in cash or in kind) to employees for the purchase of charging devices are not tax exempt. The benefit can, however, be taxed for payroll purposes at a flat-rate of 25%.

The tax exemption as well as the application of the flat tax rate are limited to 2030.

7. Future developments

The car toll system will not be introduced. In its ruling of June 18, 2019 (cf. ECJ, EuZW 2019, 688), the European Court of Justice stated that the planned levy would lead to indirect discrimination based on the driver's nationality and would also violate the freedom of movement of goods and the freedom to provide services within the EU.

From 2021, the EU Commission is obliged to monitor the real fuel consumption of passenger cars and light commercial vehicles: "Fuel Consumption Monitoring" (FCM).

Car manufacturers will have to record the actual consumption data of each individual vehicle and transmit it to the Commission. From January 1, 2020 all passenger cars and light commercial vehicles with new type approvals must therefore be equipped with an **"on-board fuel consumption meter" (OBFCM)**.

From January 1, 2021, all vehicles registered for the first time must then be fitted with an OBFCM.

8. *Legal background*

- Car tax legislation (Kraftfahrzeugsteuergesetz, or KraftStG)
- Direct tax legislation (Einkommensteuergesetz, or EStG)
- VAT legislation (Umsatzsteuergesetz, or UStG)
- Car registration legislation (Fahrzeug-Zulassungsverordnung, or FZV/Straßenverkehrs-Zulassungs-Ordnung, or StVZO)
- Bundesfernstraßenmautgesetz - BFStrMG

Greece



Mariza Sakellaridou
Partner Tax

p: +30 21 0687 4557

e: mariza.sakellaridou@pwc.com

Lina Foka
Director Tax

p: +30 21 0687 4546

e: lina.foka@pwc.com

Greece

1. Car registration

1.1. When does a car need to be registered?

Both new and second-hand cars have to be registered before they are put into circulation in Greece. Greek residents who purchase cars with foreign number plates must also register the cars (and obtain Greek plates) in order to be able to circulate them in Greece.

1.2. Who can register a car?

The owner of the car (irrespective of whether a Greek citizen or a Greek legal entity) is responsible for the registration of the car. The registration is made with the competent department of the prefecture, in the district of which the owner is resident of or established. The above also applies for leasing companies.

1.3. Is a foreign owner allowed to register a vehicle in the country?

A foreign owner – private individual – can register his car in Greece as long as he has either a permanent residence or usual abode in Greece. Foreign legal entities without any formal presence in Greece are not allowed to register company cars in Greece.

1.4. Can a vehicle with a foreign number plate be used on public roads?

EU citizens are allowed to bring their EU number plated cars into Greece and temporarily import them for a period of up to six (6) months (continuously or in aggregate in a 12-month period starting from the date of entrance) without having any tax or registration obligation.

Following the lapse of the above period, the owner should drive the car outside Greece and not re-enter it into the country for a period of at least six (6) months in order for the owner to be able to circulate it in Greece again in the future. In case the car is not driven out of Greece within the six-month period from the date of entrance, the owner of the car may request the competent authorities to immobilize it for a period of at least six months but not more than two (2) years.

The re-circulation of an immobilized car presupposes that the owner is able to prove that he had his usual abode outside of Greece for at least 185 days in the previous 12-month period.

1.5. Registration fee

Upon the time of the car registration and in order for the circulation license to be issued, the owner of the car must pay a registration fee. This fee must also be paid in the case of a replacement or renewal of the car registration.

The registration fee for private cars amounts to 75 EUR

2. Car taxation

2.1. What are the different car taxes?

The following car taxes are imposed in Greece regarding the registration and use of cars:

- Registration tax (classification duties)
- Annual circulation tax
- Car transfer tax
- Tax on luxurious living

2.2. Registration tax (Classification duties)

2.2.1. Taxable event and period

All private passenger vehicles are subject to classification duties (registration tax) before their initial circulation. The tax is paid only once, upon registration of the car.

2.2.2. Taxable person

The person liable for the payment of the classification duties is the owner of the car.

2.2.3. Tax due

Classification duties are assessed on the taxable value of the vehicle as follows by virtue of articles 121, 126 and 127 of L.2960/2001 (Greek Customs Code):

Classification duties = Taxable value x Classification rate (%)

For new cars, the taxable value is determined by the before taxes retail sales price of the car per model, type and classification, including the value of any optional (extra) equipment.

For used cars, the ex-factory value, is assessed according to the value of similar new cars of the same model, type, classification and with the same equipment, as set at the time of the car's first circulation, reduced by a rate that takes into account the age of the car (i.e., years of circulation from the car's registration) and the category of the car (i.e. sedan, station wagon etc.).

The taxable value determined after the above reduction shall be further reduced by an amount of 0.10% for each 500 kilometres exceeding the annual average which is defined as 15,000 kilometres. The reduction based on the mileage cannot be higher than 10% of the value that is determined after the above reduction. The reduction rate, as determined from all of the above calculations, cannot be higher than 95%.

The classification rate is determined on the basis of the car's taxable value and its anti-polluting technology (i.e. pursuant to the environmental requirements determined by European standards for pollutant emissions) as follows:

For passenger cars, registered for the first time in an EU Member-State until December 31,2020, whose CO2 emission (combined cycle) according to the New European Driving Cycle is:

	Taxable value (€)	Up to 14,000	14,001 – 17,000	17,001 – 20,000	20,001 – 25,000	25,001 – 30,000	Above 30,000
CO2 emission (gr/km)	Nominal rates	4%	26%	53%	62%	71%	30%
Up to 100 (decreased by 5%)		3,8%	24,7%	50,35%	58,9%	67,45%	28,5%
101 – 120 (no change)		4%	26%	53%	62%	71%	30%
121 – 140 (increased by 10%)		4,4%	28,6%	58,3%	68,2%	78,1%	33%
141 – 160 (increased by 20%)		4,8%	31,2%	63,6%	74,4%	85,2%	36%
161 – 180 (increased by 30%)		5,2%	33,8%	68,9%	80,6%	92,3%	39%
181 – 200 (increased by 40%)		5,6%	36,4%	74,2%	86,8%	99,4%	42%
201 – 250 (increased by 60%)		6,4%	41,6%	84,8%	99,2%	113,6%	48%
Above 250 (increased by 100%)		8%	52%	106%	124%	142%	60%

For passenger cars, registered for the first time, in an EU Member-State from January 1, 2021 onwards, whose CO₂ emission (combined cycle), according to the Worldwide Light Test Procedure, is:

Taxable value (€)	Up to 14,000	14,001 – 17,000	17,001 – 20,000	20,001 – 25,000	25,001 – 30,000	Above 30,000	
CO ₂ emission (gr/km)	Nominal rates	4%	26%	53%	62%	71%	30%
Up to 130 (decreased by 5%)		3,8%	24,7%	50,35%	58,9%	67,45%	28,5%
131 - 156 (no change)		4%	26%	53%	62%	71%	30%
156 - 182 (increased by 10%)		4,4%	28,6%	58,3%	68,2%	78,1%	33%
183 - 208 (increased by 20%)		4,8%	31,2%	63,6%	74,4%	85,2%	36%
209 - 234 (increased by 30%)		5,2%	33,8%	68,9%	80,6%	92,3%	39%
235 - 260 (increased by 40%)		5,6%	36,4%	74,2%	86,8%	99,4%	42%
261 - 325 (increased by 60%)		6,4%	41,6%	84,8%	99,2%	113,6%	48%
Above 325 (increased by 100%)		8%	52%	106%	124%	142%	60%

However, for cars which:

- a) Meet the specifications of the European standard for pollutant emissions EURO 6 with last classification date as to the first classification up to and including 31.8.2018 (as defined in the regulations 715/2007 and 692/2008 or 2017/1151 or their subsequent amendments) or the specifications defined in the regulation 595/2009 Euro VI, with last classification date as to the first classification up to and including 31.8.2019 (Category 1)
- b) Meet the specifications of the European standard for pollutant emissions EURO 6 and 5b with last classification date as to the first classification up to and including August 31, 2015 (as defined in the regulations 715/2007 and 692/2008 or 2017/1151 or their subsequent amendments) or the specifications of B2 or C (EEV) series defined in the directives 1999/96, 2005/55 Euro V (Category 2)
- c) Meet the specifications of the European standard for pollutant emissions EURO 6 and 5a with last classification date as to the first classification up to and including December 31, 2012 (as defined in the regulations 715/2007 and 692/2008 or their subsequent amendments) or the specifications of the directive 98/69 phase B Euro 4, B1 series of directives 1999/96, 2005/55 Euro IV etc. (Category 3)
- d) Do not meet the specifications of the European standard for pollutant emissions (Euro) of conventional technology and for which carbon dioxide emissions are not evidenced (Category 4)
- e) Do not meet with the specifications of Regulation No 168/2013 (EU) or Directive 2002/51 EC (Category 5)

The classification rate is determined as follows:

	Taxable value (€)	Up to 14,000	14,001 – 17,000	17,001 – 20,000	20,001 – 25,000	25,001 – 30,000	Above 30,000
Category	Nominal rates	4%	26%	53%	62%	71%	30%
1 (increased by 50%)		6%	39%	79,5%	93%	106,5%	45%
2 (increased by 100%)		8%	52%	106%	124%	142%	60%
3 (increased by 200%)		12%	78%	159%	186%	213%	90%
4 (increased by 200% - plus 100% increased)		24%	156%	318%	372%	426%	180%
5 (increased by 30%)		5,2%	33,8%	68,9%	80,6%	92,3%	39%

Hybrid-technology passenger cars in accordance with Directive 2007/46 and hybrid electric cars in accordance with Reg. 692/2008, with carbon dioxide emissions greater than or equal to fifty – one (51) gr/km, are exempt from the 50% of the classification duty. Hybrid cars, with carbon dioxide emissions less than or equal to fifty (50) gr/km are exempt from seventy – five (75%) of the classification duty. Purely electric cars, as determined by Reg. 692/2008 are totally exempt from the classification duty.

In addition, cars which were registered and circulated in Greece, if transported or dispatched to another Member State of the European Union or exported to a third country and returned to Greece within eight (8) years after their removal from registers of vehicles of the Ministry of Infrastructure and Transport, in order to be reclassified and re-released into circulation, shall be exempt from the classification duty (article 121, par. 7 L. 2960/2001)

Cars that have received the approval as an Individual Vehicle of Special Construction, a classification duty is imposed depending on the engine cylinder capacity, as follows:

Engine cylinder	Amount of Registration tax (€)
Up to 1,000 cubic centimeters	500
From 1,001 to 1,400 cubic centimetres	700
From 1,401 to 1,600 cubic centimetres	900
From 1,601 to 1,800 cubic centimetres	1.100
From 1,801 to 2000 cubic centimetres	1.300
Above 2001 cubic centimetres	1.500

Moreover, in order to calculate the classification rate, the competent Customs Authority determines the CO₂ emissions and the pollutant emissions as per the European standard (Euro), based on the type of approval or the announcement of it and on the corresponding certificate of conformity of the car. In case the elements of the certificate of conformity of the car and of the type of approval or of the announcement of it are not in line, the determination of the appropriate classification rate will be conducted based on the CO₂ emissions and the pollutant emissions as per the European standard that are met by the car in the construction stage and reported on the certificate of conformity. Regarding used cars, the submission of the original registration license obtained in the foreign country is also required.

In special cases where the cars do not have the above mentioned supporting documents, the Minister of Finance, of Environment and Energy, of Infrastructure and Transport and the Governor of the Independent Authority of Public Revenue jointly decide on the procedures and on the supporting documents that must be submitted to the competent Customs Authority for the characterization of the car as of anti-polluting technology and for the determination of the specifications of the directive of anti-polluting technology that the car meets by construction (article 121, par. 8 of L. 2960/2001).

By virtue of article 121a' of L. 2960/2001, the classification duty of private cars which are set at the disposal of private individuals dwelling in Greece under a leasing contact, is calculated taking into consideration the time period of use of the cars in Greece.

2.3. Annual circulation tax

2.3.1. Taxable event and period

Tax is applicable upon registration of the car and it is due annually.

2.3.2. Taxable person

The owner of the car is responsible for the payment of the circulation tax.

2.3.3. Tax due

Effective as of 2010, the annual circulation tax is re-defined on the basis of the engine capacity for old cars and CO₂ emissions for new cars. The new applicable annual circulation tax rates are determined as follows:

By virtue of article 20 of L.2948/2001 as amended byL. 4831/2021 , the following shall apply:

1. With regard to private cars that have been registered for the first time in Greece up to 2000, the annual circulation tax will be determined solely based on the engine capacity (cubic centimeters) as follows:

Class	Engine capacity (cc)	Annual circulation tax (EUR)
A	Up to 300	22
B	301–785	55
C	786–1,071	120
D	1,072–1,357	135
E	1,358–1,548	225
F	1,549–1,738	250
G	1,739–1,928	280
H	1,929–2,357	615
I	2,358–3,000	820
J	3,001–4,000	1,025
K	Above 4,001	1,230

⁵The tables apply only to private – use passenger cars, motorcycles and tricycles. Lorries, busses, public – use vehicles (eg, taxis), tractors and motorcycles are subject to annual circulation duties at different rates.

2. With regard to private cars that have been registered for the first time between 2001-2005, the annual circulation tax will be determined solely based on the engine capacity (cubic centimeters) as follows:

Class	Engine capacity (cc)	Annual circulation tax (EUR)
A	Up to 300	22
B	301–785	55
C	786–1,071	120
D	1,072–1,357	135
E	1,358–1,548	240
F	1,549–1,738	265
G	1,739–1,928	300
H	1,929–2,357	630
I	2,358–3,000	840
J	3,001–4,000	1,050
K	Above 4,001	1,260

3. With regard to private cars that have been registered for the first time in Greece after 2006 onwards, the annual circulation tax will be determined solely based on the engine capacity (cubic centimeters) as follows:

Class	Engine capacity (cc)	Annual circulation tax (EUR)
A	Up to 300	22
B	301–785	55
C	786–1,071	120
D	1,072–1,357	135
E	1,358–1,548	255
F	1,549–1,738	280
G	1,739–1,928	320
H	1,929–2,357	690
I	2,358–3,000	920
J	3,001–4,000	1,150
K	Above 4,001	1,380

4. With regard to private cars which are for the first time registered in Greece as of November 1, 2010, the annual circulation tax will be determined exclusively based on the amount of the CO₂ emissions of the car (grams per kilometre), as such will be shown on the car registration, as follows:

CO ₂ emissions scale	Annual circulation tax (EUR) (per gram)
0–90	0
91–100	0,90
101–120	0,98

121–140	1,20
141–160	1,85
161–180	2,45
181–200	2,78
201 - 250	3,05
Above 251	3,72

For cars that have been registered for the first time in an EU / EEA Member State from November 1, 2010 to December 31, 2020, the calculation shall be made in accordance with above Table.

Cars that have been registered for the first time in an EU / EEA Member State from January 1, 2021 onwards, the calculation shall be made as follows:

Range	Price
0-122	0
123-139	0,64
140-166	0,70
167-208	0,85
209-224	1,87
225-240	2,20
241-260	2,50
261-280	2,70
>281	2,85

Cars that have received the approval as an Individual Vehicle of Special Construction, a circulation tax is imposed depending on the engine cylinder capacity, as follows

Class	Engine capacity (CC)	Annual circulation tax (EUR)
A	Up to 300	22
B	301 - 785	55
C	786 - 1.071	120
D	1.072 - 1.357	135
E	1.358 - 1.548	225
F	1.549 - 1.738	250
G	1.739 - 1.928	280
H	1.929 - 2.357	615
I	2.358 - 3.000	820
J	3.001 - 4.000	1.025
K	Above 4.001	1.230

With regards to hybrid cars which have been registered first time in Greece up to October 31, 2010, of engine capacity (cubic centimetres) of up to 1.549 cc no circulation tax is due.

For hybrid cars of engine capacity of 1.549 cc and above, an amount of tax equal to 60% of that corresponding to conventional cars will be due. For the above cars, regardless of their engine capacity, that have been registered first time in Greece from November 1, 2010 onwards, an amount based on their CO₂ emission will be due, depending on their use (private or public). For electric and hydrogen cars no tax is due.

2.4. Car transfer tax

2.4.1. Taxable event

A car transfer tax is imposed on the transfer of a car's ownership.

2.4.2. Taxable person

The person liable for the payment of the car transfer tax is the new owner of the car.

2.4.3. Tax due

The amount of the tax depends on the engine capacity of the car and is determined as follows:

Category	Engine capacity (cc)	Transfer tax (EUR)
A	51 - 400	30
B	401–800	45
C	801–1,300	60
D	1,301–1,600	90
E	1,601–1,900	120
F	1,901–2,500	145
G	Above 2,501	205

2.5. Tax on luxurious living

Following the enactment of L.4111/2013 published in the Government Gazette on January 25, 2013, a new tax on luxurious living has been imposed by virtue of article 44 paragraph 1 of above mentioned law.

In particular, with regards to passenger cars the taxable basis for imposing the relevant liability will be the deemed annual expenditure of the liable car owner.

More specifically:

- With regard to passenger cars with an engine capacity between 1.929cc and 2.500cc, a tax of 5% on the annual deemed expenditure related to the car is imposed.
- With regard to passenger cars with engine capacity which exceeds 2.500cc, a tax of 13% on the annual deemed expenditure related to the car is imposed.

Engine capacity (cc)	Notional income (EUR)
Up to 1,200	4,000
1,200–2,000	Addition of 600 per 100cc
2,000–3,000	Addition of 900 per 100cc
> 3,000	Addition of 1,200 per 100cc

It should be noted that the above-mentioned notional income is reduced depending on the car's age as follows:

Years of circulation	% reduction
5-10	30%
> 10	50%

A relevant exemption from such tax is provided for by the new provisions, as concerns passenger cars, in case more than 10 years from the year of their first circulation in Greece have elapsed. The same exemption also applies in case of passenger cars of disabled people.

The tax on luxurious living will be applied to income generated within fiscal year 2013 and declared with income tax returns filed within financial year 2014 onwards.

3. Income taxes - taxable persons

Pursuant to the provisions of L 4172/2013 and effectively as of January 1, 2014 and onwards, general rule on the deductibility of all real and evidenced business expenses applies.

In particular, business expenses for company cars granted to employees are not included in the list of disallowed expenses. On the contrary, percentage ranging from 4%-22% for calendar years ending on December 31, 2019, whereas for the subsequent years the rates adjusted between 4% and 37% for retail price of the company cars up to 30000 EUR (either they are owned by the employers or are leased and provided with the employees), and with a flat rate of 20% for retail price above 30000 EUR, is treated as taxable income on the level of the beneficial (i.e real users) of the cars.

The above taxable value is further reduced at the rates of 10%, or 25% or 50% depending on the age of the car (for age up to 2 years no reduction is provided, whereas for age 3-5 years it is 10%, for 6-9 years it is 25% and for above 10 years it reaches 50%).

As from January 1, 2020, the market value from the use of zero or low-emission company cars up to fifty (50) g CO₂/Km, having a pre-tax retail price of up to forty thousand (40,000) EUR is tax exempt.

4. VAT

4.1. General

The standard VAT rate in Greece is 24%.

4.2. Deduction

4.2.1. New cars

Any input VAT paid on the purchase, importation or intra-Community acquisition of private passenger cars with up to nine (9) seats is not recoverable. Similarly, any input VAT on the costs related to the car, such as fuel, maintenance, repair and leasing payments, is not recoverable.

However, VAT is recoverable on the condition that the car is for the purpose of resale, leasing or the transportation of people for a fee.

4.2.2. Used cars

Depending on the circumstances of each case at hand, VAT may be imposed on the acquisition of used cars.

A car is characterized as used if it meets both of the following conditions:

- A time period of more than six (6) months has lapsed from the date of its registration (i.e., first circulation).
- The car has covered a distance of more than 6,000km.

Businesses involved in the trade of second-hand cars are eligible to operate under the special arrangement for taxable dealers and therefore liable to charge VAT on their margin when selling the cars.

Car insurance is VAT-exempt.

5. Company car

5.1. VAT due on private use of company cars

The private use of a company car (among other company assets) is treated as a deemed supply on the condition that input VAT was deducted on the original supply.

However, since in most cases input VAT cannot be claimed on the acquisition of cars, the private use does not create a taxable supply.

5.2. Company car – income taxes

The new Income Tax Code explicitly provides that the company car benefit is considered as employment income, as a benefit in kind, subject to individual income tax.

The taxable value of this benefit in kind is calculated at a percentage ranging between 4%-22% for the calendar years ending on December 31, 2019 whereas for the subsequent years, the rates are 4%-37%, for retail price of the company cars up to 30000 EUR (either they are owned by the employers or are leased and provided with the employees), and with a flat rate of 20% for retail price above 30000 EUR, is treated as taxable income on the level of the beneficial (i.e real users) of the cars.

The above taxable value is further reduced at the rates of 10%, or 25% or 50% depending on the age of the car (for age up to 2 years no reduction is provided, whereas for age 3-5 years it is 10%, for 6-9 years it is 25% and for above 10 years it reaches 50%).

As from January 1, 2020, the market value from the use of zero or low-emission company cars up to fifty (50) g CO₂/Km, having a pre-tax retail price of up to forty thousand (40,000) EUR is tax exempt.

The above taxable value is further reduced at the rates of 10%, or 25% or 50% depending on the age of the car (for age up to 2 years no reduction is provided, whereas for age 3-5 years it is 10%, for 6-9 years it is 25% and for above 10 years it reaches 50%).

Notwithstanding the above, car expenses related to travel/transportation for business purposes are exempted from the calculation of the salaried employment, subject to the condition that they are used solely for business purposes by the employee within the frame of his professional duties.

The above apply as of January 1, 2016, whereas for the previous years, i.e. since the date the New Greek ITC has come into force (January 1st, 2014) different provisions applied. In particular for the years 2014 and 2015, the taxable value was calculated at the percentage of 30% of the cost of the vehicle, recorded as expense in the Company's accounting books, in the form of depreciation including circulation tax, repairs and maintenance costs, as well as the relevant financing cost corresponding either to the vehicle acquisition or leasing cost. In the event where the cost is zero, the taxable benefit is calculated at a percentage of 30% of the average expense or depreciation of the last 3 years.

But, as regards employment income withholdings deriving from benefits in kind, application did not commence yet.

6. Income taxes – drivers’ personal taxation

The Greek government uses a system of “deemed income” whereby an individual’s ownership of certain assets, such as boats, cars, secondary residence, etc., indicates a certain level of income and personal living status. In particular, as of January 1, 2014, an individual is subject to an alternative minimum taxation, when his imputed income exceeds its total one. In that case, the difference between the imputed and the real income is added on his taxable income, and is taxed under specific conditions set in the ITC.

For the calculation of the deemed income from private cars, the criteria that are taken into account are (a) the engine capacity (cubic centimetres) of the car and (b) the year of its first circulation in Greece:

Engine capacity (cc)	Notional income (EUR)
Up to 1,200	4,000
1,200–2,000	Addition of 600 per 100cc
2,000–3,000	Addition of 900 per 100cc
> 3,000	Addition of 1,200 per 100cc

It should be noted that the above-mentioned notional income is reduced depending on the car’s age as follows:

Years of circulation	% reduction
5–10	30%
> 10	50%

The rules concerning the determination of the deemed income do not apply to private cars that have a certificate of authenticity issued by the competent national or foreign institution and to private cars specifically modulated/ transformed for mobility handicapped persons with at least 67% disability.

7. Electric vehicles

As mentioned above (see section 2.2.3), electric cars are exempt from classification duty.

8. Legal background

- Law 2960/2001, Customs Code, art.121-126 (Classification Tax)
- Law 2948/2001, art. 20 as amended by L. 4831/2021
- Law 4172/2013 (Income Tax Code)
- Law 2859/2000 (VAT Code)
- Law 4308/2014 (Greek GAAP)
- Law 2873/2000 (Car transfer tax)
- Law 4111/2013 (Special tax on luxurious living).

Hungary



Tamás Lócsei

Automotive Tax Leader

p: +36 30 436 7802

e: tamas.locsei@pwc.com

Balázs Szük

Senior Manager Indirect Tax

p: +36 20 327 7485

e: balazs.szuk@pwc.com

Hungary

1. Car registration

1.1. When does a car need to be registered?

Registration is compulsory if a car is to be used in Hungary. As soon as a new or second-hand vehicle is put into use on Hungarian public roads, the vehicle should be registered.

According to Hungarian legislation, the process of registering the vehicle must begin within 60 days of the vehicle's arrival in Hungary or of the date when the domestic owner takes possession of the vehicle.

1.2. Who can register a car?

Registration can be done by a natural person, or in the name of a legal person or incorporated organisation.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, a foreign person who is resident in Hungary can register a vehicle.

A foreign owner who is not resident in Hungary can only register a vehicle with the assistance of a fiscal representative, or of the operator who is resident in Hungary.

1.4. Can a vehicle with a foreign number plate be used on public roads?

As the general rule, a vehicle can be used only with a Hungarian licence and number plate if

- a) its operator is a domestic person/entity or
- b) its driver has a residence in Hungary.

A vehicle with a foreign number plate can be used in exceptional cases.

The exceptions from Point a) are:

- if the operator is not a natural person who performs its regular activity abroad where its site (branch) is registered; or
- if the owner of the vehicle has already initiated the registration of the vehicle in Hungary.

Point b) does not have to be applied:

- if the driver's usual place of residence is not in Hungary; or
- if the vehicle is used in Hungary for a period not exceeding 60 days within any 6 months' period, and the driver has a declaration from the owner of the vehicle stating the start and end date of the rental period; or
- if the driver received the vehicle from its foreign operator for regular work in Hungary; or
- if the vehicle is owned by a car-fleet vehicle operator (as defined by the Act on Registration Tax) and the registration tax has been paid on the vehicle.

The restrictions do not have to be applied in case of certain Hungarian governmental employees, employees of the institutes of the EU and their immediate family members.

The above exceptions have to be proven by the operator or the driver at the time of an inspection.

A vehicle which is registered in a third country outside the EU and is under a temporary importation procedure in Hungary may be used for six months or for a period set by the customs authorities in their decision on temporary importation. When this six-month period expires, the vehicle has to be registered in Hungary and then the foreign number plate is replaced with a Hungarian one.

2. Car taxation

2.1. What are the different car taxes?

Relating to the acquisition and the registration of a vehicle, and its use on public roads in Hungary, the following car taxes become due:

- Registration tax
- Motor vehicle tax
- Environmental protection product fee
- Stamp duty
- Tax on company cars

2.2. Registration tax

2.2.1. Taxable event

Registration tax is due at the latest on the date when the vehicle is put into circulation. Furthermore, registration tax has to be paid if the passenger vehicle is leased by a car-fleet operator to a domestic resident person.

If an imported vehicle is registered at the importation, the tax is due on the date when the customs authority issues the customs resolution allowing the release of the vehicle into free circulation.

When a vehicle is registered as a direct consequence of an intra-Community acquisition, the tax is due when the VAT on the intra-Community acquisition becomes due.

In the case of the conversion of a vehicle, the tax becomes due when the conversion is done, but not later than the day it is registered in the vehicle licence.

The paper-based certification of registration tax ceased from January 1, 2014. The payment of registration tax is verified electronically by the customs authority.

The registration tax does not have to be paid in respect of certain vehicles of diplomatic and consular missions operating in Hungary.

2.2.2. Taxable person

Registration tax is payable by

- the natural or legal person or unincorporated organization under whose name the application for the registration of the vehicle is filed;
- the importer if the vehicle is registered as a direct consequence of the importation;
- the person liable for the payment of VAT on an intra-Community acquisition if the vehicle is registered as a direct consequence of the intra-Community acquisition;
- the owner of the vehicle in the case of the conversion of a vehicle;
- the co-owners according to their respective percentage of ownership in the case of joint ownership;
- the fiscal representative or the operator of the taxable person if the registered office or fixed establishment, or permanent or habitual residence of the taxable person is in a third country outside the EU.

2.2.3. Tax due

2.2.3.1. Automobiles

The rates are based on environment protection classes (regulation: 6/1990. (IV.12.) KÖHÉM No 5. enclosure II. dot) in accordance with EU emission standards.

The rates (in HUF) in 2021 are as follows:

Amount of tax (based on the environmental classification of the automobile; HUF per car)						
Tax	Technical specifications of category cars, mobile homes	better than 11	9-11	5-8	4	worse than 4
1	Gasoline-powered Otto engine cars up to 1,100cc or diesel cars up to 1,300cc	45,000	180,000	270,000	360,000	540,000
2	Gasoline-powered Otto engine cars between 1,101cc-1,400cc or diesel cars between 1,301cc-1,500cc	65,000	260,000	390,000	520,000	780,000
3	Gasoline-powered Otto engine cars between 1,401cc-1,600cc or diesel cars between 1,501cc-1,700cc	85,000	340,000	510,000	680,000	1,020,000
4	Gasoline-powered Otto engine cars between 1,601cc-1,800cc or diesel cars between 1,701cc-2,000cc	135,000	540,000	810,000	1,080,000	1,620,000
5	Gasoline-powered Otto engine cars between 1,801cc-2,000cc or diesel cars	185,000	740,000	1,110,000	1,480,000	2,220,000

	between 2,001cc– 2,500cc					
6	Gasoline- powered Otto engine cars between 2,001cc– 2,500cc or diesel cars between 2,501cc– 3,000cc	265,000	1,060,00 0	1,590,000	2,120,000	3,180,000
7	Gasoline- powered Otto engine cars above 2,500cc or diesel cars above 3,000cc	400,00 0	1,600,00 0	2,400,00 0	3,200,00 0	4,800,00 0
8	The registration tax rate for environmentally friendly vehicles (as defined by regulation 6/1990 KÖHÉM, i.e. purely electrical vehicles, plug-in hybrid electrical vehicles, increased range plug-in hybrid electrical vehicles and zero emission vehicles) is HUF 0.					
9	The registration tax rate for hybrid cars (as defined by regulation 6/1990 KÖHÉM) and for cars that cannot be classified under points 1-8 above is HUF 76,000.					

The environmental classification of a car depends on the type of the engine. Below is a short, not fully detailed summary of the classifications (translated from the related regulation of the ministry).

Environmental classification	Characteristics of the engine
0	Without catalytic converter, Otto engine, certain diesel engines
1	With catalytic converter, Otto engine
2	With catalytic converter, Otto engine (except EURO II)
3	EURO I diesel engine
4	EURO II Otto engine, diesel engine
5	Pure gas or electric, hybrid
6-8	EURO III
9-11	EURO IV
12	EURO V
13	Diesel engine with OBD system (EEV)
14	EURO 5
15	EURO 6
16	EURO VI

In the case of the conversion of cars, registration tax must be calculated as the difference between the tax before the conversion and the tax after the conversion.

Hearses, ambulance vehicles and classic passenger cars (oldtimers) are not subject to the registration tax.

These tax rates only apply to new cars. For used cars, the applicable tax rates are reduced in accordance with the age of the vehicles.

The tax amount for used cars is reduced taking account of their depreciation. The table below contains the reduction factors. Each month started is considered a full month in the calculation.

Time elapsed from the first registration date until the taxation process starts (in months)	Reduction of tax idem
until 2	0.06
3-4	0.10
5-6	0.14
7-12	0.20
13-24	0.31
25-36	0.41
37-48	0.49
49-60	0.56
61-72	0.62
73-84	0.68
85-96	0.72
97-108	0.76
109-120	0.79
121-132	0.82
133-144	0.85
145-156	0.87
157-168	0.89
over 169	0.90

The calculation of registration tax for used cars:

$$F = A \times (1 - K - k \times t \div T)$$

F = Tax payable

A = Tax rate (see table with registration tax rates)

K = Tax reduction based on second column penultimate period factor

k = Tax reduction rate based on second column actual line minus "K"

T = Number of months including the one of the tax procedure based on first column

t = Number of months from first circulation minus "K" tax reduction factor first column month number

Example of registration tax calculation

Gasoline engine, 1,598cm³ car, Euro IV-type engine car, 55 months old.

- “A” value: 340,000 HUF
- “K” value is 0.49 (value of 37–48 month)
- “k” value is 0.07 (0.56 – 0.49)
- “T” value is 12 (number of months from 49 to 60)
- “t” value is 7 (55-48)

The equation is therefore:

$$F = A \times (1 - K - k \times t \div T)$$

$$F = 340,000 \times (1 - 0.49 - 0.07 \times 7 \div 12)$$

$$F = 340,000 \times (1 - 0.49 - 0.041)$$

$$F = 340,000 \times 0.469$$

F = 159,460 HUF registration tax to be paid for a 55-months old, gasoline EURO IV, 1,598cm³ engine-size car at the time of first registration in Hungary.

The tax value of the passenger vehicle leased by a car-fleet operator is reduced taking into account the length of the lease contract. The table below contains the percentage of the tax value.

Number of calendar months from the date of putting the passenger car into service in Hungary to the end date of the lease term	Payable tax (%)
until 2	4
3–6	8
7–12	16
13–18	24
19–24	32
25–30	40
31–36	48
37–42	56
43–48	64
49–54	72
55–60	80
61–90	87
91–120	94
over 121	100

2.2.3.2. Motorcycles

Category	Technical specifications	Amount of registration tax
1	Up to 80cc	15,000 HUF
2	Between 81cc–125cc	50,000 HUF
3	Between 126cc–500cc	85,000 HUF
4	Between 501cc–900cc	180,000 HUF
5	Above 901cc	230,000 HUF
6	Electric and hybrid motorcycles	0 HUF

2.3. Motor vehicle tax

2.3.1. Taxable event

Motor vehicle tax is payable on

- vehicles with Hungarian registration and number plates, and
- trucks used in Hungary and registered in a non-EU country.

2.3.2. Taxable person

Motor vehicle tax is payable by the operator of the vehicle (or in the absence of an operator, by the owner) registered in the vehicle licence on January 1 of the year concerned.

In the case of vehicles which are registered newly during a year, motor vehicle tax is levied on the owner registered in the vehicle licence on the last day of the month of the registration.

Tax on foreign-registered vehicles is payable in the form of duty stamps to be affixed to the vehicle's transportation licence when the vehicle enters Hungary.

2.3.3. Tax due

2.3.3.1. Vehicles registered in Hungary

The motor vehicle tax is based on the kilowatt capacity of the engine and the age of the vehicle.

The rates are as follows:

Rates	
Passenger car less than 4 years old	345 HUF per kW
Passenger car 4–7 years old	300 HUF per kW
Passenger car 8–11 years old	230 HUF per kW
Passenger car 12–15 years old	185 HUF per kW
Passenger car more than 16 years old	140 HUF per kW
Bus and coach, truck with air suspension	850 HUF per 100kg
Other non-passenger vehicle or semi-trailer	1,380 HUF per 100kg
Passenger car with E-registration plate	10,000 HUF
Trucks with E-registration plate	46,000 HUF
Vehicles with P-registration plate	23,000 HUF

Preferential reduction	
Bus and coach, truck with EURO III engine	20%
Road tractor of semi-trailer with EURO III engine	30%
Bus and coach, truck with at least EURO IV, EURO V engine	30%
Road tractor of semi-trailer with at least EURO IV, EURO V engine	50%

There is no motor vehicle tax for environmentally friendly vehicles (as defined by regulation 6/1990 KÖHÉM, i.e., purely electrical vehicles, plug-in hybrid electrical vehicles, increased range plug-in hybrid electrical vehicles and zero emission vehicles).

Concerning any issue with motor vehicle tax related matters, the state tax authority is the competent authority.

2.3.3.2. Foreign trucks

In the case of foreign trucks, the tax is fixed and based on weight. For trucks with a transport licence for loco transportation and that weigh less than 12t, the tax is 10,000 HUF for each direction. For trucks having a transport licence for loco transportation with a weight of more than 12t, the amount of tax is 30,000 HUF for each direction.

For trucks with a transport licence for transit operations and that weigh less than 12t, the tax is 20,000 HUF for each direction. For trucks with a transport licence for transit operations and that weigh more than 12t, the tax is 60,000 HUF for each direction.

10 days before the first transport, the taxpayer or his representative should register to the Tax Authority. The taxpayer should pay his tax liability two workdays before the entry via bank transfer to the specific bank account of the Tax Authority.

2.4. Environmental protection product fee

Although motor vehicles are not subject to the product fee themselves, the following parts of a motor vehicle that is first sold or used for one's own purposes in Hungary are subject to the product fee:

- Tires
- Other crude oil products
- Batteries
- Packaging materials
- Electrical and electronic products

(Paper-based advertisement materials, other plastic products, other chemical products and printing or copy paper for office use are also subject to the product fee.)

2.4.1. Taxable event

The fee arises

- in the case of motor vehicles purchased abroad, on the date of the first domestic sale or when use for one's own purposes is accounted for as a cost;
- in the case of a domestically manufactured motor vehicle, on the date of sale or when use for one's own purposes is accounted for as a cost (on parts for which the product fee has not been paid).

2.4.2. Taxable person

The product fee is payable by the first distributor (seller) or user for own purposes in the case of cars (on parts for which the product fee has not been paid; generally, the producers, “importers” or first domestic buyers of the above parts are liable to pay the product fee).

In the case of other crude oils manufactured in Hungary, the first buyer of the first domestic distributor or the first user for own purposes is subject to the product fee.

2.4.3. Tax due

As the main rule, the basis of the product fee is the volume (kg) of the product subject of the product fee.

Parts	Fee rate in HUF per kg (as of January 1, 2020)
Tires	57
Batteries	57
Other crude oils	114
Packaging products	19-1900
Electrical and electronic products	57

No product fee is to be paid on products brought to Hungary from abroad for a non-commercial purpose by a natural person who is not a resident entrepreneur, for his own use.

It is allowed for vehicle producers and distributors to pay a lump sum product fee per piece. Entities liable to pay product fee on taxable products (batteries, tires, oils, electrical and electronic equipment) that are part or accessories of vehicles (first domestic distributor, user for own purposes or the entity that records the products in its stock) are entitled to choose the lump sum payment.

Preferential tax rates were introduced relating to hybrid and electric cars.

2.5. Stamp duty

2.5.1. Taxable event

The stamp duty is payable when the ownership title to a car registered in Hungary is acquired, inherited or received as a gift. From January 1, 2014 in case of acquiring or receiving a car as a gift from abroad is taxable.

2.5.2. Taxable person

The acquirer, the inheritor, or the recipient of the gift.

2.5.3. Tax due

With respect to the acquisition of the title to a motor vehicle, the stamp duty can be determined as per the table below.

Performance of vehicle engine (kW)	Age of vehicle		
	0–3 years	4–8 years	over 8 years
0–40	550 HUF per kW	450 HUF per kW	300 HUF per kW
41–80	650 HUF per kW	550 HUF per kW	450 HUF per kW
81–120	750 HUF per kW	650 HUF per kW	550 HUF per kW
over 120	850 HUF per kW	750 HUF per kW	650 HUF per kW

For the acquisition of the title to a trailer, if the permissible maximum gross weight of the trailer plus its load is less than 2,500kg, the duty payable is 9,000 HUF; in all other cases, the duty is 22,000 HUF.

In the case of inheritance or donation of a motor vehicle, the rate of the duty is twice the duty charged on the quid pro quo transfer of a motor vehicle (as described above).

3. Income taxes – Taxable persons

In general, expenses associated with the business use of company cars, such as fuel, repair and maintenance costs, statutory depreciation qualifies as deductible for corporate income tax purposes.

4. VAT

4.1. General

Hungarian VAT at the standard rate of 27% is due on most supplies of goods or services. If a company's profile is car sales/leasing, sales and leasing are subject to 27% VAT.

If a company purchased the passenger car without the right of deduction, the sale is VAT-exempt (this is generally the case when a taxable person purchases cars for the purpose of being used by its employees). As of January 2021, new rules have become effective concerning the activity of second-hand car dealers. The modification aimed to cease the VAT-exemption applicable to dealers of used vehicles. The supply of a passenger car purchased for resale without VAT (e.g., purchased from a non-taxable person) should not be VAT-exempt if it is known upfront that it will be resold. The sale of a passenger cars purchased without VAT for reasons other than resale shall remain VAT-exempt (e.g., if the car is purchased originally by a taxable person for the provision of taxi services).

As of January 1, 2016 new rules became effective regarding the date of supply of periodically supplied services. As a general rule, if the parties apply periodical settling or periodical payment or the consideration for the supply is determined for a specific period, the date of supply is the last date of the period concerned.

There are two exceptions from this general rule:

- the date of supply is the date of issue of the invoice, if the due date for the payment of the consideration and the invoice's date of issue are both before the last day of the period concerned;
- the date of supply is the due date of the payment of consideration, but not later than 60 days counted from the last day of the period, if the due date of the payment of consideration is later than the last day of the period concerned.

As of January 1, 2016 restrictions are effective in the deadline for exercising VAT deduction right. According to the new rules, the right to deduct the self-charged VAT on intra-Community acquisitions and self-assessed import VAT, can only be exercised in the VAT period in which the deductible VAT was charged.

In all other cases, one can only exercise the right to deduct VAT that arises in the same VAT period or within one calendar year preceding the year including the given VAT period by decreasing the payable VAT.

4.2. Deduction

Under the Hungarian VAT Act, input VAT is not deductible on

- car purchases (save for some special types of vehicles),
- gasoline purchases for any type of vehicle or
- fuel purchases for passenger cars.

The Hungarian VAT regime generally prohibits the deduction of VAT on gasoline, other fuel for passenger cars and car purchases generally.

There are special rules on car sales and leasing. The VAT on car purchase is only deductible if the acquirer has purchased the car for the purpose of resale (and can produce documentary proof of this), lease or taxi services. In the case of leasing, the lease should be the decisive element in the further use of the car. The decisive element is defined as at least 90% of its use in a reasonable period of time. In all other cases, the VAT on car purchases is not deductible.

There is a special rule for the deduction on gasoline purchase as well. If the gasoline is used for technological developments relating to more environmentally friendly engines, the VAT is deductible.

Contrary to the earlier VAT rules based on which 100% of the VAT incurred on the purchase of services that are connected to operation of passenger cars (e.g., servicing, repairs, storage) was not deductible, from January 1, 2013 50% of these VAT are deductible. The VAT on parking and road-toll fees are not deductible. The input VAT on leasing cars is deductible if the leasing of the cars is used for taxable activity.

4.3. Financial lease

In financial lease arrangements, the interest part is VAT-exempt. Whether a particular financial lease arrangement qualifies as a supply of a product (closed-end lease) or a service (open-end lease) must be determined on a case-by-case basis.

If it is a product supply, i.e., under the agreement the title to the car will automatically (without any further declaration of the parties) be transferred to the lessee at some point in the future, one invoice should be issued for the whole amount. In this case, the date of supply will be the date when the lessee gains possession of the car.

If it is a service supply, i.e., the transfer of title occurs only with an explicit declaration by the parties (option privilege, i.e., the lease agreement puts no obligation on the lessee to purchase the car), separate invoices should be issued for each installment.

4.4. Place of supply of car rentals

Contrary to the general place of supply rules for business-to-business transactions, the place of supply for short term hire (not longer than 30 days) of means of transport is where the car is put at the disposal of the customer.

As of 2013 the place of supply in connection with long-term hiring of means of transport for non-taxable people is where the user of the service has established his business or the place where he has his permanent address or usually resides.

5. Company car

5.1. VAT due on private use of company cars

As of 1 January 2019, new simplified rules entered into force regarding the deduction of VAT on leased or rented company cars (charged on the leasing/rental fee).

The general rule remained the same: if the company cars are leased, the input VAT on the lease fee could be deducted in proportion to the taxable activity. As the private use of a company car is not a taxable activity, in proportion to the private usage the VAT is not deductible. The proportion of the business and private use of the company car should be proved authentically.

The new simplified rule states that 50% of the VAT charged on the leasing/rental fee of company cars can be deducted without a detailed registry (which proves the business/private use e.g. by GPS data or road registry), upon complying with the general requirements of VAT deduction (valid invoice, business purpose).

The above means in practice that companies can choose to deduct 50% without a detailed registry, or they can deduct the VAT in proportion to the business/private use, based on a detailed registry.

If the employee is paying a consideration for the private use of the company car and therefore the employer issues the invoice for the service supply, which is considered as taxable activity, so the total amount of the lease fee can be deducted in general.

When there is an agreement between the employee and the employer on paying a consideration for the use of a company car, the employer has to issue invoices for the service supply with 27% VAT. It should be noted that in transactions between related parties, under certain circumstances the VAT base should be the market price.

5.2. Company car – income taxes

Until February 1, 2009, the rules on company car tax were included in the Personal Income Tax Act (PITA), but under the new regulations they are now part of the Act on Motor Vehicle Tax, under which the new tax is a property tax.

Company car tax is levied on passenger cars owned by companies, or on passenger cars owned by private individuals, if costs are accounted on the car, considering the exceptions listed in the Act on Motor Vehicle Tax. From February 2009, there is no difference in the treatment of a company car used for private or for company purposes.

No company car tax is payable on private cars used for business purposes if the individuals are in the possession of an assignment letter from the company and they do not account the expenses against their income. Moreover the cars, which are leased to private individuals under a financial lease agreement, are not subject to the company car tax either, if costs are not accounted on this basis.

The monthly tax burden is based on the strength of the engine and the environmental category of the car:

Environmental category			
Engine capacity (kW)	0-4	6-10	5, 14-15
0-50	16,500	8,800	7,700
51-90	22,000	11,000	8,800
91-120	33,000	22,000	11,000
above 120	44,000	33,000	22,000
(in HUF)			

To avoid double taxation, the motor vehicle tax can be deducted from the company car tax.

Who is subject to the tax?

The tax is payable by the owner or user of the car. With a leased car, the person who is liable for the tax depends on the type of lease. With financial leasing, it is the lessee and with operating leasing it is the lessor. However, the term “operating leasing” is not indicated in the law, but because in this case the owner of the car is the lessor, he is liable for the company car tax.

Payment of the tax

The taxpayer determines the tax by self-assessment. The company car tax is payable quarterly and is due by the 20th of the month following the quarter.

5.3. Insurance tax

Insurance services are subjected to taxation in case the risk is placed in Hungary. Tax liability is applied to insurance companies and levied on the insurance fees.

The applicable tax rates are:

- 15% of the tax base when providing compulsory insurances (so called casco)
- 10% of the tax base when providing property and accident insurances
- 23% of the tax base when providing compulsory motor vehicle liability insurance (with a cap of 83 HUF/motor vehicle/day)

Insurance tax and the related return shall be submitted electronically and paid to the Hungarian Tax Authority.

6. *Personal income tax*

The private use of a company car is tax free income element even if it was supplied by an employer or other entity only for private purposes. The tax exemption includes the related road passes or tickets.

However, only the private use of company owned cars is tax free (and bicycles from 2022), thus the private use of company owned motorcycles or trucks is regarded as a taxable income element of the individual, in most of the cases as the employment income of an employee.

7. *Electric vehicles*

In connection with environmentally friendly and hybrid vehicles, the Hungarian registration tax legislation contains a preferential tax amount as mentioned above under section 2.

8. *Future developments*

No major amendments to the legislation regarding car taxation are expected.

9. *Legal background*

- Act I of 1988 on Public Road Traffic
- Act CX of 2003 on the Vehicle Registration Tax
- Act LXXXII of 1991 on Motor Vehicle Tax
- Act LXXXV of 2011 on the Environmental Protection Product Fee
- Act XCIII of 1990 on Stamp Duties
- Act CXXVII of 2007 on Value Added Tax
- Act CII of 2012 on Insurance Tax
- Act LXXXIV of 1999 on Vehicle Registration Rules
- Act CXVII of 1995 on Personal Income Tax

India



Dinesh Supekar

Automotive Tax Leader

p: +91 20 4100 4412

e: dinesh.supekar@pwc.com

Amitava Sen

Tax Partner

p: +91 78 3899 9978

e: amitava.sen@pwc.com

India

1. Importation of cars

1.1. Customs duties

Motor vehicles or vehicles (which includes motor cars/cars) imported into India are subject to following types of duties:

1. Basic Customs Duty (BCD): BCD is levied on the assessable value of imported goods. The rate of BCD on import of vehicles varies from 10% to 125%, depending on various factors such as the value, engine capacity, the number of passengers that the vehicle can carry, type and utility of the vehicle i.e., sports utility vehicle/passenger vehicles for transportation/cabs, etc., number of wheels in the vehicles, length of the vehicle, etc. In general, the applicable BCD on importation of cars in India is as follows:

Chapter/Heading/ Sub- heading/Tariff item	Description of vehicle	Rate of BCD
8703	New cars including electric cars which have not been registered anywhere prior to importation (completely built unit) <ul style="list-style-type: none">- whose CIF value is more than \$40,000; or- with petrol engine capacity exceeding 3000 cc; or- with diesel engine capacity exceeding 2,500 cc	100 percent
8703	New cars including electric cars which have not been registered anywhere prior to importation (completely built unit) whose CIF value is more than \$40,000 and with petrol engine capacity exceeding 3000 cc or with diesel engine capacity exceeding 2,500 cc	60 percent
8703	Used car	125 percent
8702, 8703 or 0704	Motor vehicles including electric vehicles in knocked down kit whether pre-assembled or not pre-assembled	15 to 40 percent

2. **Social Welfare Surcharge:** The Government in the Union Budget of 2018-19 abolished the Customs cess on BCD and introduced another levy in the form of surcharge called Social Welfare Surcharge on customs duties (i.e., BCD) @10% with effect from February 2, 2018. However, Social Welfare Surcharge is exempt on all commercial vehicles (including electric vehicles) if imported in Completed Built Up form, from April 1, 2020.
3. **Integrated Goods and Services Tax (IGST):** IGST is levied on the transaction value of goods including BCD and Social Welfare Surcharge. Broadly IGST paid on import of vehicles is 28% except for electric cars on which the IGST is levied at 5%. IGST paid on import of vehicles can be set off against the GST liability on supply of vehicles, parts, components, etc. domestically.
4. **Compensation cess:** Compensation cess is levied on the transaction value of goods along with the BCD and Social Welfare Surcharge. The rate of Compensation cess on vehicles varies from 0% to 22% depending on the various factors such as type of vehicle, engine capacity, length, fuel type, etc. Compensation cess on imported vehicles can be set off against the Compensation cess liability on supply of vehicles.

1.2. Others

In addition to the above, the following types of taxes need to be deposited with the concerned authorities:

1. **Motor Vehicle Tax (MVT)/Road Tax (RT)** needs to be paid at the time of registration (being a one-time payment in most of the States) of the vehicle in India, varying from 2% to 18% (State specific) on the purchase value of the vehicle.
2. Any other State level vehicle tax which has not been subsumed by GST. The State level vehicle taxes can vary from one State to another.

2. Car registration

2.1. When does a car need to be registered?

Under Indian law, registration of a vehicle is mandatory. There are two types of registrations available in India which are discussed below:

Permanent: A permanent registration of the vehicle is required to be obtained before one month of its purchase. Also, in case a car is transferred to different locations within India, a change in registration would be required.

Temporary: There is also a provision for the temporary registration of new vehicles under Indian law. As soon as a vehicle is purchased, the seller of the vehicle issues a temporary licence sticker known colloquially as a TR (To Register) number. This is valid for one month during which time the owner is required to get the vehicle registered with the controlling Regional Transport Office (RTO) of the area in which the owner is residing to get a standard number plate.

2.2. Who can register a car?

The registration of cars in India is governed separately by each State under Indian law.

In general, a car should be registered by the following persons:

- Owner of the car in case of purchase
- Lessee/lessor in case of lease and hire-purchase transactions (depending upon the arrangement)

Further, for the purpose of getting registration in any State the following documents are mandatorily required:

- A proof of address in the State of residency
- Income tax registration number (commonly known as PAN)

2.3. Introduction of ‘Bharat series (BH-series)’ registration

The Ministry of Road Transport & Highways has introduced a new registration mark for new vehicles i.e., “Bharat series (BH-series)”. The vehicles bearing the BH-series mark will not have to require the assignment of a new registration mark when the owner of the vehicle shifts from one state to another.

2.4. Is a foreign owner allowed to register a vehicle in the country?

Yes, a foreign owner is allowed to register his vehicle in India, provided he has adequate documentary proof for registration of the vehicle as mentioned in section 2.2.

2.5. Can a vehicle with a foreign number plate be used on public roads?

No, a vehicle with a foreign number plate is not allowed to be used on public roads.

3. Car taxation

3.1. What are the different car taxes?

Different types of taxes applicable on vehicle are discussed below:

- **BCD:** BCD is applicable on import of vehicles in India. The same is explained in section 1.1 above.
- **Social Welfare Surcharge:** Social Welfare Surcharge is applicable on import of vehicles in India. The same is explained in section 1.1 above.
- **IGST:** IGST is applicable on import of vehicles in India. IGST is also applicable on inter-State supply of vehicles within India. The same is explained in section 1.1 above.
- **Compensation cess:** Compensation cess is applicable on import of vehicles in India. The same is explained in section 1.1 above. Compensation cess is also applicable on intra-State/inter-State supply of vehicles within India.
- **CGST and SGST:** CGST and SGST are levied on intra-State supply of vehicles. The same is explained in section 1.1 above.
- **MVT/RT:** MVT/RT is applicable on registration of vehicle. The same is explained in section 1.2 above.

3.1.1. Tax rate

The general rate of tax applicable on supply of motor vehicles (including cars) principally designed for the transport of persons, within India are summarized below. This is however not an exhaustive list of all types of motor cars:

Chapter/Heading/ Sub-heading/Tariff item	Description of vehicle	Rate of GST	Rate of Compensation cess	Effective rate of GST
87	Electrically operated vehicles	5 percent	NIL	5 percent
8703 21 or 8703 22	Petrol, Liquefied Petroleum Gases or Compressed Natural Gas driven motor vehicles of engine capacity not exceeding 1200 cc and length not exceeding 4000 mm	28 percent	1 percent	29 percent

8703 31	Diesel driven motor vehicles of engine capacity not exceeding 1500 cc and length not exceeding 4000 mm	28 percent	3 percent	31 percent
8703	Motor vehicles of engine capacity not exceeding 1500 cc	28 percent	17 percent	45 percent
8703	Motor vehicles of engine capacity exceeding 1500 cc other than motor vehicles specified against entry mentioned below	28 percent	20 percent	48 percent
8703	Motor vehicles of engine capacity exceeding 1500 cc, popularly known as Sports Utility Vehicles (SUVs) including utility vehicles. Explanation. - For the purposes of this entry, an SUV includes a motor vehicle of length exceeding 4000 mm and having ground clearance of 170 mm and above.	28 percent	22 percent	50 percent

Note: The rate of Customs duty and GST indicated above may be subject to change from time to time, pursuant to the issue of Government notifications in this regard.

3.1.2. Taxable event

The following events can be termed as taxable events, i.e., events triggering the levy of GST:

- Import of vehicle into India
- Sale of vehicle within India
- Branch transfer of vehicle to another State in India
- Hire purchase, lease or hypothecation of vehicle
- Free of cost supply of vehicles between related parties

3.2. Registration tax

3.2.1. Taxable person

A person who registers their vehicle with Regional Transport Office (RTO) is considered to be a taxable person.

3.2.2. Tax due

On registration of the vehicle the road tax becomes due. Details of the same are discussed below:

- Private vehicles: On registration of private vehicles, a one-time road tax needs to be paid which varies from State to State.
- Commercial vehicles¹⁶: On registration of commercial vehicles, an annual road tax has to be paid, which depends upon the carrying capacity of passenger vehicles and loading capacity of goods vehicles. Depending on the vehicle, a separate permit would be required.

3.2.3. Tax period

The tax period for vehicles is as follows:

- Private vehicles: The registration certificate is valid for 15 years from the date of first registration. And thereafter the same is renewed after every 5 subsequent years.
- Commercial Vehicles: The registration certificate is valid until the certificate of fitness¹⁷ is valid.

4. Income taxes – Taxable persons

4.1. Deduction of car-related expenses

4.1.1. General

The deduction of the car-related expenses is allowed only if the car is used for the purpose of business or profession. If the car is used for private purposes, no deduction of the cost incurred for the running and maintenance of the car is allowed as business expenditure.

The deduction of car-related expenses can be classified under following headings:

4.1.2. Depreciation

The acquisition cost of the motor car is allowed as a deduction by way of depreciation at a rate of 15% on the written-down value method.

However, motor cars acquired on or after August 23, 2019 but before April 1, 2020 and are put to use before April 1, 2020 are eligible for depreciation at the rate of 30% on the written down value.

In case of motor buses, motor lorries and motor taxis used in the business of running them on hire will be eligible for depreciation at a rate of 30% on the written-down value method. However, where such vehicles are acquired on or after August 23, 2019 but before April 1, 2020 and are put to use before April 1, 2020 the eligible rate of depreciation is 45% on the written down value.

If the vehicles are acquired during the year and put to use for less than 180 days in a financial year, depreciation shall be allowed at half of the eligible rate in the year of acquisition. Further, the remaining depreciation shall be allowed in the immediately succeeding year.

Further, it is worthwhile to note that as per the provisions of Indian income tax, every fixed asset does not have an independent identity and the “block of assets” concept is followed for claiming depreciation.

Under the block of assets concept, the purchase cost of the asset is added to and the sales consideration of the asset is reduced from the carrying cost of the block at the beginning of the year to which that asset belongs. Depreciation is then calculated on the carrying value of that particular block as added and reduced after applying the applicable rate of depreciation.

¹⁶ Commercial vehicles: Vehicles used as goods and passenger carriers, also known as transport vehicles.

¹⁷ Certificate of fitness: Every commercial vehicle in India has to obtain a mandatory fitness certificate after two years for new vehicles and after every one year for old vehicles. In India, the fitness certification is carried out by the motor vehicle inspectorate, known as Regional Transport Offices (RTOs), attached to the Transport Department in each State, which has its offices in the capital as well as in the major cities of the State.

4.1.3. Lease charges

In case the car is taken on operating lease for the purpose of usage in the business and profession, then a 100% deduction of the lease charges incurred is allowed as a deduction.

4.1.4. Running cost

A 100% deduction of the expenditure incurred during a period on running the cars for the purpose of the business – such as fuel expenses, repairs and maintenance, rates, insurance, etc. – is allowed as a deduction provided the expense incurred is not of capital nature.

4.2. Other direct taxes

4.2.1. Wealth Tax

In India, wealth tax was also levied on the accumulated wealth of a taxable person. The accumulated wealth also included cars.

From Financial Year 2015-16 onwards, the Wealth Tax Act 1957 has been abolished and accordingly, as on date, no wealth tax is payable.

4.2.2. Tax Collection at Source

From June 1, 2016, every seller is required to collect tax at source from the buyer @ 1% (0.75% for the period 14 May 2020 to 31 March 2021 vide The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 ('Relaxation Act')) of the sale consideration towards income-tax, if the sale price of each motor vehicle (including luxury cars) exceeds INR 1 mn.

It has been clarified that these provisions are applicable to retail sale only and will not be applicable for sale of motor vehicles by manufacturers to dealers or distributors.

In case of an individual, these provisions will be applicable only in case of sale of motor vehicle by such individual who is liable to get his books audited under the Income-tax Act, 1961.

The Finance Act, 2020 introduced a provision which mandates that with effect from 1st day of October, 2020 a seller receiving an amount as consideration for sale of any goods of the value or aggregate of such value exceeding INR 5 mn from any buyer during the year to collect tax from such buyer a sum equal to 0.1 per cent (0.075% for the period 14 May 2020 to 31 March 2021 vide Relaxation Act). This provision does not apply where the goods are exported out of India or for import of goods into India.

Further, the above provisions will not apply if the aggregate value of the sales made by a seller to all buyers during the preceding financial year does not exceed INR 100 mn.

Further, the Finance Act 2021 introduced a provision which mandated that with effect from 1st day of July, 2021, a buyer who is responsible for paying any sum to any resident seller for purchase of any goods of the value or aggregate of such value exceeding INR 5mn in any financial year, shall, at the time of credit of such sum to the account of the seller or at the time of payment thereof by any mode, whichever is earlier, deduct an amount equal to 0.1 per cent of such sum exceeding INR 5 mn. Furthermore, the aforesaid provision for deduction of TDS @1% shall prevail in cases where such transactions are also eligible for collection of taxes @1% as mentioned above.

Certain clarifications on the simultaneous application of the above provisions are as follows:

- While the receipt of sale consideration from a dealer would not be subject to TCS @ 1%, it may be liable for TCS @ 0.1% if the aggregate sales to such dealer during the year exceed INR 5 mn. However, where the dealer is responsible for deducting TDS @0.1% on purchases, TCS compliance would not be required. The same provisions shall apply in case of sale of spare parts as well.
- In case of sale to the end consumer by the dealer, receipt of sale consideration for sale of motor vehicles of the value exceeding INR 1 mn would be subject to TCS @ 1 % and TCS will not be leviable again at 0.1%.

These provisions will also not apply in case of a sale to Government, Notified Institutions, Embassies, Consulates, High Commission, Legation, Commission and Trade Representation of a foreign State.

5. Indirect Taxes [CGST+SGST/IGST]

5.1. General

GST is a destination-based tax on consumption of goods and services like the value added tax which is levied on supply of goods or services or both. It is levied at all stages from manufacture up to final consumption. Taxes paid at previous stages are available as set-off.

When the location of supplier and place of supply are in the same State, such supply is treated as intra-State supply. CGST and SGST are payable on intra-State supply.

When the location of supplier and place of supply are in two different States, such supply is treated as supply of goods in the course of Inter-State supply. IGST is payable on inter-state supply.

5.2. Deduction/Exemptions

No specific exemptions/deductions are available under GST.

5.3. Hire purchase: Supply of goods?

As per entry 1(c) of Schedule II of CGST ACT, 2017, any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is treated as supply of goods.

Accordingly, GST would be leviable on hire purchase transaction considering the same as supply of goods. The supplier would be required to discharge GST liability considering the rate of GST applicable on the underlying vehicle. The same is explained in section 3.1.1 above.

5.4. Leasing: Supply of services?

According to Section 7 of the CGST Act, 2017, transaction of lease is considered as supply. Pursuant to entry 5(f) of the Schedule II of the CGST Act, 2017, an activity involving transfer of right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration is treated as supply of services.

Accordingly, the activity of leasing vehicles would be tantamount to supply of service. As per the GST rate schedule for services, rate of GST on transfer of right to use or transfer of right to use without transfer of title would be rate of GST applicable to underlying vehicles.

6. Company car

6.1. Company car in personal tax returns – benefit in kind

In case a benefit in kind is provided by the employer to the employee, then the value of such benefit is taxed in the hands of the employee as a prerequisite.

Valuation rules have been prescribed to determine the value of the perquisite provided. The value of a perquisite is treated as salary in the hands of the employee. The following table summarises the valuation of perquisites in the case of benefit in kind:

Particulars	Where the cubic capacity of the engine does not exceed 1.6L	Where the cubic capacity of the engine exceeds 1.6L
<i>1. Where the motor car is owned or hired by the employer and</i>		
a. is used wholly and exclusively in the performance of his official duties;	Nil Note: Documents specified are to be maintained by the employer (see Note 1 below table)	Nil Note: Documents specified are to be maintained by the employer (see Note 1 below table)
b. is used exclusively for the private or personal purposes of the employee or any	Actual amount of expenditure incurred by the employer on the running and	Actual amount of expenditure incurred by the employer on the running and maintenance of the car

member of his household and running and maintenance expenses are met or reimbursed by the employer;	<p>maintenance of the car during the relevant previous year</p> <p>Add: remuneration, if any, paid by the employer to the chauffeur</p> <p>Add: 10% per annum of the actual cost of the car as normal wear and tear of the car</p> <p>Less: any amount charged to the employee for such use</p>	<p>during the relevant previous year</p> <p>Add: remuneration, if any, paid by the employer to the chauffeur</p> <p>Add: 10% per annum of the actual cost of the car as normal wear and tear of the car</p> <p>Less: any amount charged to the employee for such use</p>
c. is used partly in the performance of duties and partly for private or personal purposes of his own or any member of his household and		
i. the expenses on maintenance and running are met or reimbursed by the employer or	INR 1,800 per month (plus INR 900 per month if a chauffeur is also provided to run the car)	INR 2,400 per month (plus INR 900 per month if a chauffeur is also provided to run the car)
ii. the expenses on running and maintenance for such private or personal use are fully met by the assessee.	INR 600 per month (plus INR 900 per month if a chauffeur is provided by the employer to run the car)	INR 900 (plus INR 900 per month if a chauffeur is also provided to run the car)
2. <i>Where the employee owns a car but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are met or reimbursed to him by the employer and</i>		
i. such reimbursement is for the use of the vehicle wholly and exclusively for official purposes;	<p>Nil</p> <p>Note: Documents specified are to be maintained by the employer (see Note 1 below)</p>	<p>Nil</p> <p>Note: Documents specified are to be maintained by the employer (see Note 1 below)</p>
ii. such reimbursement is for the use of the vehicle partly for official purposes and partly for personal or private purposes of the employee or any member of his household.	<p>The actual amount of expenditure incurred by the employer</p> <p>Less: INR 1,800 per month (plus INR 900 per month if a chauffeur is also provided to run the car)</p>	<p>The actual amount of expenditure incurred by the employer</p> <p>Less: INR 2,400 per month (plus INR 900 per month if a chauffeur is also provided to run the car)</p>

Note 1: Documents to be maintained

- Logbook containing details of journeys undertaken for official purpose: the log book shall contain date of journey, destination, mileage and the amount of expenditure incurred.
- Certificate from the employer to the effect that expenses were incurred wholly and exclusively for the performance of official duties.

Where one or more cars are owned or hired by the employer and the employee or any member of his household are allowed the use of such a car or all of any of such cars (otherwise than wholly and exclusively in the performance of his duties), the value of perquisite shall be the amount calculated in respect of one car as if the employee had been provided one car for use partly in the performance of his duties and partly for his private or personal purposes and the amount calculated in respect of the other car or cars as if he had been provided with such car exclusively for his private or personal purposes.

Where the employer or the employee claims that the car is used wholly and exclusively in the performance of official duty or that the actual expenses on the running and maintenance of the car owned by the employee for official purposes is more than the amounts deductible given in the table, he may claim a higher amount attributable to such official use. The value of perquisite in such a case shall be the actual amount of charges met or reimbursed by the employer as reduced by such higher amount attributable to official use of the vehicle, provided that the following conditions are fulfilled:

- The employer has maintained complete details of journeys undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.
- The employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

7. Income taxes – Drivers’ personal taxation

The provisions relating to private cars in the personal tax return are covered under section 6.1.

8. Selling a car

8.1. Taxable persons

8.1.1. Indirect tax

The term supply has been defined under Section 7 of the CGST Act, 2017, which means all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business.

Persons, who in the course or furtherance of their business, supply the new vehicles, are required to discharge GST liability on supply of vehicles. In case of supply of old and used vehicles, one has to look at the prescribed notifications under GST Law, as the value and rate of GST could vary depending on factors such as engine capacity, length of the vehicle, availability of input tax credit, claiming of depreciation, etc.

8.1.2. Income tax

When the car used for business purposes is sold then the capital gains/loss (if any) arising on the sale of such car is liable to tax as income under the head “capital gain”.

However, as stated in section 4.1 fixed assets are not given an independent identity as per income-tax provisions. Accordingly, one needs to look at the position of the block of assets to determine capital gain/loss on the sale of a car.

Accordingly, capital gains would arise when the sale value of a car exceeds the carrying value of the block of assets and capital losses would arise in case all the assets in that block are sold but the sale value of the car sold doesn’t recover the carrying cost of the block.

Capital gains arising above are deemed to be short-term capital gains irrespective of the period of holding of a car. The short-term capital gains are taxable at normal rate of tax (i.e. at 22/25/30% plus applicable surcharges and education cess) in the case of a corporate assessee and at applicable slab rates for individuals.

8.2. Private individuals

The term supply has been defined under Section 7 of the CGST Act, 2017, which means all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business.

Hence, if the vehicle is sold by private individuals as a one time activity, for the purpose other than furtherance of business, it would not be treated as supply and GST would not be levied on the same.

No income-tax implications arise on the sale of cars which are used for personal purposes.

9. The Electric Vehicle Push

Through the budget, the Government of India has clearly demonstrated its intent to push forward Electric vehicle adoption. It also hopes to enable India to emerge as a hub for manufacturing of electric vehicles and batteries, generating employment and growth opportunities. The Government has already launched the Faster Adoption and Manufacturing of Electric Vehicles in India (FAME India) scheme. Phase-II of FAME Scheme, following approval of the Cabinet with an outlay of INR 10,000 crore for a period of three years, has already commenced from April 1, 2019.

The key measures to support Electric vehicles are summarized below:

- a) Lower GST rate on electric vehicles and charger or charging stations for electric vehicles from 12% to 5%.
- b) GST exemption to local authorities for hiring of electric vehicles (of carrying capacity more than 12 passengers).
- c) Section 80EEB has been added in the Income-tax Act to provide for a deduction to the individuals up to Rs. 150,000 in respect of interest on loan taken for purchase of an electric vehicle from any financial institution subject to the conditions specified therein and will be applicable from assessment year April 1, 2020. Further, the said deduction shall be subject to the condition that the loan has been sanctioned by the financial institution during the period beginning from 1 April 2019 to 31 March 2023.

To further incentivize e-mobility, customs duty is being exempted or reduced on import of electric vehicles in knocked down kits and on parts of electric vehicles.

Additionally, various States also provide incentives to manufacturers, units setting up charging stations as well as to buyers. The benefits may include capital subsidies, interest subsidy, refund of GST, subsidy on cost of land and exemption of stamp and electricity duty. The policy and corresponding benefits may vary from State to State.

10. Recall of Motor Vehicle Policy

The Ministry for Road Transport and Highways ('MoRTH') introduced Vehicle Recall Policy¹⁸ ('Recall Policy') which makes it compulsory for an automaker to recall vehicles if certain criteria are not met. The automaker can either be instructed by the Central Government (by way of notice) or by the owner of the vehicle (by way of registering a complaint on the Vehicle Recall Portal i.e., "Vahan").

Apart from this, every manufacturer or importer or retrofitter is also required to establish procedures for recalling the motor vehicles and make it available in the public domain to citizens for their information. The products supplied by the suppliers to manufacturer or importer or retrofitter can also be held accountable under the Recall Policy.

¹⁸Notification no. G.S.R. 1 (E). Dated March 11, 2021 (w.e.f April 01, 2021)

Any non-compliance under the Recall Policy would attract a fine on a case to case basis.

11. India moves to Bharat Stage (BS)-VI norms

The Central Government has mandated that vehicle makers must manufacture, sell and register only BS-VI (BS6) vehicles from April 1, 2020. The BS emission standards are laid down by the Government to regulate the output of air pollutants from internal combustion engine and spark-ignition engine equipment, including motor vehicles and strive for cleaner emission.

12. Production Linked Incentive (PLI) scheme for automobile and auto components industry

The Union Cabinet had approved the PLI Scheme for Automobile and Auto Components Industry on September 15, 2021. Pursuant to that, the Ministry of Heavy Industries ('MHI') has issued the official gazette notification¹⁹ ('PLI Scheme') in this regard along with Guidelines²⁰ for the PLI Scheme for Automobile and Auto Components Industry.

This PLI Scheme will provide incentives up to INR 259.38 bn to eligible bidders to boost domestic manufacturing of advanced automotive technology products and attract investments in the automotive manufacturing value chain in India. Furthermore, the incentives will be disbursed thereafter over a period of five years.

Companies engaged or proposing to engage in automotive vehicle and components manufacturing business can apply under the PLI Scheme.

13. Vehicle Scrapping Policy

The MoRTH announced the Vehicle Scrapping Policy²¹ ('Vehicle Scrapping Policy'). The objective of the Scrapping Policy is to create rules for rearing commercial and private vehicles in a way that creates a new system to get rid of the unfit and polluting vehicles out of the central database of vehicles.

As per the Scrapping Policy, passenger vehicles older than 20 years and commercial vehicles older than 15 years will need to undergo a mandatory "fitness" test. During the test, the vehicles will be evaluated on a number of safety and environmental standards at various testing centers set up by the Government.

If the vehicles do not meet the standards set by the Government, they will have to be scrapped. The owners of the vehicles will be paid approximately 5% of the vehicle's ex-showroom price. In addition, owners will also be eligible to receive various discounts and tax rebates when they purchase new vehicles after selling their old ones.

Further, as per the Scrapping Policy, MoRTH is inviting applications from eligible applicants for setting up of Registered Vehicle Scrapping Facility ('RVSF') across India. The applicant is required to submit an application in the prescribed Form I along with a statutory fee. Upon reviewing the application, the Authority shall issue registration with a validity of 10 years which can be renewed for another 10 years, subject to conditions to the applicant for setting up an RVSF for carrying out dismantling and scrapping operations.

14. Legal background

N/A

¹⁹ Notification No. S.O. 3946(E) dated September 23, 2021

²⁰ Notification No. S.O. 3947(E) – Guidelines for the production linked scheme for automobile and auto component industry dated September 23, 2021

²¹ Notification no. G.S.R. 653(E) dated September 23, 2021 (w.e.f September 25, 2021)

Ireland



Gavin O'Connor

Director Tax

p: +353 1792 8456

e: gavin.oconnor@pwc.com

Kevin Conneely

Manager Tax

p: +353 1792 8303

e: kevin.conneely@pwc.com

Ireland

1. Car registration

1.1. When does a car need to be registered?

Every road vehicle in Ireland (with the exception of vehicles brought in temporarily by a non-resident) must be registered before being used on Irish public roads. If a vehicle is brought into Ireland from abroad on a permanent basis, it is required to be registered and any Vehicle Registration Tax (VRT), and other taxes due, must be paid. To register the vehicle, an appointment is required to be made with the National Car Testing Service (NCTS) within 7 days of the car being brought into Ireland. Registration must be completed within 30 days of the vehicle's arrival in Ireland. Vehicles not registered within this time limit are liable to seizure and the imposition of a late payment charge.

A valid Certificate of Conformity (CoC) must be entered on the Revenue system before a new vehicle can be registered. A CoC contains information produced by a manufacturer that is unique to each vehicle manufactured. In effect, the CoC is a statement by the manufacturer that the vehicle conforms to EU standards.

1.2. Who can register a car?

The vehicle can be registered in Ireland by the owner or by a person registering the vehicle on behalf of the owner. The owner of the vehicle is defined in Irish legislation as “the person by whom the vehicle is kept”. In relation to a vehicle that is the subject of a hire purchase agreement or a lease, the owner is defined as “the person in possession of the vehicle under the agreement or lease”.

The address declared must be in Ireland and be the one at which the owner ordinarily resides at the time of registration. This address determines the county index assigned and is the address to which the vehicle registration certificate will be posted. The declaration of some other address, such as that of a motor dealer or of a relative of the owner, is not permitted. In particular, “care of” addresses are not accepted.

1.3. Is a foreign owner allowed to register a vehicle in the country?

If a foreign owner is resident in Ireland for over 185 days per calendar year, then their car must be registered in Ireland. Please see section 1.2 in relation to the address to be declared.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Any imported vehicle that is owned by or registered in the name of a non-resident person is not required to be registered in Ireland, subject to meeting all of the following conditions:

- The owner's “normal residence” remains outside Ireland, i.e. his personal ties continue to be abroad and he returns there regularly (with some exceptions).
- All normal duties and taxes have been paid on the vehicle and these must not have been exempted or refunded in any way. The standard number plates in use in the domestic market of a country are normally accepted as evidence of this.
- The vehicle may not in any circumstances be driven by an Irish resident individual. This exclusion may however be dis-applied in certain limited circumstances where, for example, the Irish resident is employed by a company established in another Member State of the EU or if the vehicle is of a commercial nature, etc.
- The vehicle may not be disposed of or hired out in Ireland or loaned to an Irish resident individual.
- The period of time that the vehicle is in Ireland does not exceed 12 months. A longer period may apply where a person is on a task of definite duration in Ireland.
- The foreign number plates must remain on the vehicle while in Ireland.

2. Car taxation

2.1. What are the different car taxes?

- Vehicle registration tax
- Motor tax
- VAT

2.2. Vehicle Registration tax

2.2.1. Taxable event

Vehicle registration tax (VRT) is payable on the first-time registration of all road vehicles in Ireland, regardless of the origin of the vehicle.

2.2.2. Tax due

In respect of passenger vehicles, VRT is charged on the open market selling price (OMSP) of the vehicle. This is the price, inclusive of all taxes and duties, which the vehicle might reasonably be expected to fetch on a first arm's length sale in Ireland by retail. Since July 1, 2008, the rate of VRT to apply is determined by the level of CO₂ emissions of the vehicle. Since 1 January, 2021 these CO₂ emissions are calculated based on the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) measuring system. The rates of VRT for petrol vehicles range from 7% to 41%, as determined by a twenty-band CO₂ emissions rating system. A detailed breakdown of the applicable rates from 1 January, 2022 for petrol vehicles is provided in the table below:

CO ₂ Emissions (g CO ₂ /km)	VRT Rates	Minimum VRT payable
More than 0g/km up to and including 50g/km	7% of OMSP	140 EUR
More than 50g/km up to and including 80g/km	9% of OMSP	180 EUR
More than 80g/km up to and including 85g/km	9.75% of OMSP	195 EUR
More than 85g/km up to and including 90g/km	10.5% of OMSP	210 EUR
More than 90g/km up to and including 95g/km	11.25% of OMSP	225 EUR
More than 95g/km up to and including 100g/km	12% of OMSP	240 EUR
More than 100g/km up to and including 105g/km	12.75% of OMSP	255 EUR
More than 105g/km up to and including 110g/km	13.5% of OMSP	270 EUR
More than 110g/km up to and including 115g/km	15.25% of OMSP	305 EUR
More than 115g/km up to and including 120g/km	16% of OMSP	320 EUR
More than 120g/km up to and including 125g/km	16.75% of OMSP	335 EUR
More than 125g/km up to and including 130g/km	17.5% of OMSP	350 EUR
More than 130g/km up to and including 135g/km	19.25% of OMSP	385 EUR

More than 135g/km up to and including 140g/km	20% of OMSP	400 EUR
More than 140g/km up to and including 145g/km	21.5% of OMSP	430 EUR
More than 145g/km up to and including 150g/km	25% of OMSP	500 EUR
More than 150g/km up to and including 155g/km	27.5% of OMSP	550 EUR
More than 155g/km up to and including 170g/km	30% of OMSP	600 EUR
More than 170g/km up to and including 190g/km	35% of OMSP	700 EUR
More than 190g/km	41% of OMSP	820 EUR

Since 1 January, 2020 a second component has been added to the calculation base for vehicle registration tax. The Nitrogen Oxide (NOx) charge has been combined with the existing rates (based on CO₂ emissions) to form the VRT payable. The NOx charge replaced the 1% diesel surcharge. The charge is based on emissions of milligrams per kilometre or kilowatt hour and capped at a maximum of €4,850 for diesel vehicles and €600 for other vehicles. Since 1 January, 2021 the parameters for NOx emissions have been altered, as outlined below:

NOx emissions (NOx mg/km or mg/kWh)	Amount payable per mg/km or mg/kWh
The first 0-40 mg/km or mg/kWh, as the case may be	€5
The next 40 mg/km or mg/kWh or part thereof, as the case may be, up to 80 mg/km or mg/kWh, as the case may be	€15
The remainder above 80 mg/km or mg/kWh, as the case may be	€25

The NOx levy will be chargeable on all Category A vehicles registered from 1 January, 2020. Persons registering a vehicle after this date will have to provide evidence of the vehicle's NOx emissions to finalise registration. Failure to provide this information may lead to delays or a flat charge being imposed.

A partial relief from VRT exists for certain electric vehicles and has been extended for registrations up to 2023. The various reliefs are as follows:

- Certain series production electric vehicles - up to a maximum of 5,000 EUR, based on the value of the vehicle;
- Certain series production electric motorcycles – exempt

- The VRT rate for vehicles constructed for the carriage of goods, that have 3 seats or less, or which have a seating area separate from the cargo area, are subject to VRT at a rate of 13.3%. This rate also applies to motor caravans. This is a change to previous measures which were wider in their application.

The partial VRT relief for hybrid and plug-in hybrid electric vehicles which was available up until 31 December, 2020 has now expired.

2.2.3. Tax period

VRT is only payable on the first-time registration in Ireland of road vehicles.

2.2.4. VRT Export Repayment Scheme

The VRT Export Repayment Scheme allows for the repayment of "residual" Vehicle Registration Tax on certain vehicles permanently exported from Ireland. The only vehicles eligible for the Export Repayment Scheme are passenger vehicles which were charged the category A rate, that are registered in the State and on which VRT has been paid to the Irish authorities. It should be noted that where the Open Market Selling Price (OMSP) of a vehicle is calculated to be less than 2,000 EUR, the vehicle will not qualify for a repayment of VRT under the Export Repayment Scheme.

The refund of VRT is conditional on the vehicle being exported from Ireland and being re-registered in another country.

An estimate of the VRT refundable can be found on the Irish Revenue Commissioners online VRT Repayment Enquiry system. An appointment with an NCTS Centre for an Export Repayment Examination is required for a definitive refund amount. Once the Export Repayment Examination is complete, the applicant will receive an Export Examination receipt indicating the VRT Repayable amount.

Within 30 days from the date of Export Repayment Examination, the vehicle must be exported from the State. Finally, a completed Export Repayment Scheme Application Form must be submitted by the applicant to the Irish Revenue authorities' together with proof of export and subsequent registration in the destination export country.

A 100 EUR administration charge is payable to the Irish Revenue Commissioners, which will be deducted from the amount of VRT that is repayable.

2.2.5. Proportionate payment of VRT

From 1 July, 2019 the Irish government introduced a regime which allows for the proportionate payment of VRT on passenger vehicles and light commercials leased from another Member State and brought into Ireland for the duration of the lease. The proportionate payment is calculated based on the duration of the lease period. For example, if the vehicle is leased for 12 months, 21% of the full VRT amount will be payable. Certain conditions must be met in order to qualify for proportionate payment:

- the vehicle has not been previously registered in Ireland;
- the lease period is between 1 and 48 months;
- the vehicle is removed from Ireland once the leasing period has finished;
- the leasing company is VAT registered in Ireland; and,
- the vehicle is registered in the name of a person established in Ireland

2.2.6. Repayment of VAT element of VRT by leasing entities

Businesses involved in the leasing of passenger vehicles will no longer be entitled to obtain repayment of the VAT element of VRT arising on a vehicle, effective from 1 January 2019 for new vehicles and 1 April 2019 for all other vehicles. Up to those dates, such businesses would have been entitled to a repayment, equivalent to 18.69% (23/123) of the amount of VRT on a passenger vehicle being leased to a customer.

2.2.7. Worldwide Harmonised Light Vehicle Test Procedure changes

Significant changes have been implemented with regards to vehicle testing, with the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP). WLTP is a new standard laboratory test that is used to measure fuel consumption, CO₂ emissions and pollutant emissions from passenger cars. WLTP has narrowed the CO₂ emission parameters and therefore increased the volume of VRT bands, as emissions readings have become more accurate.

2.3. Motor tax

2.3.1. Taxable event

The payment of an annual motor tax for the use of motor vehicles is a legal requirement in Ireland. It is also necessary to display evidence of the payment of motor tax on the motor vehicle. Currently, a tax disc is issued by the relevant authority for display on the motor vehicle when payment of the motor tax has been made.

2.3.2. Tax due

For private cars registered from 1 January, 2021, which have their CO₂ emissions measured in accordance with Commission Regulation (EU) 1151/2017 (which introduced a new emission type approval test (WLTP)), motor tax ranges from 120 EUR to 2,400 EUR. See table below for details:

CO ₂ emissions-gm per km	Annually €
0g/km	120
More than 0g/km up to and including 50g/km	140
More than 50g/km up to and including 80g/km	150
More than 80g/km up to and including 90g/km	160
More than 90g/km up to and including 100g/km	170
More than 100g/km up to and including 110g/km	180
More than 110g/km up to and including 120g/km	190
More than 120g/km up to and including 130g/km	200
More than 130g/km up to and including 140g/km	210
More than 140g/km up to and including 150g/km	270
More than 150g/km up to and including 160g/km	280
More than 160g/km up to and including 170g/km	420

More than 170g/km up to and including 190g/km	600
More than 190g/km up to and including 200g/km	790
More than 200g/km up to and including 225g/km	1250
More than 225g/km	2400

For private cars with CO2 emissions measured differently, motor tax also ranges from 120 EUR to 2,400 EUR, but the CO2 emission bands differ.

For private cars registered prior to July, 2008, motor tax is based on the engine size of the vehicle and ranges from 199 EUR for cars with an engine capacity below 1,000cc to 1,809 EUR for vehicles with an engine capacity greater than 3,001cc. A special rate of 120 EUR typically applies to electric-powered cars.

2.3.3. Tax period

In the majority of cases, motor tax can be paid in advance yearly, half-yearly or quarterly.

3. Income taxes – taxable persons

Where a car is used for business purposes, but the cost of the vehicle exceeds 24,000 EUR, leasing expenses and wear and tear for which the company or business can claim a deduction are restricted.

From July 1, 2008, the availability of tax deductions for motor lease expenses is linked to the car's CO2 emissions. The 24,000 EUR cost limit continues to apply for cars with CO2 emissions below 156g/km (i.e., wear and tear allowances are based on deemed expenditure of €24,000 even if the car actually cost less than this amount); however, this limit is restricted to 50% for cars between 156g/km and 190g/km. No tax deduction is available for cars with emissions above 190g/km.

The categories are effectively divided into 3 groups to which different arrangements apply. Section 19 Finance Act 2019 revised the emission thresholds downwards so that cars with CO2 emissions greater than 155 grams(g) per kilometre(km) driven do not qualify for capital allowances or leasing expenses. Cars with CO2 emissions greater than 140g/km up to and including 155g/km driven qualify for capital allowances based on the lower of half the specified amount or half the cost of the car. In relation to leasing expenses, cars in this latter group get half of the leasing expenses incurred where the cost of the car is €24,000 or less or, for cars costing over that amount, the leasing expenses are reduced in the proportion which half the specified amount bears to the cost. Section 14 Finance Act 2020 made some technical amendments to the scheme as a result of the introduction of the new EU testing regime from 1 January, 2021. The definition of CO2 emissions was updated, and the vehicle category references A, B, C, D, E, F and G were revised to A, B, C, D, E and F.

This provision means that if a business acquires a car and the cost (as opposed to the open market value) of the vehicle exceeds the related threshold, or the CO2 emissions are over the specified limit, the business' allowable leasing and wear and tear deduction will be restricted. Previous restrictions regarding motor running costs no longer apply.

To illustrate, if a car acquired by lease for business purposes costs 26,000 EUR with CO2 emissions of 160g/km and the total leasing expenses relating to the car are 5,000 EUR, these costs will be restricted in the adjusted profit computation of the business entity. As the cost of the car is greater than €24,000, the leasing charges will be reduced in the proportion which 50% of the specified amount (€24,000) bears to the cost.

Therefore, the business will be entitled to a deduction in its tax computation of only 2,308 EUR instead of 5,000 EUR (being total costs of 5000 EUR x 24,000/26,000 x 50%). This would however increase to 4,615 EUR if the CO2 emissions were below 156g/km (being total costs of 5,000 EUR x 24,000/26,000).

The amount on which the business is entitled to claim a wear and tear allowance is also restricted. Ordinarily, a business can claim 12.5% of the cost of the car each year over eight years (where cars are purchased after December 4, 2002). However, where the value of the car exceeds 24,000 EUR or the CO₂ emissions exceed the figures shown above, the allowance may only be calculated as a percentage of this threshold figure regardless of the actual cost of the car.

4. VAT

4.1. General

VAT at the standard rate – currently 23% from 1 January, 2012, – is generally chargeable on the sale or leasing of motor vehicles - other than short term hire (see below). The standard rate of VAT temporarily reduced from 1 September, 2020 to 28 February, 2021 to 21%.

The standard rate of VAT also applies to the initial handing over of goods under a hire purchase transaction. Under such transactions, legal ownership will not transfer until after the final sum due under the agreement is paid. For VAT purposes, that transfer of ownership is ignored (on the basis that VAT has already been accounted for on the initial handing over of the goods) being the VAT supply point.

The finance charge or interest element of a hire purchase transaction is exempt from VAT as a financial service.

Short-term hire is subject to VAT at 13.5%. Short-term hire (typically holiday car rentals, etc.) is an agreement for the hire of a motor vehicle to a person for a period not exceeding a cumulative total of five weeks in any 12-month period. In relation to the sale of second-hand or used vehicles, from January 1, 2010 a pure margin scheme has been in operation in place of the “special scheme” that previously applied.

The margin scheme is primarily relevant to second-hand passenger vehicles for which no VAT deduction was available to the owner. In contrast, the scheme will generally not be applied to “commercial” vehicles where VAT would usually have been charged on the disposal to the dealer, such that the commercial vehicle would be supplied with a formal VAT invoice.

4.2. Personal Contract Plan Products and recent ECJ ruling

In 2018, the Irish Revenue Commissioners issued guidance following the ECJ judgment in the HMRC v Mercedes Benz Financial Services UK Limited case. The Irish Revenue Commissioners’ position is that Personal Contract Plans (PCPs) will continue to be treated for VAT as a supply of goods in the same manner as for a conventional hire purchase arrangement. This is the case provided at the outset of the agreement, the only rational choice for the customer is to purchase the vehicle at the end of the contract.

The decision as to whether the only ‘economically rational choice’ for the customer is to purchase the vehicle will be made on a case by case basis with reference to the guaranteed minimum future value (GMFV) of the vehicle. The Revenue Commissioners also accept that, where the option to pay the GMFV, but trade the vehicle for a new vehicle is the economically rational choice, this will also qualify for the treatment as a hire purchase contract. However, where the economically rational choice with reference to the GMFV is for the customer to hand back the vehicle (rather than purchase or trade-in the vehicle), this will be regarded as a leasing arrangement.

4.3. Deduction

Irish VAT correctly charged may be deducted by an Irish VAT registered person on the purchase or hire of commercial vehicles, and to the extent, the vehicles are used for the purposes of the person’s activities which are subject to VAT.

Other than in the case of “passenger” vehicles acquired as stock in trade, for hire or for use in a driving school business for the giving of driving instruction, VAT arising on the purchase or hire of such passenger motor vehicles is generally not deductible.

However, a partial deduction of 20% of the amount of VAT charged on the purchase, hire, acquisition or importation of passenger vehicles first registered

- (i) from January 1, 2009, is allowed if the vehicles are used primarily for business purposes (being at least 60% of the total use) **and**
- (ii) the CO₂ emissions level of the vehicles are less than 156g/km. From 1 January 2021, the CO₂ emissions level of the vehicles must be less than 140g/km. An adjustment to the amount of VAT deducted will be required to be made where business usage is less than 60% and/or where the vehicle is disposed of within 2 years of its purchase.

The passenger vehicles covered are as follows:

- estate cars;
- sports motor vehicles;
- station wagons;
- motorcycles;
- motor scooters;
- mopeds;
- autocycles.

The definition also includes single person vehicles but does not include vehicles designed and constructed for the carriage of more than 16 persons (inclusive of the driver) and vans, etc.

In relation to “margin scheme” motor vehicles purchased or acquired from 1 July, 2010, no VAT deduction may be claimed by motor dealers or any other businesses for the VAT element of the purchase or acquisition.

In order to identify a vehicle as within the margin scheme, invoices issued for their sale should be marked “*Margin scheme – this invoice does not give rise to an input credit for VAT*”.

5. Company car

5.1. VAT due on private use of company cars

In the case of a passenger vehicle qualifying for a VAT deduction (per para 4.2 above), no adjustment will be required by the employer’s business for private use of the vehicle, provided the vehicle is used primarily for business purposes, being at least 60% of the overall use of the vehicle. For other passenger vehicles, where no VAT deduction was claimed, the private use by an employee of a company-provided passenger vehicle provided as part of their employment terms, will not trigger any VAT consequences.

This 60% ‘business use’ test is assessed every six months over the two year period following the purchase or acquisition of the vehicle. A (partial) claw-back of VAT is triggered where business use drops below the requisite 60% level during that review period. The adjustment is made in the next VAT return after the 6 month period.

5.2. Company car – income taxes

Where a company car is available for the private use of an employee other than in the case of electric vehicles (per section 5.2.3), the employee is liable for tax, Universal Social Charge (USC) and Pay Related Social Insurance (PRSI). Such charges will be collected through the PAYE system.

New provisions for new company cars first provided from 2009 onwards will be effective from a date to be determined by Ministerial Order. As at January 2018, this Ministerial Order has not yet been implemented. Existing benefit in kind (BIK) provisions as set out in point 5.2.1 below will continue to apply.

5.2.1. Existing BIK company car rules

Where BIK is charged on a company car provided for use by an employee, the BIK is calculated as 30% of the open market value of the car less any amounts which the employee reimburses the employer in respect of any part of the cost of running the car.

Income tax is payable at the employee's marginal rate of tax which is currently either 20% or 40%. A liability to the Universal Social Charge and Pay Related Social Insurance (PRSI) also arises.

Example – calculation of car benefit	For cars provided
Open market value	EUR 15,000
Business kilometres	Greater than 48,000
Benefit in kind % (reduced from 30% based on business mileage in excess of 48,000km)	6%
Benefit in kind amount	900 EUR
Taxable benefit in kind	900 EUR

Business travel (km)	Taxable % of OMV
24,000 or less	30
24,001 to 32,000	24
32,001 to 40,000	18
40,001 to 48,000	12
over 48,000	6

However, the BIK charge can be reduced depending on the amount of business mileage completed by an employee over 24,000 kilometres per year (see table above). The reduction is achieved by applying a reduced percentage to the open market value of the car. A further reduction is available on a euro for euro basis for any amount made good by an employee directly to the employer in respect of the cost of running the car.

Where an employee is required to work abroad for an extended period, the notional pay is reduced by reference to the number of days spent working abroad. This is conditional on the employee travelling abroad without the car and the car not being available for use by family or household members. There is 20% relief from notional pay on cars for employees whose annual travel exceeds 8,000 km, who spend 70% or more of their time away from their place of work on business, work an average of at least 20 hours per week and who do not avail of the tapering relief for high business travel.

The individual should keep a logbook of the mileage covered. Formal approval of the Revenue Commissioners approval should be obtained if using this alternative method.

A vehicle provided to a director or an employee will not be regarded as available for private use for that part of the year in which the director or employee is outside the State for the purpose of performing the duties of the office or employment provided all of the following conditions are met:

1. The aggregate number of days spent outside the State for the purpose of performing the duties of the office or employment is at least 30 complete days in the tax year (any holiday period abroad is excluded and a day for this purpose must include an overnight stay).
2. The director or employee travels abroad without the vehicle.
3. The vehicle is not available for use by the director or employee's family or household during the director or employee's period of absence from the State.

Where an individual is temporarily working from home on foot of public health guidance related to the COVID-19 pandemic, he or she should not claim this relief if their working circumstances prior to the onset of the pandemic would not have facilitated a claim in that regard.

Finally, the BIK rules in relation to company vans which are made available for private use of an employee require that BIK is calculated at 5% of the original market value of the vehicle (inclusive of VAT). Where the van has been modified, e.g. a refrigeration unit has been installed, the original market value of the van excluding such modifications should be used. There is no reduction in this amount irrespective of the level of business mileage. Where the employee reimburses the employer in respect of any part of the costs of providing or running the van, the BIK amount can be reduced accordingly.

From 1 January, 2023 the cash equivalent of the use of a van will also be amended and will increase to 8% of the OMV of the van.

Exemption from a BIK charge on a company van is provided if the following conditions are met:

- The van is supplied by the employer to the employee for the purposes of the employee's work.
- The employee is required by the employer to bring the van home after work.
- Apart from travelling from work to home and back to work, other private use of the van by the employee is forbidden by the employer, and there is, in fact, no other private use.
- In the course of their work, the employee spends at least 80% of his or her time away from the premises of the employer to which he or she is attached.

Furthermore, no taxable benefit will arise in respect of the private use of a commercial vehicle with a gross vehicle weight (i.e. gross laden weight) in excess of 3,500kg.

5.2.2. New BIK company car rules – post-2009

As a result of Finance Act 2019 changes, from 1 January, 2023, the cash equivalent of the use of a car will be determined based on the vehicle's CO₂ emissions. The cash equivalent of the use of an employer provided car can be determined using the formula:

Original market value (OMV) x A

To calculate A:

1. Determine the applicable vehicle category from Table B based on the amount of CO₂ g/km the vehicle produces.
2. Locate your vehicle category in Table A.
3. Compare the annual business mileage travelled for the year to establish the appropriate percentage to use for A.

Table A

Business mileage		Vehicle Categories				
lower limit (1)	Upper limit (2)	A (3)	B (4)	C (5)	D (6)	E (7)
kilometres	kilometres	Per cent	Per cent	Per cent	Per cent	Per cent
--	26,000	22.5	26.25	30	33.75	37.5
26,001	39,000	18	21	24	27	30
39,001	52,000	13.5	15.75	18	20.25	22.5
52,001	--	9	10.5	12	13.5	15

Table B

Vehicle Category (1)	CO₂ Emissions (CO₂ g/km) (2)
A	0g/km up to and including 59g/km
B	More than 59g/km up to and including 99g/km
C	More than 99g/km up to and including 139g/km
D	More than 139g/km up to and including 179g/km
E	More than 179g/km

5.2.3. BIK rules for electric cars and vans

The BIK exemption for employer-provided electric vehicles (cars and vans) has been extended for electric vehicles made available in the period from 1 January 2019 to 31 December 2021. This applies only to vehicles which derive their motie solely from electricity (i.e. no exemption applies for hybrid cars or vans).

However, in order to qualify for a complete exemption, the Original Market Value (OMV) of the vehicle must not exceed €50,000. Electric vehicles with an OMV in excess of €50,000 will trigger a BIK charge, but only on the excess over €50,000. This restriction on OMV does not apply to electric vehicles which had already been made available to employees in the period from 10 October 2017 to 9 October 2018, so these will not trigger a tax charge.

The tax treatment applicable to employer provided electric vehicles varies depending on: the date the vehicle was first provided to the employee, the period for which the vehicle is made available to the employee for private use, and the OMV of the vehicle. As Sustainable Energy Authority of Ireland (SEAI) grants are paid after the registration of the vehicle, the OMV is not reduced by the value of the SEAI grant.

Finance Act 2018 extended the favourable BIK regime for certain electric vehicles made available for an employee's private use during the 2019, 2020 or 2021 years of assessment. Finance Act 2019 further extended this preferential BIK regime for another year to 31 December 2022. For an electric vehicle made available for an employee's private use during the years 2019 – 2022, a full exemption from BIK is only available in certain circumstances, as set out below. Where a full exemption does not apply, partial relief from BIK may apply. This partial relief is granted by reducing the OMV by €50,000 when calculating the cash equivalent of the vehicle.

Where an electric vehicle is first provided to an employee during the period 10 October, 2017 to 9 October, 2018, for the employee's private use in any of the years of assessment from 2019 – 2022, the employee's private use of that vehicle will be: fully exempt from BIK for private use of the vehicle in the period from 1 January, 2019 to 31 December, 2020, irrespective of the original market value of the vehicle, fully exempt from BIK for private use of the vehicle in the period from 1 January, 2021 to 31 December, 2022 where the original market value of the vehicle does not exceed €50,000, and partially exempt from BIK for private use of the vehicle in the period from 1 January, 2021 to 31 December, 2022 where the original market value of the vehicle exceeds €50,000. Where an electric vehicle first provided either prior to 10 October, 2017 or after 10 October, 2018, for the employee's private use in any of the years of assessment from 2019 – 2022, the employee's private use of that vehicle will be: fully exempt from BIK for the private use of the vehicle in the period from 1 January, 2019 to 31 December, 2022, where the original market value of the vehicle does not exceed €50,000, and partially exempt from BIK for private use of the vehicle in the period from 1 January, 2019 to 31 December, 2022 where the original market value of the vehicle exceeds €50,000.

COVID-19:

Following the introduction of COVID-19 travel restrictions, the following may, due to such restrictions being in place, apply for the years of assessment 2020 and 2021, when calculating the BIK on an employer provided vehicle:

a) Where an employer takes back possession of the vehicle and an employee has no access to the vehicle, no BIK shall apply for the period (this is by way of clarification rather than concessional treatment being afforded).

b) Where an employee retains possession of a vehicle, but the employer prohibits the use of the vehicle, no BIK shall apply if the vehicle is not used for private use. Records should be maintained to show that the employer has prohibited its use and no such use has occurred, for example communication from employer, photographic evidence of odometer etc.

c) Where an employee has a car provided by his or her employer and

i) the circumstances in a) and b) above don't apply,

ii) limited or reduced business mileage (if any) is undertaken during the period of the COVID-19 crisis and

iii) personal use is limited

the amount of business mileage travelled in January 2020 may be used as a base month for the purposes of calculating the amount of BIK due. Thus, the percentage applied in the calculation of the cash equivalent, which is based on annualised business mileage, may have regard to the actual business mileage for January 2020, for the period of the COVID-19 restrictions arising in 2020 and 2021. Appropriate records should be kept, for example business mileage travelled in January 2020, amount of private use, photographic evidence of odometer etc.

d) Where an employee continues to undertake business travel as usual in an employer-provided vehicle, the usual BIK rules will apply.

6. Income taxes – drivers' personal taxation

Please see section 2.

7. Future developments

As part of its ongoing objective to reduce CO2 emissions, the government is continuing reforms of car taxation on a "polluter pays" policy. This includes taxing the use of motor vehicles on an emissions basis and providing tax incentives to encourage the purchase of cleaner and more energy efficient vehicles.

8. Legal background

- Income and Corporation Tax – Taxes Consolidation Act 1997
- VAT – Value-Added Tax Consolidation Act 2010
- VRT – Finance Act 1992 (as amended)

Italy



Alessio Rolando
Automotive Tax Leader

p: +39 011 5922740
e: alessio.rolando@pwc.com

Lorenzo Ontano
Director Tax

p: +39 02 91605720
e: lorenzo.ontano@pwc.com

Italy

1. Car registration

1.1. When does a car need to be registered?

Generally, in order to circulate on Italian public roads, vehicles must be registered at the Traffic Authority (Motorizzazione Civile) by means of the Car Driver's Telematic Office (Sportello Telematico dell'Automobilista – so-called “STA procedure”). A circulation card and a number plate are issued.

In some specific cases (i.e., vehicles already registered in an extra EU state), the registration should be made in front of the Traffic Authority (Motorizzazione Civile) offices with a different procedure.

1.2. Who can register a car?

A vehicle is registered in the name of the owner: This can be an individual or a legal entity. The data of the following sub-usufructuary of the lessee who has a faculty to purchase the car and the seller with a stipulation as to retention of title also have to be indicated on the circulation card, where applicable.

Since November 3, 2014, the name of the individual who is not a holder of a vehicle, but who has the effective availability of it for more than 30 consecutive days must be registered at the Traffic Authority (Motorizzazione Civile) and noted on the circulation card.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, upon request a vehicle owned by a non-resident corporation/individual can be registered in Italy if the following conditions are met:

- There is a stable relationship with the Italian territory.
- A legal domicile is elected in Italy by appointing either a person or a “car practice agency”.

The requirements for a stable relationship with the Italian territory are different for EU entities, for extra-EU entities and for private individuals.

In particular, the stable relationship for extra-EU companies is verified if they have in Italy

- an administrative office,
- the main business purposes or
- a branch.

Private individuals from outside the EU can register a vehicle in Italy if they are resident in Italy and have a regular permit of stay or are waiting for its issue.

Regarding EU private individuals, there is no need to elect a domicile in Italy if that person stays in the territory for more than three months. On the other hand, EU private individuals staying in Italy for less than three months cannot register their vehicle in Italy.

1.4. Can a vehicle with a foreign number plate be used on public roads?

The Italian Road Code states that vehicles registered in a foreign country (for which the formalities for the import from a non-EU member state or for the intra-Community acquisition of new cars have been carried out) can circulate in Italy for a maximum period of one year on the basis of the registration certificate issued in the country of origin.

2. Car taxation

2.1. What are the different car taxes?

Car taxes become due in Italy following the registration of a car and its use on public roads, namely

- provincial registration tax (Imposta provinciale di trascrizione - IPT)
- regional motor vehicle tax

2.2. Provincial registration tax (Imposta provinciale di trascrizione)

2.2.1. Taxable event

The provinces can levy a tax related to all the formalities concerning the car registration into the Public Car Register (PRA), applicable for the province territory, by issuing a regulation.

In case the STA procedure is not applicable/possible, the registration can be obtained by the traditional procedure, i.e., once applied for the car registration before the Traffic Authority (Motorizzazione Civile) within 60 days from issuance of the circulation card, the vehicle has to be registered in the Public Car Register.

2.2.2. Taxable person

As a general rule, IPT is due by the subject who is acquiring the specific right of property of the vehicle. So generally, the person who carries out the registration (i.e., the purchaser) is liable to pay the provincial registration tax.

In some provinces the “car practice agency” is jointly liable.

Regarding Leasing contracts, from January 1, 2014, IPT paid by the lessor on release of leased vehicles is abolished.

2.2.3. Tax due

The provincial registration tax (Imposta provinciale di trascrizione) is 150.81 EUR for cars with an engine power of up to 53kW. If the power is over 53kW the tax is calculated by multiplying 3.51 EUR by the total kilowatts.

Each Provincial Public Authority has the faculty to increase the aforementioned rates by up to 30%.

Moreover, there are some additional limited fixed fees related to the ACI intermediation and for stamp duties related to the vehicle registration.

Acts relating to vehicles adapted to persons with certain disabilities are exempt from IPT payment.

2.2.4. Tax period

The tax is due at the time of any registration of a car or subsequent transfer of ownership.

2.3. Regional motor vehicle tax

2.3.1. Taxable event

Motor vehicles registered in Italy are subject to a yearly regional tax calculated on the basis of the engine power expressed in kilowatts. The number of kilowatts is mentioned on the circulation card.

2.3.2. Taxable person

The tax is payable by the person under whose name the car is registered.

2.3.3. Tax due

The tax rates depend upon

- the region of residence
- the car engine power
- the polluting emissions level according to Euro standards laid down by EC directives relating to measures to be taken against air pollution by emissions from motor vehicles.

For example, assuming the national standard tax rate without any regional surtax applicable, the number of the effective engine power kilowatts of a car qualifying as a Euro 6 vehicle must be multiplied by 2.58 EUR for engines up to 100kW and by 3.87 EUR for each kilowatt exceeding 100kW.

A fixed fee of this variety for a Euro 0 car is equal to 3.00 EUR up to 100kW and 4.50 EUR for each kilowatt exceeding 100kW. Some exemptions/reductions are foreseen for particular kinds of cars.

Since January 2012, cars with an engine power higher than 185kW have had to pay a surtax (in addition to ordinary regional motor vehicle tax) of 20 EUR for each kilowatt in excess of 185kW.

This surtax is reduced after 5, 10 and 15 years after construction of the vehicle, respectively for the 40, 70 and 85% of the total amount due. After 20 years since the construction of the vehicle surtax is no longer due.

According to art. 1 co. 38 of Law no. 232 of December 11, 2016 (Stability Law 2017), companies with fleets of cars and trucks, which are owner, usufructuary or user by way of leasing may choose to pay the regional motor vehicle tax cumulatively for all their vehicles.

The Stability Law 2019 (art. 1 co 1048 of Law no. 145 of December 30, 2018) introduced a reduction of 50% of regional tax for historical and collecting motor vehicles.

Art. 38-ter, of the Law Decree 124/2019, established that, from January 1st, 2020, the Regional motor vehicle tax can be paid only through the electronic payment system “PagoPA”.

Furthermore, please note that specific exemptions/tax reductions may be allowed with reference to hybrid cars and for electric cars.

2.3.4. Tax period

Yearly.

2.4. “Ecobonus”

Pursuant to art. 1 co. 1031 and the following of Law no. 145 of December 30, 2018 (Stability Law 2019), it was introduced a new incentive (“Ecobonus”) for buyers of new motor vehicles.

The incentive concerns:

- vehicles of category M1 (a maximum of 8 seats) with carbon dioxide emissions up to 70 g/km;
- a price lower than 50,000.00 EUR excluding VAT;
- vehicles purchased from March 1, 2019 to December 31, 2021.

The amount of the incentive depends on carbon dioxide emissions for kilometres of the motor vehicle and if, simultaneously to the purchase, a car of the same class was scrapped or not.

In particular, the scrapping of a vehicle of the same class, qualifying as a Euro 1, 2, 3 or 4, allows to obtain a higher incentive, of 2,500.00 or 6,000.00 EUR.

The incentive is paid by the seller as an offset on purchase price (a discount on the price) of the new vehicle and cannot be combined with other incentives.

According to art. 1 co. 1042 – 1045 of Stability Law 2019, a new tax was introduced for the purchases and matriculations realised from March 1, 2019 to December 31, 2021 of new motor vehicles of category M1 with emission of carbon dioxide exceeding the threshold of 160 CO₂ g / km.

The amount of the tax depends on how much the new vehicle is polluting and is different according to four classes of emission:

- from 161 CO₂ g/km to 175 CO₂ g/km, the tax is equal to 1,100.00 EUR;
- from 176 CO₂ g/km to 200 CO₂ g/km, the tax is equal to 1,600.00 EUR;

- from 201 CO₂ g/km to 250 CO₂ g/km, the tax is equal to 2,000.00 EUR;
- more than 250 CO₂ g/km, the tax is equal to 2,500.00 EUR.

The tax is paid from the buyer or from who required the enrolment of the new vehicle.

According to Art. 1 co. 652 – 657 of Law n. 178 of 30 December 2020 (Stability Law 2021), further incentives were introduced for FY2021. In particular:

- 0-60 g/km, the incentive is up to 2,000.00 EUR (with scrapping).
- 0-60 g/km, the incentive is up to 1,000.00 EUR.
- 61-135 g/km, the incentive is up to 1,500.00 EUR.

According with the Law Decree of 15 October, 2021, the eco-bonus fund was refinanced for 2021 with 100 million EUR:

- 0-60 g/km CO₂, was allocated 65 million EUR.
- 61-135 g/km CO₂, was allocated 10 million EUR.
- 0-160 g/km CO₂ (used vehicles) was allocated 5 million EUR.

The incentives introduced by the Budget Law 2021 are extended for the entire current year: the previous deadline passes from 30 June, to 31 December, 2021.

3. Income taxes – taxable persons

3.1. Level of deduction of car-related expenses

For income tax purposes, limits to deductibility of car-related expenses are laid down by the Italian Income Tax Code. Car-related expenditure covered by this regulation includes vehicle purchasing costs and, consequently, depreciations; the cost of hiring, renting or leasing; vehicle refuelling costs; spare parts costs; vehicle usage, custody, maintenance repairs and other services costs, including non-recoverable taxes and insurance.

Two factors affect the deductibility of car-related expenses:

- The activity carried out by the company
- The car use

In terms of engine power and weight, even if the vehicle is registered as a lorry, they are considered cars for tax purposes. It is an anti-avoidance rule that aims to stop certain cars registered as lorries (e.g., SUV's) from benefiting from the better tax treatment granted to lorries (i.e., full deductibility).

3.1.1. Full deductibility

Full deductibility of car-related expenditure is allowed in the following circumstances:

- Expenditure related to cars whose use is “exclusively instrumental” to the entrepreneur’s activity (e.g., cars used by car rental companies, driving schools), or whose production or trade represents the company’s business (e.g., car dealers)
- Expenditure related to cars used for supplying a public transport service (e.g., taxi)

3.1.2. Partial deductibility

3.1.2.1. Cars not granted to employees or granted to employees solely for business use

Expenses incurred by a company for cars that are not allocated to employees or granted to employees solely for business use are deductible only up to 20% of the amount relevant for tax purposes. This percentage grows to 80% for business agents and commercial representatives (hereinafter as “business agents”) enrolled in business agents’ registers held by local chambers of commerce.

With the approval of Stability Law 2017 effective from January 1, 2017 the amount relevant for tax purposes is determined as follows (the exceeding amount is not deductible): up to 18.075,99 EUR (25.822,84 EUR for business agents) of the car purchase price.

Special thresholds are applicable for rental and leasing agreements.

3.1.2.2. Cars granted to employees for both business and private purposes for more than half of the fiscal year

For company cars driven by employees for both business and private purposes for more than half of the fiscal year, a 70% deductibility of related expenses is granted without any limit.

3.1.2.3. Cars granted to employees for both business and private purposes but for less than half of the fiscal year

For cars granted to employees for both business and private purposes, but for less than half of the fiscal year, the related expenses are 100% deductible to the extent of the amount regarded as a benefit in kind (fringe benefit), taxable at the employee's level.

The amount exceeding the fringe benefit is deductible only up to 20% of the amount relevant for tax purposes (for the amount relevant for tax purposes please see section 3.1.2.1).

3.1.2.4. Cars granted to employees exclusively for private use

For cars granted to employees exclusively for private use, the related expenses are 100% deductible to the extent of the amount regarded as a benefit in kind (fringe benefit), taxable at the employee's level.

3.1.2.5. Cars granted to directors

In case of cars granted to directors, the deductibility of related expenses is determined by the use of the cars.

For a car granted to a director for his exclusive private use, the related expenditure is 100% deductible to the extent of the amount regarded as a benefit in kind (fringe benefit), taxable at director's level.

For a car granted to a director for business and private use, the related expenditure is 100% deductible to the extent of the amount regarded as a benefit in kind (fringe benefit), taxable at director's level.

Deductibility is allowed since the expenditure is deemed to be a labour cost.

For the amount exceeding the fringe benefit, the deductibility is limited to 20% of the amount relevant for tax purposes (for the amount relevant for tax purposes please see section 3.1.2.1).

For a car granted to a director solely for business use, up to 20% deductibility is allowed of the amount relevant for tax purposes (for the amount relevant for tax purposes please see section 3.1.2.1).

3.2. Local income tax

In addition to corporate income tax, companies located in Italy are also subject to a local income tax (IRAP), ordinarily levied at 3.9%.

Since the 2008 fiscal year, car-related expenditures are deductible without the limits applicable for local income tax purposes; exceptions apply for cars acquired through a leasing contract, particularly the portion of leasing charge corresponding to the interest.

3.3. Withholding tax for foreign leasing companies

In the case of cars taken on lease by an Italian business (lessee) from a foreign lessor, a 30% Italian withholding tax must be levied on rental fees paid.

This withholding tax rate may be reduced should a double tax treaty between Italy and the leasing company's foreign country of residence exists.

The Interests and Royalties Directive is also applicable if certain conditions are met.

4. VAT

4.1. General

For certain categories of goods and services the VAT law provides limits to the deductibility of input VAT charged by the suppliers. Cars and other car-related products and services are affected by these rules in the way described below.

Car leasing (either financial or operating), hiring and/or similar contracts are deemed to be a supply of services. According to the Italian VAT place-of-supply rules, such services are subject to Italian VAT in the following circumstances:

- Short-term hiring (under 30) to taxable and non-taxable persons: when the cars are put at the disposal of the customer in Italy and are used in the EU;
- Short-term hiring (under 30) to taxable and non-taxable persons: in the case of cars made available outside of the EU and used in Italy;
- Long-term hiring (more than 30 days) to taxable persons: when the customer is established in Italy;
- Long-term hiring (more than 30 days) to non-taxable persons: when the customer is resident in Italy and the service is used in the EU;
- Long-term hiring (more than 30 days) to non-taxable persons: when the customer is resident outside the EU and the service is used in Italy.

4.2. Deduction

VAT deduction rules depend on how the car is used by the taxable person or by the company's employees.

The VAT deductibility restrictions are not applicable to vehicles used exclusively in the course of business (burden of proof is critical).

On the other hand, VAT deduction is limited to 40% if the taxpayer effectively uses the car both for business and personal purposes.

In any case, the provisions of non-deductibility are not applicable to vehicles that are

- the object of the business activity or
- used by representatives and sales agents.
- Or for rental or leasing and used as a taxi.

With reference to the expenses related to the usage of motor vehicles, the tax concerning the purchase or import (the latter, where applicable) of

- fuels,
- lubricants,
- leasing and hiring services,
- custody services,
- maintenance services,
- repairs and
- services related to the use, including road transit,

follows the same VAT deductibility treatment of the vehicles to which these expenses are linked.

4.3. Cars for private use

According to Italian VAT laws, supply of services carried out for private use or for aims unrelated to the business purpose is subject to VAT. In such a case, if the VAT incurred on the costs sustained for their supply is deductible and the transaction has a unitary value higher than 50.00 EUR, the supply must be taxed based on the costs incurred.

This provision is not applicable in case of private use of the vehicles or if the vehicles are placed at employee's disposal for free, provided they have been purchased with a limited VAT deductibility of 40%, (i.e., no "self-supply" has to be carried out).

The rationale behind is that the private use or the use for aims unrelated to business purposes is taxed through the partial VAT non-deductibility on purchases.

4.4. Cars put at employees' disposal for consideration

Regarding employers who allow employees to use a company car while charging a certain amount (sub-rentals), for example by retaining a sum from the monthly salary, these vehicles are deemed to be used exclusively in the course of business and the related VAT incurred by the employers is deductible.

Regarding sub-rental to employees, if this is lower than the fair value, the taxable basis of the provision of the employee with the car has to be at least equal to the amount equivalent to such a value.

4.5. Supply of cars

Regarding the supply of goods (vehicles included) whose purchase or import VAT deductibility was limited, the taxable basis for these is limited to the deductibility rate applied to their purchase or import. As a consequence, the taxable basis of the supply of vehicles whose purchase or import VAT deductibility was limited to 40% is likewise limited to 40% of the consideration.

The supply of second-hand vehicles is subject to the margin scheme in certain cases.

4.6. Anti-avoidance rule concerning intra-Community purchases of cars and import

In order to avoid carousel frauds with reference to intra-Community acquisitions of cars that are subsequently supplied on the national market, the Italian tax authorities have implemented a special procedure that ensures the payment of VAT.

For the first supply of a car subsequent to an intra-Community acquisition in Italy by an Italian taxable person, a special form for tax payment (F24 Elementi identificativi) must be used to pay VAT.

Furthermore, the VAT payment made via the F24 Elementi identificativi form has to be indicated in a special section of the VAT annual return (box VM).

The original registration and the subsequent transfer deeds of intra-Community purchased vehicles is subject to the submission of the F24 form to the competent office showing that VAT has been paid on the first internal supply.

For imported vehicles, the car registration is subject to the submission of the customs certificate attesting that VAT has been paid.

These rules are not applicable for "official" representatives of car manufactures accredited by the Italian Ministry of Transport.

4.7. Tax benefits related to electric and hybrid motor vehicles used by disabled persons - new art. 53-bis

Art. 53-bis of the Collegato Fiscale allows, by amending no. 31 of Table A, Part II, attached to Presidential Decree no. 633/1972, the application of the 4% VAT rate to the following transactions:

1. supplies of motorcycles and motor vehicles with hybrid and electric power if carried out towards subjects with reduced or prevented permanent motor skills, blind and deaf-mute persons and to family members of whom they are tax dependent;

2. services provided to the above mentioned subjects by car repair providers to adapt these vehicles, even if they are not brand new, including the accessories and tools necessary for their adaptation.

In particular, vehicles falling within the scope of this benefit are those:

1. with a cylinder capacity of up to 2,000 cubic centimeters, if powered by a petrol or hybrid engine;
2. with a cylinder capacity of up to 2,800 cubic centimeters, if powered by a diesel or hybrid engine;
3. with a power not exceeding 150 kW, if electrically powered.

5. Company car

5.1. Company car in the personal tax return

Generally, under the Italian personal income tax (IRPEF) and social security laws, goods, services and benefits received by an employee, free of charge or at a price lower than “fair market value”, are treated as benefit in kind (fringe benefits) subject to the employee’s personal income tax.

The amount of benefit in kind subject to an employee’s personal income tax and social contribution is equal to the fair market value of the right, service or good received (net of any amount charged by their employer). Despite this general rule, the benefit in kind received by an employee in connection with a car granted to him is determined according to different criteria related to the kind of use that the car will be put to (resulting from proper supporting documentation, such as a specific provision of the employment contract).

For a car granted to an employee for their sole private use, the taxable benefit in kind received by the employee follows the general rules, being equal to the market value of the goods and services received.

For a car granted to an employee during the fiscal year for both his business and private use (uso promiscuo), the taxable benefit in kind is a lump sum computed as 30% of the “average cost of use” of the car, based on an annual mileage of 15,000km.

The “average cost of use” of the car is determined by official schedules prepared by ACI (Italian Automobile Club) and published annually. These schedules provide, for each existing car model, an average cost of use (including car depreciation, fuel, oil, tyres, etc.) per kilometre.

The resulting amount is calculated on a yearly basis. Accordingly, the benefit is calculated for the fraction of a year corresponding to its period of use. The use of a company car for the journey to and from the workplace is deemed a “private use”.

These rules remain in force for agreements signed until June 30th, 2020.

According to art. 1 co. 632-633 of Stability Law 2020, for a car granted to an employee for both his business and private use, from July 1st, 2020, the aforementioned percentage, to determinate the fringe benefit, depends by the amount of carbon dioxide emissions:

- if values of CO₂ emissions are not higher than 60g/km, the percentage applicable is 25%;
- if values of CO₂ emissions are higher than 60g/km but not than 160g/km, the percentage applicable is 30%;
- if values of CO₂ emissions are higher than 160g/km but not than 190g/km, the percentage applicable is 40% for year 2020 and 50% from year 2021;
- if values of CO₂ emissions are higher 190g/km, the percentage applicable is 50% for 2020 and 60% from 2021.

6. Income taxes – drivers’ personal taxation

6.1. Private use

The vehicle costs incurred through private use of a vehicle are not deductible in the employee’s personal tax return.

6.2. Business kilometres

The expenses refunded by the employer to the employee for the private car (or car hired directly by the employee) used for travelling out of the municipality where the work is usually carried out

- are not taxable in the employees’ personal tax return and
- are deductible in the employer’s tax return up to the limit per single kilometre cost relating to vehicles having a maximum of 17 “fiscal horses” (or 20 if the car is diesel) stated by the official schedules prepared by the Association of Car Drivers (ACI).

7. Electric vehicles

The Stability Law 2019 introduced a deduction from the individuals’ income tax equal to the 50% of the cost faced for the installation of charging infrastructures for vehicles powered by electricity.

8. Legal background

- D.P.R. 917/1986 (Corporate Income Tax)
- D.Lgs. 446/1997 (IRAP)
- D.P.R. 633/1972 (VAT)
- D.Lgs. 285/1992 (Italian Road Code)

Japan



Masanori Kato

Automotive Tax Leader

p: +81 90 8729 38221

e: masanori.kato@pwc.com

Kotaku Kimu

Director

p: +81 80 1114 3480

e: kotaku.kim@pwc.com

Japan

1. Importation of cars

1.1. Customs duties

Passenger automobiles and their parts classified under Chapter 87 of the Customs Tariff Schedules of Japan are duty free in general. Numerous components of cars, if imported separately, may be subject to positive rates of duty if classified under codes other than those in Chapter 87.

1.2. Import VAT/sales tax

On October 1, 2019, the Import Consumption Tax rate was raised from 8% to 10% of customs value plus customs duty payable, if any.

2. Car registration

2.1. When does a car need to be registered?

Before driving a car on public roads in Japan, a number plate must be obtained by registering the car.

The following kinds of registration exist: new registration, change registration, transfer registration, permanent cancellation registration, cancellation registration for export and temporary cancellation registration.

2.2. Who can register a car?

A vehicle needs to be registered in the name of the owner of the car, whose permanent address is in Japan. The name of the principal user of the car (resident in Japan) is also registered.

In case of installment sales contract (e.g., auto-loan) which reserves ownership to the dealer until the dealer has received full payment, the vehicle will be registered in the name of the dealer as the legal owner of the car.

2.3. Is a foreign owner allowed to register a vehicle in the country?

A foreign owner not having a Japanese address is not allowed to register his vehicle in Japan.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Yes, a vehicle is allowed to be used on public roads in Japan with foreign number plates on the condition that the car is registered in one of the signatory countries listed in the Convention on Road Traffic before entering into Japan.

3. Car taxation

3.1. What are the different car taxes?

The different car taxes in Japan are as follows:

- Automobile tax (prefectural) - renamed to "Automobile tax - Classification levy" and adding a new "Environmental performance levy" (by replacing automobile acquisition tax) on October 1, 2019.
- Light vehicle tax (municipal) - renamed to "Light vehicle tax - Classification levy" and adding a new "Environmental performance levy" (by replacing automobile acquisition tax) on October 1, 2019.
- Automobile tonnage tax (national)
- Automobile acquisition tax (prefectural) - abolished on October 1, 2019.

3.2. Automobile tax

3.2.1. Taxable event

Automobile tax - Classification levy is assessed on those who own the car as of April 1 and also assessed upon new automobile registration by monthly installments.

Environmental performance levy is assessed on those who acquire the car.

3.2.2. Taxable person

Automobile tax - Classification levy is due by the following persons:

- The car owner as of April 1
- The buyer of a car
- The user of a car as of April 1 in case of installment sales contract with reservation of ownership

Environmental performance levy is due by the buyer of a car and the new user of a car in case of installment sales contract with reservation of ownership.

3.2.3. Tax due

Automobile tax - Classification levy rate:

Please find hereafter an overview table.

Automobile tax - Classification levy rate (annual amount)

Types of motor vehicles	Private car (before eco-car tax break)	Business (before eco-car tax break)
<i>Passenger vehicles (engine swept volume)</i>	Rate in parentheses – for first-time newly registered on or before September 30, 2019	
• Up to 1,000cc	25,000 JPY (29,500 JPY)	7,500 JPY
• Over 1,000cc and up to 1,500cc	30,500 JPY (34,500 JPY)	8,500 JPY
• Over 1,500cc and up to 2,000cc	36,000 JPY (39,500 JPY)	9,500 JPY
• Over 2,000cc and up to 2,500cc	43,500 JPY (45,000 JPY)	13,800 JPY
• Over 2,500cc and up to 3,000cc	50,000 JPY (51,000 JPY)	15,700 JPY
• Over 3,000cc and up to 3,500cc	57,000 JPY (58,000 JPY)	17,900 JPY
• Over 3,500cc and up to 4,000cc	65,500 JPY (66,500 JPY)	20,500 JPY
• Over 4,000cc and up to 4,500cc	75,500 JPY (76,500 JPY)	23,600 JPY
• Over 4,500cc and up to 6,000cc	87,000 JPY (88,000 JPY)	27,200 JPY

• Over 6,000cc	110,000 JPY (111,000 JPY)	40,700 JPY
<i>Passenger-freight vehicles (maximum loading capacity and engine swept volume)</i>		
Maximum capacity of 4 passengers or more		
Up to 1t (maximum loading capacity)		
• Up to 1,000cc	13,200 JPY	10,200 JPY
• Over 1,000cc and up to 1,500cc	14,300 JPY	11,200 JPY
• Over 1,500cc	16,000 JPY	12,800 JPY
Over 1t and up to 2t (maximum loading capacity)		
• Up to 1,000cc	16,700 JPY	12,700 JPY
• Over 1,000cc and up to 1,500cc	17,800 JPY	13,700 JPY
• Over 1,500cc	19,500 JPY	15,300 JPY
Over 2t and up to 3t (maximum loading capacity)		
• Up to 1,000cc	21,200 JPY	15,700 JPY
• Over 1,000cc and up to 1,500cc	22,300 JPY	16,700 JPY
• Over 1,500cc	24,000 JPY	18,300 JPY
<i>Trucks (maximum loading capacity)</i>		
Maximum capacity of 3 passengers or less		
• Up to 1t	8,000 JPY	6,500 JPY
• Over 1t and up to 2t	11,500 JPY	9,000 JPY
• Over 2t and up to 3t	16,000 JPY	12,000 JPY
• Over 3t and up to 4t	20,500 JPY	15,000 JPY
• Over 4t and up to 5t	25,500 JPY	18,500 JPY
• Tractors (Small)	10,200 JPY	7,500 JPY
• Tractors (Standard-sized)	20,600 JPY	15,100 JPY
• Trailers (Small)	5,300 JPY	3,900 JPY
• Trailers classified as standard-sized motor vehicles		
– Up to 8t	10,200 JPY	7,500 JPY
– Over 8t and up to 9t	15,300 JPY	11,300 JPY
– Over 9t and up to 10t	20,400 JPY	15,100 JPY
– Over 10t and up to 11t	25,500 JPY	18,900 JPY

Note 1: This is a partial extract of the table of tax rates.

Note 2: Eco-car tax break. Generally, a 75% or 50% reduction will be given to certain low-pollution vehicles for business use. Generally, a 75% reduction will be given to electric vehicles, plugin hybrid vehicles and certain natural gas vehicles. Generally, a 15% (or 10% for bus and truck) increase will be assessed to certain high-pollution old vehicles.

Note 3: Environmental performance levy was added in conventional automobile tax and light vehicle tax on October 1, 2019 at the time when the consumption tax rate was increased to 10%. Environmental performance levy is assessed on those who acquire the car at the price more than 500,000 JPY and the tax rate is basically ranging from 0% to 3% (or 2% at maximum for car for business use and light vehicle) in accordance with the achievement level of fuel economy standard. As temporary measures, the Environmental performance levy rate was reduced by 1% for private passenger cars bought during the period from October 1, 2019 to December 31, 2021.

3.2.4. Tax period

Automobile tax - Classification levy

- Annual (fiscal year of 12 months starting from April 1)
- In case of a new vehicle, automobile tax is prorated for owning period starting from the month following the registration and ending March 31.
- If, however, a vehicle is scrapped during a fiscal year, automobile tax for the remaining period will be refunded to the person who owned this vehicle.

Environmental performance levy

- Every time a car is acquired by a new owner of that car.

3.3. Light vehicle tax

3.3.1. Taxable event

Light vehicle tax - Classification levy is assessed on those who own motor bicycles and small cars as of April 1.

Environmental performance levy is assessed on those who acquire the car.

3.3.2. Taxable person

Light vehicle tax - Classification levy is due by the persons who own motor bicycles and small cars as of April 1.

Environmental performance levy is due by the buyer of a car and the new user of a car in case of installment sales contract with reservation of ownership.

3.3.3. Tax due

Light vehicle tax - Classification levy rate:

Please find hereafter an overview table.

Light vehicle tax - Classification levy rate (annual amount)	
Types of motor bicycles and small cars	Tax Due
Bicycles with a small engine	
<i>Total displacement</i>	
• 0.05L or less	2,000 JPY
• 0.09L or less	2,000 JPY
• Over 0.09L and up to 0.125L	2,400 JPY
• Mini car	3,700 JPY
Motor bicycle (Total displacement over 0.25L)	6,000 JPY
Light car	
• With two wheels (Total displacement over 0.125L and up to 0.25L)	3,600 JPY

- With three wheels 3,900 JPY (Old rate 3,100 JPY)
- With four or more wheels
 - For passengers
 - Business use 6,900 JPY (Old rate 5,500 JPY)
 - Private use 10,800 JPY (Old rate 7,200 JPY)
 - For cargo
 - Business use 3,800 JPY (Old rate 3,000 JPY)
 - Private use 5,000 JPY (Old rate 4,000 JPY)

Note 1: Old rates are applied to light cars with three or more wheels that have undergone the first new inspection on or before March 31, 2015.

Note 2: As from the fiscal year starting from April 1, 2016, the applicable tax due was changed to old light car as listed below where more than 13 years have passed since new inspection;

Types of motor bicycles and small cars	Tax Due
Old Light car	
● With three wheels	4,600 JPY
● With four or more wheels	
– For passengers	
○ Business use	8,200 JPY
○ Private use	12,900 JPY
– For cargo	
○ Business use	4,500 JPY
○ Private use	6,000 JPY

Note 2: Eco-car tax break. Generally, a 50% or 25% reduction will be given to certain low pollution light cars with four or more wheels for passenger business use. Generally, a 75% reduction will be given to electric vehicles and certain natural gas vehicles.

Note 3: Environmental performance levy was added in conventional automobile tax and light vehicle tax on October 1, 2019 at the time when the consumption tax rate was increased to 10%. Environmental performance levy is assessed on those who acquire the car at the price more than 500,000 JPY and the tax rate is basically ranging from 0% to 3% (or 2% at maximum for car for business use and light vehicle) in accordance with the achievement level of fuel economy standard. As temporary measures, the Environmental performance levy rate was reduced by 1% for private passenger cars bought during the period from October 1, 2019 to December 31, 2021.

3.3.4. Tax period

Light vehicle tax - Classification levy

- Once a year on April 1.

Environmental performance levy

- Every time a car is acquired by a new owner of that car.

3.4. Automobile tonnage tax

3.4.1. Taxable event

Automobile tonnage tax is levied when automobile owners or users receive a periodical automobile inspection certificate or a registration number from a land transport office.

3.4.2. Taxable person

Automobile tonnage tax is due by the persons who own or use the car.

3.4.3. Tax due

Please find hereafter an overview table.

Automobile tonnage tax rates

Types of motor vehicle	Inspection period	Private car (before eco-car tax break)	Business (before eco-car tax break)
<i>Passenger motor</i>			
Vehicles	3 years per 0.5t of weight	12,300 JPY	–
	2 years "	8,200 JPY	–
	1 year "	4,100 JPY	2,600 JPY
Buses	1 year per 1t of gross weight	4,100 JPY	2,600 JPY
Trucks			
Gross vehicle weight			
• 8t or more	1 year "	4,100 JPY	2,600 JPY
	2 years "	8,200 JPY	5,200 JPY
• 2.5t or less	1 year "	4,100 JPY	2,600 JPY
	2 years "	6,600 JPY	5,200 JPY
	1 year "	3,300 JPY	2,600 JPY
Special-purpose			
Vehicles	2 years "	8,200 JPY	5,200 JPY
	1 year "	4,100 JPY	2,600 JPY
Small two-wheeled			
motor vehicles	3 years fixed amount	5,700 JPY	4,500 JPY
	2 year "	3,800 JPY	3,000 JPY
	1 year "	1,900 JPY	-
Light motor vehicles			
subject to inspection	3 years	9,900 JPY	-
	2 years	6,600 JPY	5,200 JPY
Light vehicles not subject to inspection			
• Two-wheeled		4,900 JPY	4,100 JPY
• Others		9,900 JPY	7,800 JPY

Note 1: Eco-car tax break. Certain automobiles having a certain emission performance and fuel-consumption performance, etc. are eligible for automobile tonnage tax exemption or certain tax rate reductions.

Note 2: Heavy tax rates are separately prescribed for motor vehicles where 13 or 18 years have elapsed since their registration as new vehicles.

3.4.4. Tax period

Every time a car is inspected every 1 to 3 years.

3.5. Automobile acquisition tax

Automobile acquisition tax was abolished (but new Environmental performance levy was added in automobile tax and light vehicle tax) on October 1, 2019 when the consumption tax rate was increased to 10%.

4. Income taxes – Taxable persons

For individual entrepreneurs, there is no particular limitation or range for deduction of monthly operating lease or rental costs, interest and fuel costs necessary for performing business activities when calculating business income. The acquisition cost (including total costs for financial lease) of a car is capitalized as a tangible fixed asset and should be depreciated over its statutory life year.

5. VAT/sales tax

5.1. General

The Japanese consumption tax (JCT) at the flat rate of 10% (effective from October 1, 2019, as increased from 8%) is, in principle, due on most supplies of goods and/or services in Japan. For taxable enterprises, with a right to deduct JCT, the input JCT incurred for their taxable purchases in respect of their economic activity can, in principle, be deducted to 100%.

5.2. Deduction

However, if more than 5% of total sales consist of supplies that are non-taxable without credit, input JCT allocated to such non-taxable without credit (using either the itemized method or proportional method) cannot be credited against output JCT.

Also, when a taxable enterprise has taxable supplies during the current period exceeding 500M JPY, input JCT allocated to non-taxable sales without credit cannot be credited against output JCT from the tax year beginning on or after April 1, 2012 (i.e., from 2013 if its fiscal year-end is December 31).

5.3. Hire purchase: Supply of goods?

For JCT purposes a hire purchase in Japan (i.e., purchasing goods by installment payments) is a supply of goods whereby the taxable amount is, in principle, the total sum of installment payments over time.

5.4. Leasing: Supply of services?

5.4.1. Financial lease contract

A financial lease contract (on the condition that the lease contract is non-cancellable and the total amount of lease fee exceeds 90% of the acquisition cost of leased asset) concluded on or after April 1, 2008 will be deemed as buy-sell of goods (not supply of services) at the beginning of the lease period for corporate tax and JCT purposes in principle.

However, on the condition that the amount of interest is explicitly stated on the financial lease contract, such amount of interest must be considered as remuneration of an exempt financial service and must not be included in the taxable amount for the financial lease. Otherwise, the finance cost needs to be included in the taxable amount of the lease for JCT purposes.

For a lessee, input JCT on the total amount of the lease fee (for assets delivered in Japan to the lessee) could be recoverable at the beginning of the lease period.

5.4.2. Operating lease contract

Operating leases of assets (that is a lease other than the financial lease in general) delivered in Japan to the lessee are subject to JCT as leasing of the goods (not supply of services).

6. Company car

6.1. VAT/sales tax due on private use of company cars

The private use of a company car by an employee is treated as a benefit in kind granted to the employee, which is out of scope from JCT if the employee pays no contribution.

The private use of a company car by an employee is treated as a taxable leasing of the goods (not supply of services) if the employee pays a contribution.

6.2. Company car in personal tax returns – benefit in kind

The use of company cars for business use would not be treated as taxable income. However, if an employee uses a company car mainly for private use and the employee pays no contribution, the benefit in kind derived from such private use of the company car would be treated as taxable salary to the employee for individual income tax purposes. Also, cash allowances provided for the purchase or rental of a car for private use would be treated as taxable salary to the employee.

6.3. Other taxes on company cars

A social insurance premium is due on fair market value of gasoline for private use of a company car by an employee if the employee pays no contribution. This premium is payable by the employer and employee on an about 50-50 basis.

The employer's portion of the social insurance premium is a tax-deductible business expense in the hands of the employer.

7. Income taxes – Drivers' personal taxation

In Japan, the deduction of private car costs is not allowed in the personal tax return.

7.1. Private use

The car costs made in respect of the private use of a car are not deductible in the employee's personal tax declaration.

7.2. Commuter traffic

The deduction of car costs in respect of commuting is, in principle, not allowed in the personal tax return.

For salaried/employed workers who use their private cars to commute, a non-taxable limitation for monthly commuting allowances from the employer is prescribed under the income tax law according to the commuting distance in one direction:

Distance for commuting in one direction	Non-taxable limitation for commuting allowance per month
Less than 2km	Fully taxable
2km or more and less than 10km	4,200 JPY
10km or more and less than 15km	7,100 JPY
15km or more and less than 25km	12,900 JPY
25km or more and less than 35km	18,700 JPY
35km or more and less than 45km	24,400 JPY
45km or more and less than 55km	28,000 JPY
55km or more	31,600 JPY

8. Selling a car

8.1. Taxable persons

When a taxable person sells a car, in general JCT needs to be charged on the selling price.

Also, when a taxable person buys a car from a person (irrespective from a taxable person or private person), the gross amount paid for buying a car is deemed as including JCT and thus the taxable person could take an input JCT credit for the purchase.

A taxable person is generally required to collect output JCT on its taxable sales in Japan and to pay input JCT on its taxable purchases in Japan. In determining its JCT liability, the taxable person can subtract the amount of input JCT it paid against the amount of output JCT it collected. The net amount of JCT payable or refundable is then reported on its JCT final return.

When the car is exported upon its sale (to a taxable person or private person), the export supply can be exempt from JCT.

8.2. Private individuals

A private person does not need to charge JCT upon the sale of the car. The private person cannot recover any part of the JCT paid on the purchase of the car.

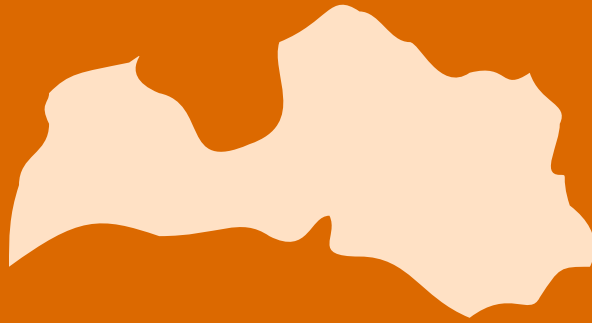
9. Future developments

Given that certain preferential reductions of automobile tax, light vehicle tax and automobile tonnage tax are limited to electric vehicles, etc., the Japanese government seems to be focusing on promoting the spread of EV towards a greener environment.

10. Legal background

- Direct tax legislation (Corporation Tax Law and Income Tax Law)
- Indirect tax legislation (Consumption Tax Law, Automobile Tonnage Tax Act, Local Tax Act)
- Customs Tariff Act
- Road Transport Vehicle Act
- Other

Latvia



Zlata Elksniņa-Zaščirinska
Automotive Tax Leader

p: +371 6709 4400
e: zlata.elksnina@pwc.com

Ilze Rauza
Director Tax

p: +371 6709 4400
e: ilze.rauza@pwc.com

Latvia

1. Car registration

1.1. When does a car need to be registered?

All vehicles must be registered at the Road Traffic Safety Directorate within five days of acquisition or import into Latvia.

If a light vehicle registered in a foreign country is used by a person whose permanent place of residence (location for an entity) is Latvia, vehicle exploitation tax is payable. The rate is set according to the days the vehicle is used in Latvia. All previous authorizations issued are invalid from 01.01.2017.

The Latvian Road Traffic Safety Directorate provides registration and technical supervision of road vehicles. The tax can be paid using the link: <https://e.csdd.lv/arvtlizmnod/>.

A period of five days should not be exceeded to register the vehicle from the day of entering Latvia. A period of five days also applies to registering any change in the ownership of the vehicle or other changes.

Useful information may be found on the Latvian Road Traffic Safety Directorate website, using the link: <https://www.csdd.lv/en/>.

1.2. Who can register a car?

A vehicle needs to be registered in the name of its owner (an individual or entity). If a vehicle has several owners, it must be registered in the name of a co-owner – an individual or entity – by mutual agreement of all co-owners.

1.3. Is a foreign owner allowed to register a vehicle in the country?

A foreign individual (an EU citizen or a non-EU citizen with a temporary residence permit) is allowed to register his vehicle in Latvia.

A foreign entity (e.g., a leasing company) is allowed to register its vehicle in Latvia if the actual user (e.g., lessee) of a car is a Latvian resident.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Yes, within three months of acquisition or import into Latvia. Motor vehicles brought in temporarily, and which remain in Latvia for more than three months and participate in road traffic, must be registered at the Road Traffic Safety Directorate.

2. Car taxation

2.1. What are the different car taxes?

The following taxes are due in Latvia (subject to several conditions):

- Vehicle exploitation tax
- Enterprise light vehicle tax
- Natural resource tax
- Value added tax

2.2. Vehicle exploitation tax

2.2.1. Taxable event

All vehicles, except tractor-type machinery, the trailers and semi-trailers of cars whose gross weight does not exceed 3,500 kilograms, trams, trolleybuses, off-road vehicles, snow motorcycles, mopeds and bicycles, are subject to vehicle exploitation tax.

This tax is payable annually before the roadworthiness test.

2.2.2. Taxable person

Vehicle exploitation tax is payable by any individual or entity that has a registered vehicle in Latvia and is its holder or owner.

2.2.3. Tax due

Vehicle exploitation tax on motorcycles, tricycles and quad bikes first registered after 1 January, 2005, and for which the vehicle registration certificate contains information on the engine volume, is payable according to their engine volume in cubic centimetres:

- Up to 500 cc – EUR 18
- From 501 cc to 1,000 cc – EUR 36
- From 1,001 cc to 1,500 cc – EUR 54
- More than 1,500 cc – EUR 72

Road tax on motorcycles, tricycles and quad bikes first registered before 2005 is EUR 36.

Vehicle exploitation tax on cars first registered after 1 January 2021 is calculated at the following rates based on a particular level of carbon dioxide emission in grams (g) per kilometre (km):

- 1) Up to 50 g / km – EUR 0
- 2) From 51 g to 95 g / km – EUR 9
- 3) From 96 g to 115 g / km – EUR 36
- 4) From 116 g to 130 g / km – EUR 66
- 5) From 131 g to 155 g / km – EUR 90
- 6) From 156 g to 175 g per 1 km – EUR 114
- 7) From 176 g to 200 g / km – EUR 132
- 8) From 201 g to 225 g / km – EUR 168
- 9) From 226 g to 250 g / km – EUR 204
- 10) From 251 g to 275 g / km – EUR 258
- 11) From 276 g to 300 g / km – EUR 318
- 12) From 301 g to 350 g / km – EUR 426
- 13) From 351 g to 400 g / km – EUR 582
- 14) More than 401 g / km – EUR 756

Vehicle exploitation tax on cars first registered after 1 January, 2009 is calculated at the following tax rates based on a particular level of carbon dioxide emission in grams (g) per kilometre (km):

- 1) Up to 50 g / km – EUR 0
- 2) From 51 g to 95 g / km – EUR 12
- 3) From 96 g to 115 g / km – EUR 48
- 4) From 116 g to 130 g / km – EUR 84
- 5) From 131 g to 155 g / km – EUR 120
- 6) From 156 g to 175 g / km – EUR 144
- 7) From 176 g to 200 g / km – EUR 168
- 8) From 201 g to 225 g / km – EUR 216
- 9) From 226 g to 250 g / km – EUR 264
- 10) From 251 g to 275 g / km – EUR 336
- 11) From 276 g to 300 g / km – EUR 408
- 12) From 301 g to 350 g / km – EUR 552
- 13) More than 351 g / km – EUR 756

If the engine volume exceeds 3,500 cc, an additional tax of EUR 300 is payable.

If there is no information about the level of carbon dioxide emission for a particular vehicle, vehicle exploitation tax is payable as follows.

Vehicle exploitation tax on cars first registered after 1 January, 2005 is calculated by adding together the amounts computed at rates based on the laden weight, engine volume and maximum power of the car.

The following rates apply based on laden weight:

- Up to 1,500 kg – EUR 15
- From 1,501 kg to 1,800 kg – EUR 32
- From 1,801 kg to 2,100 kg – EUR 55
- From 2,101 kg to 2,600 kg – EUR 70
- From 2,601 kg to 3,000 kg – EUR 84
- From 3,001 kg to 3,500 kg – EUR 97
- More than 3,501 kg – EUR 110

The following rates apply based on engine volume:

- Up to 1,500 cc – EUR 9
- From 1,501 cc to 2,000 cc – EUR 23
- From 2,001 cc to 2,500 cc – EUR 37
- From 2,501 cc to 3,000 cc – EUR 55
- From 3,001 cc to 3,500 cc – EUR 91

-
- From 3,501 cc to 4,000 cc – EUR 160
 - From 4,001 cc to 5,000 cc – EUR 228
 - More than 5,000 cc – EUR 297

The following rates apply based on maximum engine power:

- Up to 55 kW – EUR 9
- From 56 kW to 92 kW – EUR 23
- From 93 kW to 129 kW – EUR 37
- From 130 kW to 166 kW – EUR 55
- From 167 kW to 203 kW – EUR 91
- From 204 kW to 240 kW – EUR 160
- From 241 kW to 300 kW – EUR 228
- More than 300 kW – EUR 297

Vehicle exploitation tax on cars first registered before 2005 is payable according to their laden weight:

- Up to 1,500 kg – EUR 38
- From 1,501 kg to 1,800 kg – EUR 81
- From 1,801 kg to 2,100 kg – EUR 137
- From 2,101 kg to 2,600 kg – EUR 174
- From 2,601 kg to 3,000 kg – EUR 210
- From 3,001 kg to 3,500 kg – EUR 242
- More than 3,501 kg – EUR 274

Vehicle exploitation tax on buses is payable according to their laden weight:

- Up to 1,500 kg – EUR 18
- From 1,501 kg to 1,800 kg – EUR 36
- From 1,801 kg to 2,100 kg – EUR 66
- From 2,101 kg to 2,600 kg – EUR 78
- From 2,601 kg to 3,500 kg – EUR 102
- From 3,501 kg to 12,000 kg:
 - EURO 0, EURO I, and EURO II – EUR 252
 - EURO III and EURO IV – EUR 180
 - EURO V – EUR 120
 - EURO VI and less pollution – EUR 96
- More than 12,001 kg:
 - EURO 0, EURO I, and EURO II – EUR 300

- EURO III and EURO IV – EUR 210
- EURO V – EUR 156
- EURO VI and less pollution – EUR 120
- Vehicle exploitation tax on trucks whose laden weight is less than 12,000 kg is payable according to their laden weight:
 - EURO 0, EURO I, and EURO II – EUR 432
 - EURO III and EURO IV – EUR 300
 - EURO V – EUR 192
 - EURO VI and less pollution – EUR 144

Vehicle exploitation tax on trucks whose laden weight is more than 12,000 kg (excluding towing vehicles) is payable according to the number of axles and engine emission levels. The rates are set out in the table below according to the Vehicle Exploitation Tax and Enterprise Light Vehicle Tax Act:

No.	Truck engine emission level	Number of truck axles	Rate of the tax (EUR)
1.	EURO 0, EURO I, and EURO II	up to 3 axles	420
		up to 4 axles	540
2.	EURO III and , EURO IV	up to 3 axles	300
		up to 4 axles	390
3.	EURO V	up to 3 axles	192
		up to 4 axles	264
4.	EURO VI and less pollution	up to 3 axles	156
		up to 4 axles	192

Vehicle exploitation tax on towing vehicles is calculated according to the vehicle's driving axles and engine emission levels:

No.	Truck engine emission level	Number of truck axles	Rate of the taxate of tax (EUR)
1.	EURO 0, EURO I, and EURO II	up to 3 axles	420
		up to 4 axles	540
2.	EURO III and , EURO IV	up to 3 axles	300
		up to 4 axles	390
3.	EURO V	up to 3 axles	192
		up to 4 axles	276
4.	EURO VI and less pollution	up to 3 axles	156
		up to 4 axles	240

Vehicle exploitation tax on sidecars and semi-sidecars is set out in appendices 2 and 3 of the Vehicle Exploitation Tax and Enterprise Light Vehicle Tax Act.

The vehicle exploitation tax on single-axle trailers and single-axle semi-trailers is EUR 60.

If the vehicle exploitation tax on a two-axle, three-axle or multi-axle trailer has not been paid in the preceding calendar years, the rate must be calculated for the preceding years, assuming the trailer was towed by a three-axle goods vehicle with the driving axle mechanical suspension.

If the vehicle exploitation tax on a two-axle, three-axle or four-axle semi-trailer has not been paid in the preceding calendar years, the rate must be calculated for the preceding years, assuming the semi-trailer was towed by a three-axle tractive unit with the driving axle mechanical suspension.

Several exemptions are available under the Vehicle Exploitation Tax and Enterprise Light Vehicle Tax Act, for example:

- If a car, motorcycle, tricycle or quad bike is owned, held or driven by a disabled person, an exemption applies on one vehicle registered in the ownership, holding or possession of that person.
- A vehicle that is owned, held or driven by a representative of a diplomatic, consular or international organisation or by a person who has diplomatic or consular privileges and immunities.
- A vehicle registered as an emergency vehicle.

Vehicle exploitation tax on foreign-registered M1 and N1 cars in road traffic is payable at the rates described above and applying the following calculation:

Vehicle Exploitation Tax = Vehicle Exploitation Tax per year x 1/12 x the estimated number of months in which the M1 or N1 car will be used in road traffic in Latvia

2.3. Natural resource tax

2.3.1. Taxable event

This tax is payable on cars registered for the first time in Latvia and governed by the Management of End-of-Life Vehicles Act.

2.3.2. Taxable person

All individuals and entities in whose name cars and motorcycles are registered in Latvia.

2.3.3. Tax due

The amount of tax is EUR 55.

2.4. Value added tax

See section 4.

2.5. Enterprise light vehicle tax

See section 5.3.

3. Income taxes – Taxable persons

For corporate income taxes see section 5. For personal income taxes see section 6.

4. Value added tax

4.1. General

VAT is due at the standard rate of 21% on most supplies of goods and services.

VAT is also payable on the intra-Community acquisition of a new means of transport performed by a non-taxable person. A new means of transport is a motor vehicle that has been used for less than six months or has travelled less than 6,000 km.

4.2. Deduction

The VAT Act states that input tax is fully non-deductible for taxable persons on the purchase and lease of passenger cars with up to eight seats apart from the driver's seat if the vehicle fits the definition of an executive luxury vehicle in the Corporate Income Tax Act.

The same applies to maintenance-related expenses.

However, there are exemptions when input tax can be deducted in full for taxable persons with a right to deduct VAT. The exemptions are available in the following cases:

- A taxable person purchases, rents or imports passenger cars for taxable transactions such as:
 - passenger traffic for reward, including taxi services
 - car rental services
 - cars for sale or hire-purchase (leasing) transactions
 - goods transport services
 - driving skills training
 - security services
- A passenger car is an emergency vehicle.
- A passenger car is used as an authorised vehicle dealer's demo car.

4.3. Leasing

The VAT Act defines two types of transactions: a hire purchase (finance lease) and an operating lease.

4.3.1. Finance lease

A finance lease is a supply of goods in which the lessor delivers the use of a particular asset to the lessee under a hire-purchase agreement for an agreed period in exchange for agreed lease payments, stating that ownership passes to the lessee only when he has made all payments specified by the agreement (a close ended contract).

The VAT Act requires an automatic transfer of ownership at the end of the finance lease. Thus, a transaction may not qualify as a finance lease for VAT purposes even if the agreement passes all risks and rewards to the lessee. Even if the lessee has an option to buy the asset but ownership will not automatically pass to the lessee after he has made all the agreed payments, the agreement does not qualify as a finance lease.

The amount of interest is considered a fee for an exempt financial service and excluded from the taxable amount of the finance lease.

The VAT due on the market value of the leased asset must be paid to the tax authorities when the car is made available to the lessee.

4.3.2. Operating lease

An operating lease (a lease agreement for VAT purposes) is an agreement that does not provide for an automatic transfer of ownership. As a result, the VAT treatment may differ from the accounting treatment (see the accounting section). An operating lease is treated as a supply of service.

Under the VAT Act, in hiring out all means of transport other than short-term hiring, the service is treated as supplied where the customer has established his business. The place of supply of short-term hiring of means of transport is the place where the means of transport is actually made available to the customer.

The VAT due on a lease in which the supplier is required to account for VAT must be paid to the tax authorities when the service is supplied and an invoice issued.

5. Company car

5.1. VAT due on private use of company cars

The VAT Act limits input tax recovery to 50%. Input tax can be recovered as long as a taxable person can support the use of a car for business purposes, e.g., with route sheets. In general, Latvian taxable persons treat any cost associated with the acquisition or use of cars as a business cost. The only exception occurs if the employer (a taxable person) itself sets a limit on the use of cars and withholds the excess from the employee's salary. In that case the excess is treated as private use and the input tax incurred on it is not deductible.

5.2. Company car – Income taxes

5.2.1. Luxury cars

There are restrictions on executive luxury vehicles, or any vehicles not directly connected to commercial activities in Latvia. The cost of such vehicles is treated as a non-business expense (a deemed profit distribution) subject to corporate income tax of 20%, for example:

- expenses (including input tax) incurring in running and maintaining executive luxury cars
- lease or hire-purchase payments for executive luxury cars

An executive luxury vehicle is a passenger car whose value exceeds EUR 50,000 with up to eight seats apart from the driver's seat, and a truck (N1) with laden weight up to 3,000 kg and more than three seats apart from the driver's seat that fits the definition of an executive luxury vehicle in the Corporate Income Tax Act.

5.2.2. Private use

Generally, when an employer makes a company car available to an employee for a private use, fuel costs are not treated as subject to corporate income tax and are not subject to payroll taxes in the hands of the employee as long as the number of kilometres actually driven in each month according to the fuel consumption norm specified for the vehicle per 1,000 kilometres does not exceed the fuel consumption norm of a city cycle indicated by a manufacturing plant by more than 20 per cent.

The above applies if the company has paid enterprise light vehicle tax.

5.3. Enterprise light vehicle tax

5.3.1. Taxable event

This tax is payable annually before the roadworthiness test on passenger cars whose seating capacity, apart from the driver's seat, is up to eight seats and that are registered in a company's name, or for which the company is registered as holder, or which are used on a contract basis, or borrowed, and on trucks with laden weight up to 3,000 kg and more than three seats apart from the driver's seat.

5.3.2. Taxable person

All entities (including Latvian branches of foreign entities) in whose name cars are registered

5.3.3. Tax due

Enterprise light vehicle tax on cars first registered after 1 January, 2005 is calculated at the following rates based on engine volume:

- Up to 2,000 cc – EUR 31 per month
- From 2,001 cc to 2,500 cc – 49 per month
- From 2,501 cc to 3,000 cc – EUR 66 per month
- More than 3,000 cc – EUR 82 per month

Enterprise light vehicle tax on cars first registered before 2005 is EUR 49 per month.

If a company uses cars only for business needs (income from car leases and sales is at least 90% of its total turnover), they are exempt.

6. *Income taxes – Drivers’ personal taxation*

Costs incurred in respect of the private use of a vehicle are not deductible on the personal income tax return.

7. *Electric vehicles*

Vehicles with an electric motor are exempt from vehicle exploitation tax. Enterprise light vehicle tax on vehicles with an electric motor is EUR 10 per month.

8. *Future developments*

No amendments planned.

9. *Legal background*

- Vehicle Exploitation Tax and Enterprise Light Vehicle Tax Act
- Natural Resource Tax Act
- Value Added Tax Act
- Corporate Income Tax Act
- Personal Income Tax Act

Luxembourg



Loek de Preter

Automotive Tax Leader

p: +352 49 48 48 2023

e: loek.de.preter@pwc.com

Frederic Wersand

Indirect Taxes Partner

p: +352 49 484 83 111

e: frederic.wersand@pwc.com

Michiel Roumieux

Partner Tax

p: +352 49 484 83 055

e: michiel.roumieux@pwc.com

Luxembourg

1. Car registration

1.1. When does a car need to be registered?

A vehicle must be registered in Luxembourg as soon as it is put into circulation on the Luxembourg roads by a Luxembourg resident.

In principle, a number plate follows the vehicle. So, there is no need to register a car again in case of re-sale. However, the law provides the possibility to request personalized number plates. In principle, such number plates follow the person unless the latter expressly gives permission to take them over. A new registration might therefore be necessary in the event of acquisition of a used vehicle, to which a personalized number plate is attached.

1.2. Foreign students who continue their studies in Luxembourg do not have the obligation to register their cars in Luxembourg. Who can register a car?

The car is in principle registered either by the owner or by the holder.

1.3. Is a foreign owner allowed to register a vehicle in the country?

In principle the owner of the car should have his normal residence in Luxembourg in order to register the car in Luxembourg. In some cases non-residents can be allowed to register their car in Luxembourg (e.g. use of the car in the context of a professional activity in Luxembourg).

1.4. Can a vehicle with a foreign number plate be used on public roads?

In principle a vehicle with a foreign number plate can be used in Luxembourg, except if the owner has his regular address in Luxembourg. In this case, the owner of the vehicle has six months to register the vehicle under a Luxembourg plate.

2. Car taxation

2.1. What are the different car taxes?

- Stamp tax upon registration.
- Road tax

2.2. Stamp Tax

In the case of registration of a vehicle with a personalised registration number, a "Droit de Chancellerie" stamp of a value of:

- EUR 50 for a first issuance of a registration number;
- EUR 24 for a transfer of an existing registration number of a vehicle, on a new vehicle.

2.3. Road tax

2.3.1. Taxable event

This tax is levied annually on all vehicles registered in Luxembourg, i.e. vehicles that are in use on public roads.

2.3.2. Taxable person

The tax is in principle due by the natural or legal person mentioned on the registration form.

In case of a personalized number plate, the tax is in principle due by the person to whom the plate has been attributed. In case of a vehicle registered abroad, the tax is in principle due by the person who uses the vehicle in Luxembourg.

The road tax does not apply to:

- cross-border workers who use a vehicle registered in their country of residence abroad to travel between their residence abroad and their place of work in Luxembourg;
- students staying in Luxembourg solely to study who use a vehicle registered in the Member State which is their normal country of residence.

2.3.3. Tax due

The table below concerns private cars.

Other tax amounts apply to buses, trucks, motorbikes, and two- and three-wheeled cars. The amount of tax due depends on the first registration date of the vehicle:

- a) before January 1, 2001;
- b) between January 1, 2001 and January 1, 2021; and
- c) after January 1, 2021.

For registrations before January 1, 2001, the tax computation is made according to the engine capacity. For registrations after January 1, 2001 the computation is made according to the CO₂ output (measured by applying the NEDC method, for registrations between January 1, 2001 and December 31, 2020 or measured by applying the WLTP method for registrations made as from January 1, 2021).

For vans, trucks, tractors, trailers and other vehicles, the tax payable is calculated according to the type of vehicle concerned, by applying the criteria detailed on the registration certificate, in particular the weight of the vehicle, the maximum allowed weight, the number of axles and the suspension type.

Tax computation according to the engine capacity (first registration before January 1, 2001)

The scale for the tax computation is indicated in the Grand-Ducal Regulation dated December 22, 2006 which has been amended by the Grand-Ducal Regulation dated December 21, 2012 and the law of 15 December 2020. These scales should be used for calculations as from February 1, 2013.

You can consult the Regulations at:

<http://legilux.public.lu/eli/etat/leg/loi/2006/12/22/n16/jo>

<http://legilux.public.lu/eli/etat/leg/rgd/2012/12/21/n11/jo>

<https://legilux.public.lu/eli/etat/leg/loi/2020/12/15/a1001/jo>

Tax computation according to the CO₂ output (first registration after January 1, 2001)

The formula used to compute the road tax according to the CO₂ output is

Tax (in EUR) = a x b x c

Where:

- “a” is the value of CO₂ output in g/km indicated on the registration document or certificate delivered by the producer;
- “b” is a fixed multiplier amounting to
 - 0.90 for diesel engines
 - 0.60 for non-diesel engines;

- “c” is the exponential factor equal to 0.5 if the CO₂ output does not exceed 90 g/km and which is increased by 0.10 for each supplementary tranche of 10 g of CO₂/km (see table below).

Since the introduction of the Grand-Ducal Regulation dated December 21, 2012, the tax cannot be less than 30 EUR.

Tranche of CO ₂ Output (g/km)	Tranche of CO ₂ Output (g/km)	Tranche of CO ₂ Output (g/km)	Exponential coefficient “c”
1	to ≤	90	0.5
90	< to ≤	100	0.6
100	< a ≤	110	0.7
110	< a ≤	120	0.8
120	< a ≤	130	0.9
130	< a ≤	140	1
140	< a ≤	150	1.1
150	< a ≤	160	1.2
160	< a ≤	170	1.3, etc

Tax computation according to the WLTP vehicle classification (first registration after January 1, 2021)

The computation of road tax applicable to vehicles first registered as from January 1, 2021 takes in consideration the WLTP (“Worldwide Harmonized Light Duty Test Procedure”) vehicle classification.

The amounts, categories and calculation of the tax remain identical to the tax computation according to the CO₂ output (applicable to vehicles with first registration after January 1, 2001 and before January 1, 2021) but, in practice, factors “a” and “c” mentioned above generally increase due to the difference on WLTP formula parameters when compared to NEDC formula parameters.

Generally, CO₂ emissions computed by using WLTP formula increase by 24% to 31% when compared to NEDC formula.

2.3.4. Tax period

The tax is due every year and can be paid on a yearly basis or in some cases on a semi-annual basis. The amount of tax due will be higher in case of semi-annual payments.

2.3.5. Exemption / Reimbursement

An exemption may apply for some vehicles, such as vehicles used exclusively by the State, the communes or public interest institutions and vehicles used for agricultural, forestry and wine-growing activities.

If the car is transferred, sold, exported or destroyed, the owner disposing of the car can claim a reimbursement to the Tax Authorities prorated for the time elapsed from the disposal date to the end period covered by the tax.

Moreover, households composed of more than five individuals can claim a reimbursement up to 125 € per year of the tax paid per year for one car, irrespectively of the first registration date of the car. The reimbursement cannot be higher than the tax itself.

3. Income taxes – taxable persons

3.1. Level of deduction of car-related expenses

From a corporate direct taxation perspective, to the extent that they are in line with the business purpose of a Luxembourg tax resident company, all costs relating to cars – whether leased or owned – are in principle 100% allowed for deduction as a business expense for both Luxembourg corporate income tax (CIT) and Luxembourg municipal business tax (MBT).

The rules governing depreciation of fixed assets for tax purposes have been amended for 2017, in order to offer the possibility for taxpayers to defer deductions related to depreciation for any given tax year. For this purpose, a specific request needs to be made when filing the tax return for the year concerned. The deduction can be deferred until, at the latest, the end of the depreciation life of the asset.

3.2. Dual-purpose cars

In principle, in the presence of dual-purpose cars – i.e., cars used both as a business vehicle and as a private car by the employee – all the purchase or leasing costs should be fully deductible in the computation of the taxable basis of the company.

However, a benefit in kind should be considered in the hands of the employee and should therefore be reported in the employee's payroll slip as a taxable fringe benefit (see section 5.2).

As far as the assessment of this taxable benefit in kind is concerned, two ways are commonly used – i.e. the valuation at fair market value (or logbook method) and the lump-sum valuation method. Please refer to section 5.2 for further details.

3.3. Investment tax credit

Luxembourg tax law provides with a mechanism known as the investment tax credit (“bonification d'impôt à l'investissement”). This mechanism actually consists of a government incentive granted to Luxembourg corporations that invest in qualifying assets.

Luxembourg offers two different investment tax credits available for:

- The investment in enterprises with commercial profit
- The investment managed by an establishment located in Luxembourg with the intention of remaining there permanently
- Investments have to be physically used on the territory of Luxembourg or of an EU Country

3.3.1. Tax credit for global investment

It is applied on acquisition price or production costs of new qualifying assets (basically tangible depreciable assets) acquired during a given accounting period (8% for the first tranche not exceeding 150,000 EUR and 2% for the tranche exceeding 150,000 EUR).

3.3.2. Tax credit for additional investment

It amounts to 13% of the net book value of qualifying investment assets at the end of the current accounting period minus (-) the arithmetic average of the net book value of the qualifying assets at the end of the 5 prior accounting periods (minimum of 1,850 EUR) plus (+) depreciation accounted in relation to qualifying assets acquired or constituted during the current accounting period.

3.3.3. Points to be considered

Durability criteria (e.g. amortization of the qualified asset over a period of at least 3 years, exclusion of building site, etc.) and specific application of the taxpayer to file as an appendix to the income tax return.

The tax credit reduces the corporate income tax (CIT) liability after use of the existing carried forward losses. The excess amount of the tax credit (i.e. the difference between the CIT liability and total amount of tax credit) can be carried forward for the next ten years.

As far as motor vehicles are concerned, these assets would be generally excluded from the benefit of the investment tax credit mechanism unless one of the following conditions is met:

- Vehicles should be exclusively used for a public transportation business or be part of the assets of a company operating in the car leasing business; or
- Vehicles should be exclusively used for the transportation of goods as opposed to the transportation of persons; or
- Vehicles are exclusively used for the transportation of employees to and from their work place, provided that such a transportation vehicle has capacity for at least 9 persons (driver included); or
- Vehicles are exclusively used for the repair/breakdown services; or
- Vehicles are professional motor vehicles, such as bulldozers or steamrollers.

In addition, as from 2018, in order to offer a further incentive for sustainable mobility, some specific types of cars are considered eligible assets for all components of the tax credits for investment regime. To be eligible, the vehicles concerned must be:

- Passenger cars;
- “Zero emissions”, running exclusively on electricity, or hydrogen cells;
- Classified as M1, having a passenger compartment designed exclusively for the carriage of passengers and having not more than nine seats (including the driver's seat); and
- First registered after December 31, 2017.

4. VAT

4.1. General

The standard rate of 17% applies to all transactions connected to cars that are deemed to take place in Luxembourg (a VAT exemption for some supplies may apply under specific circumstances).

For the lease of a car, the following are important to determine the VAT treatment applicable to the lease:

- The taxable status of the customer – is the customer a VAT taxable person (“B2B” transaction) or not (“B2C” transaction)?

- The duration of the leasing – short term (≤ 30 days) or long term (> 30 days).

Transactions	Duration	Place of supply	Liability
B2B	Long Term leasing (> 30 days)	Country where the recipient is established	Either the lessor or the recipient*
	Short term leasing (≤ 30 days)	Country where the car is put at the disposal of the client	Lessor <i>(The lessor will have to register for VAT in Luxembourg to charge Luxembourg VAT, if the place of supply is Luxembourg).</i>
B2C	Long Term leasing (> 30 days)	Country where the client has his permanent address or usually resides	
	Short term leasing (≤ 30 days)	Country where the car is put at the disposal of the client	

* If the lessor is established in Luxembourg, the lessor is liable to charge Luxembourg VAT. If the lessor is established outside of Luxembourg, the recipient (i.e. VAT taxable person established in Luxembourg) is liable to self-assess Luxembourg VAT.

Use and enjoyment rules have not been implemented in Luxembourg on car leasing services.

4.2. Deduction

VAT on car costs incurred for business purposes is in principle fully deductible, insofar the business activities for which the car is used are not exempt from VAT (without entitlement to VAT credit).

4.3. Lease with purchase option

If the leasing agreement provides the option for the lessee to purchase the car at the end of the contract, the lease itself is to be considered as a supply of services and is subject to Luxembourg VAT if the place of taxation is Luxembourg. The VAT must be calculated on each instalment paid. If at the end of the contract the option to purchase the car is used, the sale of the car is treated as a supply of goods. The taxable basis for the sale is the option price of the vehicle. Please note that the above should be considered **in light of European Court of Justice's** case C-164/16, Mercedes Benz Financial Services UK Ltd.

4.4. Lease without purchase option

If the leasing agreement does not provide an option to purchase the car at the end of the agreement, the rental agreement is to be considered as a supply of services. If the place of supply is Luxembourg, the service is subject to Luxembourg VAT, to be calculated on each instalment paid.

4.5. Lease with automatic transfer of legal ownership

If the leasing agreement provides an automatic transfer of the ownership at the end of the contract, this transaction is deemed to be a supply of goods. If the place of supply is Luxembourg, the supply is subject to Luxembourg VAT, due on the total amount of instalments once the lessee takes possession of the vehicle. The supply is not subject to Luxembourg VAT when such supply of goods is deemed to be taxable outside of the Luxembourg territory.

4.6. Obligation to use the standard audit file for tax (SAF-T/FAIA) for VAT in Luxembourg

The tax authorities may now require taxpayers which are subject to the standard chart of accounting of Luxembourg to provide all the information necessary for their audit on an electronic file under a structured format (xml file), i.e. the "Fichier d'Audit Informatisé de l'Administration de l'enregistrement et des domaines" (FAIA).

The VAT authorities can ask for FAIA to verify VAT returns relating to 2015 and following years. Failure to comply with this obligation could trigger penalties either on a lump sum basis (up to EUR 10,000 per infraction) or as daily penalties up to EUR 25,000.

5. Company car

5.1. VAT due on company cars

When employees pay a consideration to employers

Where a company puts vehicles at the disposal of its employees against the payment of a consideration, the company is supplying services for VAT purposes. For this purpose, “consideration” might be money but also, for example, the renunciation, by the employee, of part of his salary or another advantage.

The Court of Justice of the European Union ruled in January 2021 in the case C-288/19 that putting a vehicle at the disposal of its employees by a company is considered as a long-term hiring of means of transport (if duration >30 days), which is subject to VAT in the country where said employees reside.

When employees do not pay a consideration to employers (private use of company cars)

Where a company puts vehicles at the disposal of its employees without consideration and the employees use the vehicles for their private needs, the company is affecting business assets to a non-business activity (i.e. for a private use).

In such circumstance and to the extent that the company deducted input VAT on the acquisition/lease of the car, the private use of the company cars is a deemed supply of service by the company for VAT purposes. As such the company has to determine the taxable basis of the private use. The VAT will be due in the employer’s country.

Although the company does not charge the employee for the private use, other methods are used to compute the taxable basis to be added to the company’s taxable turnover in the VAT returns. In general, companies opt for one of the following two commonly used solutions to compute the taxable basis for this private use:

- The company or the employee keeps a detail of the kilometers covered for his private needs (logbook).
- The company uses a lump-sum valuation method accepted by the VAT authorities.

5.2. Company car – income taxes

As a general principle, when an employer puts a company car at the disposal of an employee, which can be used for both professional and private purposes, a taxable benefit in kind will be generated in the hands of the employee.

According to the Luxembourg income tax law, the taxable benefit in kind should be valued at its fair market value. However, as long as the allocation of the company car is not compensated by a decrease in the gross remuneration in cash, the taxable benefit may alternatively be determined pursuant to a lump-sum valuation method.

5.2.1. Valuation at fair market value (or logbook method)

The benefit is valued based on the cost price and the private mileage of the car leased to the employee. Valuation at fair market value requires the employee to hold a logbook, in which he records his private mileage. In this respect, the employee’s commute from home to work should be treated as part of private mileage.

The employer must determine the cost per kilometer of the car on the basis of the cost of the car (including insurance, maintenance, etc.). The monthly benefit is then determined by multiplying the private mileage per month by the said cost per kilometer.

5.2.2. Lump-sum valuation method

As it may be tedious to keep track of the kilometers via a logbook, the monthly taxable benefit may be determined based on a lump-sum valuation method (unless the company car is compensated by a decrease of the gross remuneration in cash).

The employee is taxable on a monthly lump-sum benefit. Since January 1, 2017, the flat-rate which applies to the purchase price of the car (including options, VAT and potential discount) depends on the CO₂ emission and engine type of the car. Additional car-related lump-sum contributions made by the employer do not increase the taxable base of the benefit in kind (e.g. allocation of a fuel card to the employee).

Co2 Emission category	Acquisition price percentage			
	leasing contract dated before 01/01/2017	leasing contract dated as of 01/01/2017		
	All categories of vehicles	Gasoline-fueled engine vehicles (Gasoline only or hybrid)	Diesel-fueled engine vehicles (Diesel only or hybrid)	100% electric vehicles
0 g/km	1.5			0.5
0-50 g/km	1.5	0.8	1.0	
50-110 g/km	1.5	1.0	1.2	
110-150 g/km	1.5	1.3	1.5	
If > 150 g/km	1.5	1.7	1.8	

As specified in article 3.3 of the Circular Letter of July 16, 2018, the new tax measures as mentioned above only apply for leasing agreements concluded as from 01.01.2017. The monthly lump sum taxable benefit remains set at 1.5% of the purchase price of the car (including options, VAT and potential discount) where the leasing contract has not elapsed before 01.01.2017.

Where the car which is put at the disposal of the employee is a used vehicle, the taxable benefit shall nevertheless be computed based on the purchase price of the car in the original unused condition.

5.2.2.1. Employee's contribution

Fixed personal contribution to the costs related to the company car is deductible from the monthly lump-sum taxable benefit. Variable contributions such as maintenance fees, repair expenses or fuel cannot however be deducted.

In case the employee has to pay a personal contribution per kilometer of private mileage, the mileage must be justified on the basis of a logbook, in order for the employee's contribution to be deductible (except for the employee's commuting from work to home and vice versa). A lump-sum valuation of the total mileage for private use is not allowed.

5.2.2.2. Contribution to the acquisition price/leasing cost of the car

The employee's financial contribution to the acquisition of the car can be credited against the monthly taxable benefit up to 20% of the car purchase price.

The employee's contribution to the car leasing cost is deductible from the monthly taxable benefit up to 20% of the leasing cost borne by the employer.

5.3. Repurchase of the car

The employee may have the possibility to acquire the company car at a lower value than the fair market value of the car at the date of purchase by the employee. The difference between the fair market value of the car and the sale price is considered as a benefit in kind, which is subject to withholding tax and social security contributions. The fair market value, depending on the age of the car at repurchase date is assessed based on an evaluation grid provided by the Luxembourg tax authorities. Where the total benefit in kind resulting from the addition of the monthly taxable benefits in kind during the lease period and the estimated value of the car at repurchase date would exceed 100% of the initial car value, the taxable benefit in kind resulting from the repurchase of the car shall be capped so that, in total the employee is not taxed on more than 100% of the initial car value. Employee's contributions to the initial purchase of the leased car and fixed participation to the leasing costs can be deducted for the purpose of this computation.

5.4. Company car – social security

Social security contributions apply on the taxable benefits in kind (11.05% on the monthly benefit in kind derived during the leasing period and 10.8% on the benefit in kind derived from the purchase of the car by the employee). The 1.4% dependency contribution also applies.

5.5. Income taxes – drivers' personal taxation

Luxembourg income tax law provides that professional costs may be deducted from the taxable income on a lump-sum basis or on the basis of justified actual expenses.

If the taxpayer would not opt to deduct the actual professional expenses, the lump-sum deduction is automatically applied.

Commuting expenses are deductible on a lump-sum basis (i.e. no actual commuting expenses can be claimed).

5.5.1. Commuter traffic

As indicated above, commuting expenses of employees are deductible on a lump-sum basis.

The amount of the deduction is based on the distance between the main town of the municipal district where the employee is resident and his workplace, regardless of the means of transport used by the employee.

The deduction for an employee working every day amounts to a maximum of 2,574 EUR per assessment year.

Special rules apply to employees in a special situation (e.g. employees working in several places, employees having a partial activity in Luxembourg, employees working on temporary mobile building sites).

5.5.2. Business mileage

The employer may also choose to reimburse expenses for the professional use of the employee's private car.

The reimbursements by the employer of expenses incurred by an employee exclusively on the behalf of his employer do not qualify as taxable employment income provided that such reimbursements are not made on a lump-sum basis (i.e., disregarding the distance travelled). On the contrary, a lump-sum

reimbursement of costs or the reimbursement of commuting expenses by the employer always qualify as taxable employment income.

Notwithstanding the above, payments made by the employer in order to prevent its employee from having professional expenses are tax exempt only up to the amount paid by the Luxembourg authorities to its civil servants (i.e. 0.30 EUR per kilometer) and provided that such payments are separated from the ordinary salary payment.

6. *Legal background*

Includes:

- Law of February 12, 1979 concerning value-added tax
- Law of December 4, 1967 concerning income tax
- Law of February 14, 1955 concerning the regulation of the circulation on public roads (code de la route)
- Law of March 23, 1935 on the tax regime of motor vehicles
- Grand-Ducal Decree of June 17, 2003 in relation with the registration of the road vehicles, their number plates and in relation with the modality of attribution of the registration numbers
- Grand-Ducal Decree of May 23, 2012 in relation with the circulation of roads
- Law of December 22, 2006 reforming the tax on road vehicles
- Grand-Ducal Regulation of December 21, 2012 defining specific measures for environmental policy
- Law of December 19, 2002 on the register of commerce and on annual accounts of undertakings
- Grand-Ducal Regulation of June 10, 2009 concerning the Standard Chart of Account
- Grand-Ducal Regulation of December 14, 2011 concerning the electronic filing of the accounting package
- Law of August 10, 1915 on commercial companies
- Government Regulation of June 19, 2015 fixing the compensation kilometer for cars used for service trips.
- Circular Letter of July 16, 2018 concerning the assessment of certain benefit granted by the employer to its employees
- Corporate income tax law, modified on December 4, 1967 and subsequent amendments
- Grand-Ducal Regulation of December 23, 2016
- Circular letter of March 10, 2015 concerning the assessment of certain benefits in kind awarded by employers to their employees
- Grand-Ducal Regulation of December 23, 2016 concerning the new flat-rate to be taken into account for the valuation of the taxable lump-sum benefit of a company car according to its engine type and CO₂ Emission.

Mexico



Luis Lozano

***Automotive Country Leader
Corporate Tax Partner***

p: +52 55 5263 6000

e: luis.lozano@pwc.com

Roberto Morquecho

Automotive Tax Partner

p: +52 55 5263 6000

e: roberto.morquecho@pwc.com

Mexico

1. Importation of cars

1.1 Custom duties

Mexico has diverse programs to support the automotive industry, given the importance of this sector in the Mexican economy.

Notwithstanding the above, it is worth mentioning that Mexico has an extended treaty network, such as Free Trade Agreements (FTA) which allow it to import goods under preferential duty rates. Nowadays this network includes 15 treaties with more than 50 different countries around the world.

- * Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK.
- * As of January 1, 2007, Bulgaria and Romania became a part of the EU.
- ** As of November 19, 2006, Venezuela is no longer part of the TLC of the G-3.
- *** Economic Complementary Agreements (ECA).

The importation of vehicles/cars, triggers duties (15%), NAT (New vehicle tax) *; and VAT (16%). Nonetheless if vehicles originate in the countries where Mexico has a commercial treaty in place (FTA), it is possible to reduce the duty up to 0%. To apply duty preferential rates derived from the FTA you must have a certificate of origin that proves the origin of the goods.

On November 30, 2018, the representatives signed a new commercial agreement between the United States, Mexico and Canada (USMCA). Some of the relevant topics are new provisions to facilitate trade, chapters for small and medium-sized enterprises, e-commerce, intellectual property, origin procedures, rules of origin, automotive industry, among others. However, regarding the automobile regulations, the USMCA toughened the rules so that a car can be considered as originating in the region.

USMCA Automotive provisions:

- 1) **7 core parts of the vehicle shall be 100% originating from the region:**
 - a. Engine
 - b. Transmission
 - c. Body & Chassis
 - d. Axle
 - e. Suspension
 - f. Steering
 - g. Advanced Battery
- 2) **New RVC percentages will apply for light and heavy vehicles under USMCA:**
 - a. Light vehicles: from 66% to 75% (Net Cost Method) *
 - b. Heavy vehicles: from 60% to 70% (Net Cost Method) *

* The RVC percentage requirement will increase progressively during the next four years.

- Automotive parts have been divided in 3 main parts:
 - a. Core
 - b. Principal
 - c. Complementary

* The three parts categories have their own RVC modifications, which vary from 50% by Net Cost and 60% by Transaction Value to 75% and 85%, respectively.

3) 70% of the Steel and Aluminum purchases shall be from originating Steel and Aluminum.

In addition, after 7 years from the entering into force, for steel to be considered as USMCA originating, manufacturing processes shall be performed within the USMCA region.

For aluminum, after 10 years from the entering into force, the Parties will review the applicable provisions.

4) A new provision regarding Workforce Content Value is created.

At least 40% of workforce costs shall correspond to employees with a salary of at least 16 USD per hour, divided in various categories starting in 2023.

The USMCA entered into force on July 1, 2020.

2. Car registration

2.1 When does a car need to be registered?

New and used cars must be registered before they start circulating on Mexican roads and must meet a few requirements based on the type of vehicle and the driver.

2.2 Who can register a car?

The owner or lawful holder must register the car in order to be allowed to circulate it in Mexico. The owner can be an individual or a legal entity.

2.3 Is a foreign owner allowed to register a vehicle in the country?

Yes, it is allowed provided that the car stays in Mexico. For this purposes, foreign owners must prove they are legally staying in Mexico through the migratory document²² issued by the Mexican government.

Tourists are not allowed to register vehicles in the country, but they are able to introduce their vehicle to Mexico provided they make a temporary importation of the vehicle which must not be longer than six months.

2.4 Can a vehicle with a foreign number plate be used on public roads?

All vehicles circulating in Mexico must have the proper registration and number plates, although a foreign vehicle can circulate for six months with a permit issued by the respective authorities, for which purpose it must be demonstrated that the vehicle in question has been legally introduced into Mexico.

3. Car taxation

3.1 What are the different car taxes?

Several taxes and dues must be paid in order to circulate a vehicle in Mexico, some of which depend on the state in which the vehicle circulates (local taxes).

The following general car taxes are charged in Mexico:

- New automobile tax (NAT or ISAN for its acronym in Spanish)
- Annual circulation tax (ACT or *Tenencia* for its acronym in Spanish)

²² The official forms FM2 or FM3 are issued according to the migratory status of the foreign resident (visitor, tourist, visitor, student, etc.) and allow foreign residents to leave and return to the country at any time.

- Circulation dues:
 - Vehicular circulation card (car registration)
 - Number plates
 - Vehicular emissions

It is important to point out that only New Automotive Tax is Federal, the rest of the taxes above are local taxes, so the rates handled by them can change from one state to another.

3.2 New automobile tax (NAT)

3.2.1 Taxable event

This tax is payable when a car is acquired by the final consumer. Depending on how the car is acquired, tax would be due as follows:

- Tax must be paid when new cars are acquired in Mexico by individuals or legal entities if they are final consumers.
- For new cars imported into Mexico by individuals or legal entities, it must be paid by customs declaration.
- When the car is sent or materially delivered to the acquirer.
- When the price is partially or fully paid.
- By issuing the receipt of the transaction.
- Also, this tax will be triggered when manufacturers, assemblers, importers of cars or authorized distributors incorporate the cars to its fixed assets, or when they have it for sale for more than one year.

3.2.2 Taxable person

Individuals or legal entities acquiring cars provided they are the final consumer.

3.2.3 Tax due

The tax is calculated by applying rates and tariffs corresponding to the price of the car, including optional equipment, regular or luxury, with no discounts, reductions or rebates.

Cars seating up to 15 passengers are subject to rates depending on the car's price, from 2% to 17%.

Rate			
Lower limit (MX pesos)	Upper limit (MX pesos)	Fixed rate (MX pesos)	Rate applicable to amounts exceeding the lower limit
\$0.01	\$294,797.44	\$0.00	2.0%
\$294,797.45	\$353,756.87	\$5,895.85	5.0%
\$353,756.88	\$412,716.52	\$8,843.96	10.0%
\$412,716.53	\$530,635.16	\$14,739.89	15.0%
\$530,635.17	Onwards	\$32,427.66	17.0%

Certain rules apply to tax payment on imported cars, based on the type of car and other factors.

However, consumers are exempted from this tax when the sales price (including optional equipment, regular or luxury) does not exceed MX \$272,471.43 pesos.

Furthermore, when the price goes from MX \$272,471.44 pesos to MX \$345,130.49 pesos, the exemption would apply to 50% on tax payment.

If the price of the car is greater than MX \$814,036.01 pesos, the amount resulting from applying the 7% on the difference between the price of the unit and the MX \$814,036.01 pesos will be reduced from the amount of the determined tax.

There is also an exemption for automobiles alienated or definitely imported vehicles whose propulsion is through rechargeable electric batteries as well as vehicles with internal combustion engine or with a hydrogen powered engine.

Another exemption is applied when the cars are definitely exported.

3.2.4 Tax period

It is paid only once when the final consumer, an individual person or entity, acquires the new car.

3.3 Annual circulation tax (ACT or “Tenencia”)

3.3.1 Taxable event

Tax is due for cars circulating in Mexico.

As of 2012, this tax ceased to be a federal tax and it is now up to each state to impose it, based on the foregoing. For the most part, Mexican states have exempted the ACT when taxpayers have properly complied with previous payments and if they have already paid for the annual plates.

3.3.2 States exempt of ACT or “Tenencia”

For the following States, the ACT will not be paid:

- Aguascalientes
- Baja California *
- Baja California Sur
- Campeche
- Colima *
- Chiapas
- Mexico City*
- Chihuahua
- Coahuila
- Durango *
- Guanajuato *
- Guerrero *
- Hidalgo *
- Jalisco *
- Michoacán *
- Morelos
- Nayarit
- Nuevo León *
- Oaxaca *
- Puebla *
- Querétaro *
- Quintana Roo
- San Luis Potosí
- Sinaloa
- Sonora
- State of Mexico *
- Tabasco *
- Tamaulipas *
- Tlaxcala *
- Veracruz *
- Yucatán
- Zacatecas

* Certain requirements must be met in order to take advantage of the exemption.

3.3.3 Taxable person

Individuals or entities owning vehicles circulating in Mexico.

3.3.4 Tax due

ACT is calculated on the basis of the features of the vehicle – such as the model, car brand, year, version and price – by using tables and percentages, which are updated annually. The percentage of ACT would depend on the Mexican state in which the vehicle is to be registered and on the type of vehicle in question.

3.3.5 Tax period

Payment must be made on a yearly basis starting when the car was acquired by the final consumer.

3.4 Circulation dues

3.4.1 Vehicular circulation card

The federal government requires all states to update its vehicle fleet registry periodically, which usually takes place through the change of number plates; this situation could be a long process with high costs, so the Mexican government requested that, rather than plate replacement, there should be a renewal of the vehicular registration card.

It should be mentioned that the objective is to contribute to the updating of the vehicular register; this new instrument allows for legal certainty of the corresponding car.

The vehicular circulation card is related to the type of car and use and the validity may depend in the policy implemented by each State, which can set that the vehicular circulation card is valid permanently, or well for a one-three year period, therefore this renewal should be reviewed state by state and in a regular basis.

3.4.2 Number plates

Number plates are part of the registration dues and the cost of the registration depends on the type of plate needed (private vehicles, motorcycles, agency car demonstrators, vehicles driven by handicapped, trailers, vintage cars, taxis, ambulances, etc.) and it will also depend on the government of the state in which the registration is carried out.

Payments are made when the new or used vehicle is registered or any change to the situation occurs (user, type of plates, etc.).

3.4.3 Vehicular emissions (“Verificación”)

There is a mandatory program for all internal combustion motor vehicles registered in Mexico which consists of verifying all emissions issued by such vehicles during the year; motorcycles and hybrid vehicles (gas/electricity) are not subject to this program.

All owners, keepers and drivers of motor vehicles registered in Mexico and circulating with metropolitan plates are obligated to comply with this program.

The cost of the vehicle inspection services would depend on the type of certificate that is delivered to the user, which could consist of the following:

- Exempt: Allows free circulation on all days for electric and hybrid vehicles, and the emissions inspection must be performed every eight years.
- Certificate 00: Allows free circulation on all days and the emissions inspection must be performed every two years. This certificate applies only for new vehicles, and they are only eligible under this certificate up to two times.
- Certificate 0: Allows free circulation on all days and the emissions inspection must be performed every six months.

- Certificate 1: Emissions inspection must be performed every six months and vehicles are not allowed to circulate one day a week. In addition, depending on the plate, those are not allowed to circulate two Saturdays a month.
- Odd plate: Are not allowed to circulate the first and the third Saturday of each month.
- Pair plate: Are not allowed to circulate the second and the fourth Saturday of each month.
- Certificate 2: Emissions inspection must be performed every six months and vehicles are not allowed to circulate one day a week and all the Saturdays of each month.

4. Income taxes (IT) – Taxable persons

4.1 Deduction

According to the Income Tax Law (ITL), taxpayers (legal entities) acquiring cars can deduct the price or part of it by complying with some requirements which mainly consist of the following:

- The use of cars must be strictly indispensable for the company's activities.
- The price of the car must not exceed MX \$175,000 pesos.
- The price of the car must not exceed MX \$250,000 pesos for vehicles whose propulsion is through rechargeable electric batteries as well as vehicles with internal combustion engine or with a hydrogen powered engine.

Provided taxpayers comply with the aforementioned requirements, they are able to take the deduction by applying a 25% rate over the cars' price per year of use or the proportional amount depending on the period used in the year, until the value is totally amortized.

It is important to mention that the deduction on car's investment is proportionally related to the amount disbursed and deductible in terms of the above mentioned, which means that the amount exceeding the MX \$175,000 pesos limit would not be deductible for income tax purposes nor the exceeding the MX \$250,000 pesos limit in the case of electric vehicles.

4.2 Level of deduction of car-related expenses

Entities can take different deductions regarding car acquisitions, provided they comply with the requirements established in the ITL provisions.

Based on the foregoing, deductions for expenses incurred by a company in connection with its cars – such as fuel, maintenance and repairs – are limited to the proportion in which the costs of cars are deductible over the acquisition price.

Additionally, these expenses must comply with general deduction requirements:

- The disbursement must be strictly indispensable for a company's business.
- The expense must be supported with documentation meeting the requirements specified in the tax provisions (invoice, tax ID number, VAT specified separately, etc.).
- In the case of fuel, payment must be made in the form of a nominative check from the taxpayer, credit card, debit card or service card, or by means of a card provided to the clients of a holder of a bank account to be used to make deposits into that account. Applicable for payments greater than MX \$2,000 pesos.
- Expenses must be duly recorded in the accounting books and deducted once from incomes obtained.
- In the case of imported goods, it must be demonstrated that the respective legal requirements for importing those goods into Mexico have been complied with.

As concerns cars owned by employees, companies may deduct expenses for gasoline, oil, services, repairs and spare parts when they are used as a consequence of travel required by company operations.

The aforementioned deduction may not exceed MX \$0.93 pesos per kilometer covered by the car, and the distance covered may not exceed 25,000 kilometers for the period; aside from which, all other deduction requirements must also be met (invoice must be issued in the name of the taxpayer).

5. VAT/sales tax

5.1 General

The VAT Law (VATL) specifies that the tax is payable by individuals and business entities conducting the following transactions in Mexico:

- Sale of goods
- Rendering of independent services
- Leasing of goods
- Importation of goods or services

5.2 Tax rate

Tax is calculated by applying the 16% rate to the aforementioned activities.

Furthermore, the VATL specifies a number of transactions subject to the 0% rate, including the exportation of goods and services, provided they comply with applicable tax provisions.

Additionally, in the case of importations there are some exemptions to entities carrying out activities under an IMMEX program or if they are part of the automotive industry.

In relation with above, the Tax Reform 2014 established that the importation activities under an IMMEX would not payable the VAT if the entities fulfill the following requirements:

- Shall to have the certification of the Mexican Tax Authorities
- Provide to Mexican Tax Authorities some requirements about the proper control of their importation activities on IMMEX
- The certification

5.3 Benefits in terms of Value Added Tax in the border region

A fiscal stimulus equivalent to the 50% of the VAT will be applicable caused by the activities of sale of goods, provision of independent services and granting of the temporary use or enjoyment of goods, in the premises or establishments located in the northern border region.

Consequently, the VAT that would be caused and paid in the aforementioned border area would be at the 8% rate, which is similar to the sales tax rates that exist in the southern states of the United States bordering Mexico.

This stimulus is an automatic tax credit to be applied on the VAT rate of 16% and seeks to make border cities more competitive by having a more attractive rate for consumers, both national and foreign.

It is important to mention that in order to apply this stimulus some requirements must be fulfilled on an annual basis.

5.4 VAT Certification

The VAT certification is an instrument which allows companies to apply a 100% VAT credit at the moment of importation.

It has three types; A, AA and AAA, where the last type has the major benefits. It is important to mention that these types will have a tax credit at the moment you perform the temporary import, therefore avoiding the VAT payment.

The general VAT Certification requirements are the following one:

- Positive opinion regarding its tax compliance, including the related to the partners, shareholders, legal representatives, sole director or member of the board;
- Describe the activities related to manufacturing processes or services according the program modality, including the goods receiving, storage, production process and its return;
- Manufacturing/maquila contract, sale-purchase contract, purchase or service order, proving the continuity of the export project;
- Documentation of the ownership or lease for the facilities where the processes or service take place;
- Submit proof of all personnel registered with the Mexican Social Security Institute (IMSS, for its acronym in Spanish) and provide supporting documentation regarding the contributions paid to the IMSS of at least 10 employees made through online capture of the last two months of the immediate previous year; among others.
- Many more specific requirements apply depending the level of certification required (A, AA, or AAA).

The VAT certification will be valid for a period of one, two or three years, according to the certification you request (A, AA or AAA respectively).

5.5 VAT calculation

The VATL establishes that tax must be computed for calendar months and that payable tax would be the VAT due on operations (except for the importation of tangible assets) carried out in the month for which the payment is made less the creditable VAT for the same period and the VAT withheld in the period of the computing. In the case of importation of goods, VAT must be paid by customs declaration.

5.6 Creditable VAT

The VATL establishes the following requirements in order to be entitled to credit the corresponding VAT:

- VAT must correspond to goods, services or leases strictly indispensable for company operations, other than imports subject to VAT or payable at the 0% rate.
- VAT must be expressly transferred and specified separately in the invoice.
- VAT must be paid in the month of its crediting.
- VAT withheld from taxpayers is creditable when the withholder pays the tax to authorities.

It is important to point out that in the event that the vehicle is a fixed asset of a company, the difference between the value of the car and MX \$175,000 pesos will not be creditable VAT for exceeding the limits of deductibility, however, the creditable VAT will be deductible.

In the case of taxpayers performing taxable and exempted activities for VAT purposes, they can only credit the VAT in the proportion they perform taxable activities.

5.7 Hire purchase: Supply of goods?

In the terms of the VATL, hire purchase is understood as a type of lease since one party grants another the temporary use of tangible assets in exchange for a consideration and at the end of the contract the lessee can opt to purchase the good or give it back to the lessor.

During the term of the contract, amounts collected for the temporary use of the good are subject to VAT.

In cases where the lessee exercises the option to purchase the good, a sale is considered to take place and it is subject to VAT.

5.8 Leasing: Supply of services?

For VAT purposes, leasing of any kind (regardless of the term used to refer to it) is a taxable activity.

In this sense, taxable income corresponds to the consideration for the temporary use plus the interest and any additional charge regarding the leasing including penalties, maintenance, among others.

6. Company car

6.1 VAT on car-related disbursements

VAT paid by employees on goods purchased, services received, importation of goods or the leasing of goods related to company cars is creditable by the business entities, provided there is compliance with the requirements specified in the VATL for crediting such tax, including the following:

- Being strictly indispensable for company activities
- Tax receipts or invoices must meet tax requirements stated in the Federal Tax Code for these kinds of documents (VAT transferred separately on invoices, taxpayers ID of seller and buyer, address of seller, number of goods sold, place and date, among others)

For this purpose, there must be evidence of the working relationship between the company and the employee making the expenses; all supporting documentation must be issued with the company's information (tax ID, name of the entity, etc.).

6.2 VAT disbursements pertaining to cars owned by subordinates

Business entities may credit VAT related to expenses incurred regarding fuel, oil, services, repairs and spare parts for cars owned by employees when their use is strictly indispensable to carrying out company activities.

Additionally, requirements mentioned in section 4.2 of this document must be complied in order to be able to credit the corresponding VAT.

7. Income taxes – drivers' personal taxation

7.1 Private use

In terms of the ITL, any income obtained by a subordinate is considered as taxable regardless if it is in cash, in-kind, services or any other similar concept.

Goods provided by the employer to employees to be used in the normal course of their work are not considered to qualify as income in-kind, as they are required to carry out the work.

On the basis of the foregoing, company vehicles provided to employees for their private use in the first instance qualify as taxable income for the employees and must therefore be considered in their annual tax return.

However, since companies structure these transactions in different ways, each situation must be analyzed on a case-by-case basis in order to determine whether or not the employees are required to pay tax when they are provided with a company vehicle.

It should be mentioned that in most of the cases, employees are not required to accrue this income in their annual tax return.

As mentioned in section 4.2, in the case of cars owned by subordinates, companies may deduct expenses incurred for gasoline, oil, services, repairs, spare parts and mileage, provided certain regulations are complied with.

Payments received by employees from the employer do not qualify as employee income as specified below:

- Payments merely made to refund the employee for the portion of expenses incurred on behalf of the employer.

- Payment should not be considered to form part of the employee's salary, since it does not qualify as a salary or any other compensation.
- Likewise, the provisions dealing with employee income state that transportation aid qualifies as compensation for services rendered, unlike the reimbursement of expenses incurred in connection with an item or tool used during the course of the employee's work.

7.2 Business kilometers

In the case of employee's cars, companies may deduct expenses incurred for gasoline, oil, services, repairs and spare parts when they arise as a consequence of travel required by company operations.

The aforementioned deduction may not exceed MX \$0.93 pesos per kilometer covered by the car, and the distance covered may not exceed 25,000 kilometers for the period; in addition, all other deduction requirements must be met.

In this case, refunds obtained by the employee must not be considered as taxable income and in consequence they must not consider these expenses as deductible item in their annual tax return.

8. Selling a car

8.1 Taxable persons

For income tax purposes, selling cars is considered taxable income. The gain on the sale of cars is determined by diminishing from the price of sale the cost of the car pending to be depreciated (for this purpose we should consider the limit of deduction which is MX \$175,000 pesos or MX \$250,000 pesos for electric vehicles).

The sale of cars, performed by a company, is subject to pay VAT; it is important to mention that the VAT on alienation of used cars and trucks acquired from individuals (not obliged to be transferred expressly and separately), shall be computed with reference to the value of the price or compensation paid there of diminished with the acquisition cost of the asset (not including expenses arisen from repairs or improvements thereof). Tax on such repairs, which is transferred, can be credited in the terms of the VATL. Acquirers of such used cars and trucks shall comply with the following requirements:

- Payment should be made by nominative check in the name of the alienator.
- Keep invoice, official identification of the alienator and all other documents showing the latter's name, domicile and (when applicable) tax ID, brand, type, model year and engine, and body serial numbers of the vehicle.

8.2 Private individuals

At first, individuals do not need to charge VAT and consider as taxable income the amount obtained from the sale of a used car.

9. Tax incentives

9.1 For production and promoting exports of vehicles and parts; Mexico has a number of specific programs such as:

9.1.1 Decree to promote manufacturing, maquila and export services companies (IMMEX)

IMMEX was enforced in November 2006. This decree consolidates the maquila and PITEEX programs (the previous temporary import programs), nullifying the PITEEX program. In order to enroll, entities must export at least 500,000 USD or 10% of their production. Such a program is authorized by the Ministry of Economy (Secretaría de Economía). Main benefits are:

- Temporary (duty-free) imports (raw materials) for up to 18 months for raw materials, supplies and packing materials used on the exported production.
- Exemption from import duties, spare parts and other consumables used in the production of exports.

- The domestic sale of part of the production (with foreign content) covered under the change of regimen from temporary to definitive and the payment of the corresponding import duties and other taxes over the foreign contents thereof.

The life of an IMMEX program is indefinite as long as the company complies with the provisions, which include the following:

- Generate a foreign trade operations annual report according to the program.
- Keep an automated inventory record to control the merchandise imported and exported during the life of the program.
- Export the raw materials imported into Mexico within 18 months, at the latest.

Zero rate of value-added tax (VAT) is applicable to exports, even when they are physically exported by a third party, provided they remain under the temporary importation regime.

IMMEX includes the services authorized in the *maquila* programs, as well as the additional services of repairing, cleaning, quality-control testing, packing, painting, greasing activities and technological support services (software).

9.1.2 Maquila (toll manufacturer)

On December 2013, the IMMEX definition was included in the Mexican Income Tax Law were the *maquila* operation as including the following situations:

- Raw materials that are supplied by a foreign resident (with whom the *maquila* has a *maquila* contract) and are temporarily imported to be processed, transformed or repaired and returned abroad, in accordance with Mexican customs law and the IMMEX decree, including virtual import-export customs declarations. For this purpose, it would not be necessary to export scrap or waste.
- The *maquila* would also be permitted to have goods imported under the permanent regime and local purchases can be made, as long as such goods are consumed in production or are exported with the temporarily imported inventory under the IMMEX program.
- As a general rule the process, transformation or repair of goods would be required to be performed with temporarily imported machinery and equipment (M&E) and property of the foreign resident.
- For Maquiladoras operating under the grandfathering rule applicable to Maquiladoras established prior to 2010 (i.e., currently not obliged to comply with the rule requiring that 30% or more of the machinery and equipment used in the *Maquila* operation be owned by the foreign principal), the decree establishes a two-year period to comply with this requirement on a prospective basis.
- Companies must fulfill all requirements established in articles 2 and 216-bis of the MITL, and it is not considered a *maquila* activity when goods transformed or repaired are sold in Mexico, unless such sale is documented with an export customs declaration (i.e. virtual exportations). Therefore, local sales would not ordinarily be deemed to be operations described in MITL articles 2 and 216-bis.
- As from July 2015, all revenues associated with productive activities must derive solely from *Maquila* activities.

9.1.3 Sectorial relief programs (SRPs)

The SRPs charge companies a preferential tariff rate to import goods intended for production, regardless of the country of origin, and charge preferential rates (foreign trade taxes from 0% to 5%).

The authorized sectors in which companies are able to charge preferential rates in the importation of goods are the following:

- Automobile and auto-parts industry

- Electronic industry
- Capital goods industry
- Chemical industry
- Rubber and plastic manufacturing industry
- Steel industry
- Leather and fur industry

The program lifecycle is indefinite as long as the company complies with the provisions, such as the production of other imported goods and the submission of an annual report.

9.1.4 Bonded warehouse

The bonded warehouse regime consists of introducing for a limited period of time foreign, national or nationalized goods into authorized warehouses, with the purpose of storing them for safekeeping, exhibition, distribution, transformation or to be repaired, as long as the goods are strictly controlled.

The main benefits of said regime are as follows:

- Neither import duties nor VAT nor countervailing duties will be paid, except for those cases contemplated within the Free Trade Agreements' rules prevailing accordingly.
- Non-tariff restrictions and regulations do not have to be complied with, except for those regarding animal and vegetable sanitation, public health, environmental and national security.
- Duties and VAT will be triggered only if goods are extracted to the domestic market, via a definitive importation.

9.1.5 Import duty drawback

Under import duty drawback all exporters (including indirect exporter suppliers) are entitled to the refund of import duties paid up to one year before on imported merchandise integrated into exported goods or sold to other entities that physically transport the exported assets.

9.1.6 Charging equipment for electric vehicles

Tax incentives are given to taxpayers of the income tax that made investments in charging equipment for electric vehicles, whenever the requirements established in Law are fulfilled. This incentive is equivalent to 30% of the investment amount.

9.2 Companies contracting special needs or blind persons

Employers may deduct IT withheld from employees with physical disabilities (which is refunded to them).

9.3 Incentive for employing persons 65 and over

The March 8, 2007 decree provides individuals and business entities subject to income tax with an incentive consisting of deducting (from taxable income) an additional 25% of salaries actually paid to:

- Persons 65 or over;
- Persons with motor incapacity requiring the permanent use of prosthesis, crutches or wheelchairs; mental incapacity; hearing incapacity or speech impediments with 80% or more of normal capacity; and blind persons.

9.4 R&D incentives – General Background

The National Council of Science and Technology (CONACyT) is the governmental entity in charge of promoting Research and Development of Technology (R&D) in Mexico; thus, it has been operating several programs with this purpose, such as the “Program to Incentive Innovation”.

This national program summons micro, small and medium enterprises (MIPYMES), big companies and individuals with business activity, duly registered in the RENIECYT (CONACyT's internal registry) with R&D projects focused on the creation of specialized jobs, green ideas, competitiveness, innovation

and added value. Notwithstanding its success, in 2019 the call for this program was canceled and up to this moment, it remains temporarily suspended.

Tax Incentive for R&D

This is an incentive granted by means of a tax credit equivalent to the 30% of the taxpayers' investment in R&D, with the possibility to exercise it throughout a period of 10 years.

The authorities involved are: The National Council of Science and Technology (CONACyT), the Ministry of Economy (SE), the Service of Tributary Administration (SAT) and the Ministry of Treasure and Public Credit (SHCP).

The most important issues to consider related to this incentive are:

- Due date to file application: It usually opens in March and closes in May.
- 30% of the eligible investment and expenses is the maximum percentage to be obtained or a maximum of 50 million pesos.
- It is necessary to be fully compliant with tax obligations.
- It does not coexist with any other incentive or fund managed by CONACyT.
- Companies under special tax regimen (according to articles 182, 187 and 202 of the Income Tax Law) are not candidates for this incentive.
- Companies will be able to request financial support for the projects developed during the current business year; however, the company should have been investing in R&D at least for the past three years. It is important to consider that this support is subject to budgetary guidelines.
- In addition to the information requested in the application, it should contain hypothesis, possible solutions, methodology, expected results, as well as the commitment to develop prototypes and to produce IP rights.

9.5 AML regulation

From the AML standpoint, according to section VIII of Article 17 of the Federal Law for Prevention and Identification of Transactions Involving Funds from Illegal Activities and used to Finance Terrorism (Mexican Anti- money laundering Law), the habitual business or professional activities involving the commercialization of new or used motor vehicles with a value equal to or greater than 3210 UMAs (approx. MX \$287,680 pesos) verifies a vulnerable activity; in case the transaction exceeds 6420 UMAs (approx. MX \$575,360 pesos) a notice should be issued by means of the electronic AML webpage managed by the tax authorities.

Depending on the nature of the breach, fines determined by authorities can go from MX \$17,376 pesos to MX \$5,647,200 pesos, or even 10% of the transaction, whichever results higher. Depending on the infraction, the Mexican Anti-money laundering law considers criminal penalties range from 2 to 8 years in prison.

10. Others

Although the T-MEC continues and follows the same basis of NAFTA, chapters and provisions were added in various items, such as increasing the percentage of regional content in the automotive industry, combat to corruption and bribery, greater rules and requirements for certain manufactured components are made in areas of high wages, greater protection to the intellectual property, new rules for e-trade, among others.

11. Legal background

- MIT Law
- VAT Law
- NAT Law
- Science and Technology Law
- Customs Law
- USMCA
- Decrees
- Local laws

Moldova



Ionut Simion

Automotive Tax Leader

P: +402 122 53702

e: ionut.simion@pwc.com

Anastasia Dereveanchina

Senior Manager Tax

P: +373 79 981 010

e: anastasia.dereveanchina@pwc.com

Veronica Stirbu

Manager Tax

P: +373 79 401 255

e: veronica.stirbu@pwc.com

Moldova

1. Import duties

1.1. Customs duty

The vehicles imported to the Moldovan customs territory may receive the status of goods released into free circulation on the territory of Moldova, provided that the related customs duties (i.e., customs duty, customs procedure tax, excise duty and VAT, if applicable) are settled and commercial policy measures are fulfilled by the importer thereof.

Generally, under the Moldovan customs legislation, customs duties are charged and levied depending on the customs tariff classification and customs value of the goods to be imported.

Under the Moldovan customs provisions, the GATT's valuation agreement is generally applicable.

The vehicles (with exploitation period exceeding 7 years) imported into Moldova are generally subject to customs duties up to 10% of their customs value. For instance, the customs duty applied to the import of motor vehicles for the transport of ten or more persons, including the driver (tariff heading 8702) is 10%, while for motor vehicles (tariff heading 8703) the customs duty is nil.

Please note, that vehicles (under tariff heading 8702 and 8704) with exploitation period not exceeding 7 years are exempted from custom duties. Exemptions from customs duties are also applicable on cars introduced in Moldova by temporary admission regime, but these cars cannot be sold, rented or sublet, or given in bailment, pledged or transferred to other persons.

1.2. Customs procedural tax

Customs procedural taxes are also levied upon import into Moldova. The rates for taxes for customs procedures are as follows:

- Tax for customs procedures upon import into Moldova:
 - For goods with a customs value between 100 EUR and 1,000 EUR, the rate is 4 EUR
 - For goods with a customs value exceeding 1,000 EUR, the rate is 0.4% of the customs value, but not exceeding 1,800 EUR
- Tax for automatic processing of the customs declaration:
 - For the first form: 4 EUR
 - For each continuation form (if any): 1 EUR

1.3. Excise duty

Motor vehicles are also subject to excise duties upon importation into Moldova. The excise duty rates depend on the type, cylindrical capacity of engine, exploitation period and apply per cubic centimetre, as follows:

- For vehicles with gasoline engines, it ranges from MDL 9.56 to MDL 161.84;
- For vehicles with diesel or half-diesel engines, it ranges from MDL 12.23 to MDL 161.84.

Notwithstanding the provision of legislation, the excise rate is reduced by 50% for the vehicles classified under the 870360 and 870370000 tariff codes. The excise duty is reduced by 25% for the vehicles classified under the 870340 and 870350000 tariff codes. The 25% discount from the excise duty shall not apply to micro and mild hybrid vehicles.

As an exception to the general rule, the excise duty for an imported antique car (i.e., where cultural-historical value is confirmed by the competent state authority) applies as follows:

- cars older than 30 year, but no more than 39 inclusive – MDL 40,000;
- cars older than 40 years, but no more than 49 inclusive – MDL 30,000;
- cars older than 50 years – MDL 20,000.

For imported luxury vehicles (with customs value exceeding 600,000 MDL) additional excise rate is applied depending on the vehicle customs value.

The below table represents the additional excise rates that should be applied at the import of the luxury vehicles.

Customs value (MDL)		Additional excise rate (%)
Minimum	Maximum	
600,000	700,000	2%
700,001	800,000	3%
800,001	900,000	4%
900,001	1,000,000	5%
1,000,001	1,200,000	6%
1,200,001	1,400,000	7%
1,400,001	1,600,000	8%
1,600,001	1,800,000	9%
1,800,001		10%

1.4. Import VAT

The 20% VAT rate is applicable on imported vehicles, except for the motor vehicles classified under tariff subheadings 870321, 870322, 870323, 870324, 870331, 870332, 870333, 870340, 870350000, 870360, 870370000, 870380, 9705 of the Moldovan Nomenclature of goods, for which VAT exemption is applicable. Agriculture trucks and scooters with electric motors classified under specific tariff headings are also exempted from VAT.

Generally, the import VAT on car acquisition is recoverable/deductible for entities registered as VAT payers, provided the vehicles are used for business purposes and all supportive documents are available (e.g. invoice, customs declaration, etc.).

Also, the current Moldovan law provides for VAT and customs duties exemption upon the import of long-term assets, including vehicles, contributed in kind to the statutory capital of a company (with certain exceptions), provided certain conditions are met.

2. Car registration

2.1. When does a car need to be registered?

As a general rule, all cars are subject to registration with the State Register of Transport, within the Agency for Public Services.

A car should be duly registered before it is admitted to the road traffic. The registration of a car is confirmed by a registration certificate and a number plate.

2.2. Who can register a car?

A car can be registered by individuals (Moldovan and foreign citizens, as well as stateless people) or legal entities incorporated in Moldova.

2.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, foreign citizens may register their vehicles in Moldova (subject to specific provisions).

2.4. Can a vehicle with a foreign number plate be used on public roads?

A vehicle with a foreign number plate can be temporarily used on the territory of Moldova by individuals with foreign residence and driver's license complying with specific requirements. Generally, the allowed period for using public roads is one year with the condition of paying Moldovan vignette.

3. Car taxation

3.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Moldova, several car taxes become due:

- Road tax:
 - Tax for vehicles registered in the Republic of Moldova
 - Tax for vehicles not registered in the Republic of Moldova, with some exceptions (Vignette)
 - Tax for the vehicles with total weight, axle load or dimensions exceeding the admitted limits
 - Other taxes
- Local taxes:
 - Tax on rendering passenger transport services on the territory of municipalities, cities and villages (communes)
 - Parking tax
 - Parking lot tax

3.2. Road tax for vehicles registered in Moldova

3.2.1. Taxable event

Road tax is charged on a vehicle's

- primary state registration;
- current state registration (i.e., when amendments in state registration are performed), if the tax was not paid before this date, and
- annual technical testing, if the tax was not paid before this date.

The road tax is not due on the change of ownership, if it was already paid for the current tax period (i.e., calendar year) and the former owner may not refund the road tax already paid.

Tractors and trailers used in agricultural activities, public electric transport vehicles and the vehicles of foreign military equipment are not objects of taxation.

3.2.2. Taxable person

The road tax is due by individuals and legal entities – holders of vehicles registered in the Republic of Moldova.

Exemption is applied for vehicles owned by the companies-residents of IT Parks.

3.2.3. Tax due

Road tax is assessed based on the following (i.e. depending on the vehicle type):

- Cylinder capacity (expressed in cc)
- Lifting capacity of the vehicles (expressed in tonnes)
- Weight (expressed in tonnes)
- Number of passenger seats in the vehicle

Please find hereafter an overview table.

No.	Object of taxation	Unit	Tax (MDL)
1	Motorcycles, mopeds, scooters, motorbikes with engine (cylinder) capacity		
	up to 500cc inclusive	unit	300
	over 500cc	unit	600
2	Cars, vehicles for special use on car chassis, with engine (cylinder) capacity		
	up to 2,000cc inclusive	cc	0.60
	from 2,001 to 3,000cc inclusive	cc	0.90
	from 3,001cc to 4,000cc inclusive	cc	1.20
	from 4,001cc to 5,000cc inclusive	cc	1.50
	over 5,001cc	cc	1.80
3	Trailers	tonne	270
4	Semi-trailers with a lifting capacity indicated in the registration certificate		
	up to 20t inclusive	tonne	225
	over 20t	unit	4,500
5	Auto trailers, tractors	unit	2,250
6	Trucks, vehicles for special use on truck chassis, any other self-propelled vehicles, with a total weight		
	up to 1.6t inclusive	unit	1,200
	from 1.6t to 5t inclusive	unit	2,250
	from 5t to 10t inclusive	unit	3,000
	over 10t	unit	4,500
7	Buses with a capacity ¹		
	up to 11 seats	unit	2,925
	from 12 to 17 seats inclusive	unit	3,600
	from 18 to 24 seats inclusive	unit	4,275
	from 25 to 40 seats inclusive	unit	4,725
	over 40 seats	unit	5,400

¹ The number of seats is calculated without taking into account the driver's seat.

3.2.4. Tax period

The tax period is the calendar year.

3.3. Road tax for vehicles not registered in Moldova (vignette)

3.3.1. Taxable event

The road tax is charged when the vehicle (not registered in the Republic of Moldova) enters or is transiting the territory of the Republic of Moldova.

An exemption from the road tax applies on vehicles registered in countries with which the Republic of Moldova has available bilateral and multilateral agreements in the area of road transport without payment of road tax.

The tax is computed by the authorized points appointed by the responsible authority of central public administration and might be paid in cash or by transfer at the nominated accounts.

3.3.2. Taxable person

The road tax is due by individuals and legal entities holders of vehicles not registered in the Republic of Moldova that enter or transit Republic of Moldova territory.

The following persons are not subject to vignette:

- Resident individuals or legal entities who place vehicles under import customs regime;
- Owners of vehicles registered in other states and which have specific authorization for international transport;
- The diplomatic missions, consular offices, and its personnel (i.e. in respect of vehicles and trailers from special tariff positions)

3.3.3. Tax due

Please find below an overview table.

Object of taxation	Period, days	Tax (EURO)
1 Vehicles classified under the tariff heading 8703 and trailers attached to them	7	4
	15	8
	30	16
	90	45
	180	85
2 Vehicles classified under the tariff heading 8703 and trailers attached to them introduced on the territory of Republic of Moldova by individuals with domicile in foreign countries and who holds driver's license issued by the state where they have domicile	More than 180	180 shall be paid for each consecutive 180-day period, including the incomplete periods following the first 180 days
3 Buses with the capacity: from 9 to 24 seats inclusive	1	6
	7	24
	30	48
	90	120
	12 months	480
	over 25 seats	1
	7	28
	30	56
	90	140

	12 months	560
4 Trucks with or without a trailer, tractors with or without semitrailer (not exceeding the admitted axle load weight), with a total weight:		
up to 3.5t inclusive	1	5
	7	20
	30	40
	90	100
	12 months	400
from 3.5t to 10t inclusive	1	8
	7	32
	30	64
	90	160
	12 months	640
from 10t to 40t inclusive	1	11
	7	55
	30	112
	90	280
	12 months	1120

3.4. The road tax for the vehicles with total weight, axle load or dimensions exceeding the admitted limits

3.4.1. Taxable event

The respective tax is levied when a vehicle which is using the roads of the Republic of Moldova has a total weight, axle load or dimensions exceeding the admitted limits.

The tax is calculated by a specialized body of public administration authorities.

3.4.2. Taxable person

The tax is due by individuals (citizens of the Republic of Moldova, foreign citizens and stateless persons) and legal entities (residents and non-residents) who hold vehicles whose total weight, axle load or dimensions exceed the admitted limits.

3.4.3. Tax due

Please find below an overview table.

No	Object of taxation	Tax (EURO)
1.	Issue upon request of the preliminary notification and special authorisation	5
2.	The excess of the admitted limits of axle load:	
	up to 2t inclusively	0.15 for each t in excess x km
	over 2t	0.30 for each t in excess x km
3.	The excess of the admitted total weight of the vehicle with cargo (without exceeding the axle load)	0.08 for each t in excess x km
4.	The excess of the admitted dimensions, respecting the limits for weight load:	
	the width or height up to 50cm or the length up to 100cm	0.2 for each kilometre x km
	the width or height between 50cm–100cm or the length between 100cm–200cm	0.3 for each kilometre x km
	the width or height between 101cm–150cm or the length between 201cm–350cm	0.5 for each kilometre x km
	the width or height between 151cm–200cm or the length between 351cm–600cm	0.7 for each kilometre x km
	the width or height between 201cm–250cm or the length between 601cm–900cm	0.9 for each kilometre x km
	the width or height between 251 cm–300cm or the length between 901cm–1200cm	1.2 for each kilometre x km
	the width or height over 301cm or the length over 1201cm	1.5 for each kilometre x km
5.	Re-weighing or re-measurement of the vehicle dimensions after rearranging the cargo	7 for one operation

3.4.4. Tax period

The taxable person pays the entire tax amount before obtaining documents allowing the use of the respective vehicles.

3.5. Local car-related taxes

3.5.1. Taxable event

Moldovan tax law stipulates the following local car-related taxes:

- Tax on rendering passenger transport services on the territory of municipalities, cities and villages (communes)
- Parking tax
- Parking lot tax

3.5.2. Taxable person

No. Tax	Taxable person	
1	Tax on rendering passenger transport services on the territory of municipalities, cities and villages (communes)	Individuals and legal entities registered as entrepreneurs that are rendering passenger transportation services on the territory of municipalities, cities and villages (communes)
2	Parking tax	Individuals and legal entities registered as entrepreneurs that are rendering parking services
3	Parking lot tax	Individuals and legal entities that hold vehicles and use parking lots

3.5.3. Tax due

Please find below an overview table

No. Tax	Object of taxation	Tax rate	
1	Tax on rendering passenger transport services on the territory of municipalities, cities and villages (communes)	Number transport units (depending on the number of seats)	Local tax rates are established separately by each local public administration
2	Parking tax	Parking surface, square metre	
3	Parking lot tax	Parking lot units	

3.5.4. Tax period

Tax on rendering automobile passenger services on the territory of municipalities, cities and villages (communes) and parking tax are paid on a quarterly basis by 25 of the month following the reporting quarter. Parking lot tax should be paid considering the conditions established by each local public administration.

4. Corporate income tax (CIT)

4.1. Level of deduction of car-related expenses

Vehicle depreciation, fuel costs or operational rent expenses are generally deductible for CIT purposes, provided the following conditions are met:

- The vehicle is used for business purposes
- Confirmative documents are made available (i.e., invoices, documents proving the fuel consumption, waybills, etc.).

The deduction of expenses related to the calculation of depreciation, repair, and maintenance of automobiles used by individuals with leading positions in a company is limited to one automobile for each individual.

4.2. Tax depreciation

According to the fiscal law, fixed assets' evidence is held for each asset in part by applying a straight-line method of depreciation. The depreciation norm of each fixed asset is determined as the ratio between 100% and its useful life established by the Government.

4.3. Repair expenses

Subsequent costs related to the maintenance and repair of fixed assets owned by taxpayers, incurred to maintain them in a functional state and which, according to the provisions of the National Accounting Standards are reflected as current costs/expense, are also deductible for CIT purposes.

Also, subsequent costs incurred for repair or development of fixed assets in order to improve their initial characteristics and increase the expected economic benefits from their use, which according to the National Accounting Standards are capitalized on fixed assets' value, are capitalised on fixed assets' value for tax purposes as well.

According to tax law, the repair expenses of assets under operational leasing, rental agreement, concession are deducted in the limit of 15% of lease, rental, royalty (for concession) fees amount incurred during the tax period. The expenses exceeding the related limit are capitalised on fixed assets values.

4.4. Expenses related to interest

There are no thin capitalisation rules in Moldova (i.e. no debt to equity ratio is applicable for deductibility of interest expenses). However, general deductibility rules should apply at the deduction of the interest expenses.

Specifically, the following provisions should be considered:

- Interest expenses incurred by legal entities, based on a loan contracts concluded with individuals and legal entities (except entities from financial sector) can be deducted in the limit of the weighted average interest rate applied for loans granted by the banking sector to legal entities for a period of up to 12 months and over 12 months, in the section of MDL and foreign currency (values are set by the National Bank of Moldova and published on its official website).
- If a loan is obtained to acquire a vehicle, the related interest expense should be capitalised to the vehicle's initial fiscal value for the entire period until the vehicles are put into exploitation. The deductibility of this expense would be capped at the above limit. The exceeding difference is treated as a CIT non-deductible expense.

4.5. Expenses related to the auto-tyres and the accumulator cells

Moldovan law provides specific rules related to CIT deductibility of the auto-tyres and the accumulator cells (e.g. deductible expenses are recognised on an accrual basis with specific evidence of their effective usage).

5. Value Added Tax (VAT)

5.1. General

The standard Moldovan VAT rate is 20%. It is applied on the amount of the taxable supply of goods/services performed on the local Moldovan market, as well as on the taxable amount of imported goods/services.

Import and supply of cars specified under tariff code 8703 (within specific tariff codes mentioned under section [1.4 above](#)) and agriculture trucks and scooters with electric motors classified under specific tariff headings are VAT exempted with no deduction right.

All kinds of international transportation of passengers and goods are VAT exempted with the possibility to refund the related input VAT.

Taxable persons are, among others:

- legal entities, individuals and non-residents performing entrepreneurial activity through permanent establishment that are registered for VAT purposes or that are required to be registered as VAT payers;
- legal entities, individuals and non-residents performing entrepreneurial activity through permanent establishment importing goods, provided that no VAT exemptions apply;

- legal entities, individuals and non-residents performing entrepreneurial activity, except social-politic organizations, through permanent establishment importing services, regardless of whether or not registered as VAT payers;
- legal entities and individuals performing business activity that procure on the territory of the Republic of Moldova the property of enterprises registered as VAT payers and declared insolvent, except for those in the process of restructuring and implementation of the plan, in accordance with the provisions of insolvency legislation.

Under the general rule, the VAT-able amount of a taxable supply represents the value paid or payable, except VAT. Should a supply be entirely or partly settled in kind, the VAT-able amount has to be equal to the market value of the supply.

5.2. Deduction

Under the current VAT legislation, input VAT incurred in relation to acquisitions of goods and services may be fully deducted, provided it is incurred by a VAT-payer for performing VAT-able supplies within its business activity.

No VAT can be deducted for acquisitions made before registering as a VAT payer.

Input VAT on acquisitions of goods/services used for performing VAT- exempted operations without deduction right (e.g. passenger transport on the territory of the Republic of Moldova) or used for non-business purposes will not be deductible for VAT purposes.

Input VAT incurred on acquisitions intended for performing both VAT-able and VAT-exempt operations is deductible on a pro-rata basis.

VAT deduction is allowed for all kinds of international transportation of passengers, goods and some services, which are VAT exempted with deduction right.

It is allowed to deduct input VAT paid or to be paid for maintenance, operation and repair expenses for one car used by general, executive and other similar directors or by administrative managers including the headquarters. The input VAT related to maintenance, operation and repair of cars other than those previously mentioned is not deductible and should be allocated to expenses or costs.

5.3. Hire purchase: Supply of goods?

From a VAT perspective, a hire-purchase transaction can be assimilated into a supply of goods based on a contract stipulating that the payment is made in instalments and providing that the ownership is transferred at the latest upon payment of amounts due. Therefore, VAT is applied depending on whether the respective transaction is taxable or VAT exempted (e.g. selling cars, considering the tariff codes classification of the respective goods – VAT exempted).

In the Republic of Moldova, hire purchase transactions could be assimilated with financial leasing. For more details, please see our comments below.

5.4. Leasing: Supply of services?

According to the tax law in force, for VAT purposes, a lease agreement is considered:

- a supply of goods in case of vehicles transferred based on a financial leasing or
- a supply of services in case of vehicles used based on operational leasing agreement.

VAT is due on the principle amount of the goods subject to a financial leasing agreement. Interest-related income received by the lessee under a leasing contract is considered out of VAT scope.

Leasing payments according to the operational lease agreement are considered as supply of services being taxable at the standard VAT rate.

6. Company car

6.1. VAT due on private use of company cars

The private use of a company car is deemed to be a VAT-able supply, irrespective as to whether the employee pays or does not pay a part of contribution for the use of this car.

The following cases can be distinguished:

- The employee pays no contribution: the VAT would be due for the market price of the rental services.
- The employee pays a part of the contribution: the VAT-able amount of the respective supply of service represents market price of the services.

6.2. Income tax on private use of company car

The use of the company car for private purposes (with no contribution paid by employee) is assimilated to a benefit in kind provided by the employer to its employees that represents a taxable event.

In case a company car is used for both business and private purposes (with no related contribution paid by employee), only the part related to the private use shall be considered being a benefit in kind.

The expenses related to the private use of company cars are treated as CIT non-deductible.

According to the Moldovan tax law, for income tax purposes, the benefit in kind for the private use of a company car is determined to be 0.0373% of the value base per each day of use. The 12% personal income tax rate is applicable on this type of benefit.

Additionally, private use of company car by employees may be subject to other payroll taxes, namely:

- Social security contributions 24% (due by employer).
- Health insurance contributions of 9% (due by employees).

6.3. Other taxes on company cars

Payment for environmental pollution is due by legal entities and individuals performing business activity that import second hand vehicles:

- 0.6% from invoice value of specific second hand vehicles used for goods transportation (i.e., 8704);
- 0.6% from invoice value of specific second hand vehicles used for transportation of more than 10 persons (i.e., 8702).

7. Income taxes – drivers' personal taxation

The drivers' remuneration payable by the company is generally subject to the same personal income tax, social security and health insurance contribution rates, as specified under point [6.2 above](#).

Generally, drivers would be subject to the same payroll tax treatment, regardless of the contractual arrangements with the company (i.e., being employed or rendering services).

Taxi drivers, employees of the taxi entities, have a special tax regime. Thus, for wages not exceeding 10,000 MDL per month they are subject to a fixed amount of 500 MDL of the income tax that should be paid by the employer on a monthly basis. The remuneration exceeding the amount of 10,000 MDL shall be taxed with a 12% personal income tax.

Additionally, the employers should pay on a monthly basis:

- 1/12 from the fixed amount of Social Security Contributions (i.e., 11,331 MDL for 2021);
- 1/12 from the fixed amount of Health Insurance Contributions (i.e., 4,056 MDL for 2021)

8. Selling a car

8.1. Taxable persons

8.1.1. VAT

In case a taxable person sells a vehicle that was and/or are subject to depreciation, VAT needs to be charged on the highest value between the balance sheet value and the market price. In addition, a VAT exemption might be applied for sale of cars listed under specific tariff headings.

8.1.2. CIT

Upon the sale of vehicles, derived income shall be taxable under the general CIT rules.

8.1.3. Withholding tax (WHT)

The following WHT rates might be applied by the Moldovan companies acquiring vehicles from private individuals:

- 12% WHT on capital gains and rental fees paid to non-residents (specific rules apply to such transactions).
- 12% WHT from rental fee paid to Moldovan resident individuals.

8.2. Private individuals

In principle, the sale of cars by individuals is not subject to VAT, unless it is performed on an on-going basis.

Upon the sale of vehicles by the individuals (Moldovan tax residents), their income would be generally deemed as capital gain, should the respective vehicles represent a private property not used previously for business activity.

The taxable income earned from the vehicle sale is therefore deemed as a capital gain, equal to 50% of the difference between the purchase and the sale price. The capital gain shall be included in the individuals' annual gross income and taxed with the standard 12 % personal income tax rate.

Specific rules apply to the transactions carried out between resident and non-resident individuals.

9. Legal background

- The law on the procedures of import and export of goods performed by individuals from Moldova
- The law on customs tariff
- The law on payments for environment pollution
- The law on the approval of the Combined Nomenclature of Goods
- The Tax and Customs Code
- Others

Netherlands



Jos Verstraten

Director Tax

p: +31 88 792 3474

e: jos.verstraten@pwc.com

Bart van der Stoep

Senior Manager Tax

p: +31 88 792 3253

e: bart.van.der.stoep@pwc.com

Netherlands

1. Car registration

1.1. When does a car need to be registered?

All vehicles making use of the Dutch public roads need to be properly registered (and insured). If the vehicle is used (driven) by a person that has its normal place of residence in the Netherlands, the vehicle needs to be registered in the Netherlands (few exceptions apply). This registration is the common taxable event for the 'private motor vehicle and motorcycle tax' (BPM, see below).

1.2. Who can register a car?

The car needs to be registered in the name of the owner or the principal user of the car, a Dutch person or legal entity. A Dutch resident, with an age of at least 18 years, can register a vehicle. The owner or user has to do this in person. The application can also be submitted by someone else on behalf of the owner or user under specific circumstances.

Car dealerships (and importers) can be accredited by the National Agency for Road Traffic (Rijksdienst voor Wegverkeer, or RDW), to register cars at the point of sale. The accredited dealership must be authorized to carry out this transaction. Importers and dealers are commonly RDW-accredited.

To have a car transferred to your name, a valid ID is needed. The potential 'holder' of the vehicle has to sign for the registration with its name.

Once a vehicle is registered with your name – or you are registered as the user of the vehicle (vehicle itself owned by fleet owner) - you will be provided a two-part vehicle registration certificate from the RDW within a couple of days.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, it is possible for a foreign owner (i.e., with a foreign nationality) to register his vehicle in the Netherlands as long as the owner is considered a resident of the Netherlands.

1.4. Can a vehicle with a foreign license plate be used on public roads?

It is allowed in the Netherlands to use the public roads with a car with foreign license plates. However, if the person who is using the car is considered a Dutch resident, he/she in principle will have to pay BPM, unless an exemption can be applied for.

In practice if a Dutch resident drives a car with foreign license plates, he/she may be able to obtain a BPM exemption authorization. This authorization can be applied for with Dutch customs if:

- the car is provided for by a foreign employer;
- the employer provides for a written statement wherein is stated that the employee will use the car mainly for business purpose (in practice this means that from the total mileage, excluding the mileage from the employee's home in the Netherlands to the workplace outside the Netherlands, more than 50% is business use outside the Netherlands);
- the foreign employer allows that the car may also be used for private purposes and by in-house family members;
- the same applies to employers (i.e., director, board members of the company that provides the car). However, these should hold a mileage administration proving the 50% criterion.

This exemption only applies to BPM – not to road tax (see below). The Dutch tax authorities have enhanced their supervision on vehicles with foreign license plates. Unless proven otherwise, the driver is in principle considered to be a Dutch resident and therefore liable to BPM and road tax.

Furthermore, it is allowed for Dutch residents to use a rental car that is registered abroad on the Dutch roads if and for so far, the car is rented abroad and is only used in the Netherlands for drop off (maximum of 14 days). In other situations (for rental cars), tax is due for the time the car is rented (so proportional).

2. Car taxation

2.1. What are the different car taxes?

In the Netherlands, the following taxes are levied in connection with the registration, sale, use or ownership of vehicles:

- Private motor vehicle and motorcycle tax, mainly called car registration tax (BPM)
- Road tax (Motorrijtuigenbelasting)
- Tax on heavy vehicles (Belasting zware motorrijtuigen)

2.2. Private motor vehicle and motorcycle tax (BPM)

2.2.1. Taxable event

Private motor vehicle and motorcycle tax (BPM) is charged on the first registration of all vehicles in the Netherlands that will be used on Dutch public roads.

In principle, the use of Dutch public roads with cars that are not registered in the Netherlands but that are used by a person or entity that is established in the Netherlands is subject to BPM as well.

In short, BPM is due when:

- a motor vehicle is registered in the Netherlands or
- a private individual or an entity that is established in the Netherlands uses Dutch public roads with an unregistered (or non-Dutch registered) motor vehicle.

2.2.2. Taxable person

The person mentioned as owner on a car's registration document is in principle responsible for paying the BPM, although (as stated above) the BPM is often levied from the importer or manufacturer of the motor vehicle (if it is registered) who will then charge it to the buyer of the vehicle.

However, in regard to the taxable event mentioned above (i.e., using a Dutch public road with non-Dutch registered car), the BPM will be levied from the person who actually is driving the car at the moment this is discovered by Dutch Customs, or alternatively from the person who actually files a BPM return.

2.2.3. Tax due

The amount of BPM due depends on the type of motor vehicle and the applicable BPM tariff. The BPM tariff for a passenger car is determined by the CO₂ emission. For a delivery van, camper van or motorcycle the BPM tariff is a percentage of the net list price. For used motor vehicles, the taxable person may choose the current or a historical BPM tariff. The historical BPM tariff is the most favourable tariff that applied from the date of first authorisation of the vehicle to the present day.

The net list price is the list price minus the VAT and BPM. The list price is the selling price recommended by the manufacturer or importer of the motor vehicle in the Netherlands.

As the 'old' levy system is still relevant for the import of used cars (i.e., to determine the depreciation), we have listed below some background on this.

2.2.4. Calculation of the BPM

The BPM used to be levied on the net list price (list price excluding VAT and BPM) of a motor vehicle. In the period from 2009 through 2013, the BPM was gradually replaced with a CO₂-based levy. As such the general BPM rate (i.e., calculated as percentage of the net list price) was reduced in five years from 40% to 0%, whereas the rate based on the absolute CO₂ emission (grams per kilometre) has increased gradually.

The calculation of BPM is entirely on the CO₂ emissions of the car or motor vehicle. From 2018, the CO₂ emission of a car is determined on the basis of the new WLPT method. An extensive research was performed on the impact of the new test method on CO₂ emissions from cars. The research shows that the CO₂ emissions of cars under this new method are on average higher.

The CO₂ amounts on which the BPM is based were adjusted downwards as of 1 July, 2020 to such an extent that the total BPM revenue will not increase as a result of the new test method. The average BPM per car is expected to remain approximately the same. However, it is possible that the BPM on some cars will increase while the BPM on other cars will decrease.

For cars whether driven by compression ignition engines or by non-compression ignition engines, the same calculation table is being used, as is reflected in the table below. However, specifically for plug-in hybrid vehicles, a separate table has been introduced as of 1 January, 2017. In 2021 only zero-emission cars are exempt from BPM.

<i>With CO₂ emissions more than</i>	<i>But not more than</i>	<i>the tax amounts to the amount mentioned in column III, added to the amount calculated in column IV, multiplied by the amount of CO₂ emission (g/km) that exceeds the amount of CO₂ emission mentioned in column I</i>	
<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
<i>0 g/km</i>	86	€ 372	€ 1
<i>86 g/km</i>	111	€ 458	€ 60
<i>111 g/km</i>	155	€ 1958	€ 132
<i>155 g/km</i>	172	€ 7.766	€ 216
<i>172 g/km</i>	–	€ 11.438	€ 432

For cars with a diesel engine, the amount calculated on the basis of the table above is increased by 83,59EUR for each g/km that exceeds 77g/km.

Per 1 January, 2021, a new calculation of BPM specifically applies to plug-in hybrid vehicles:

<i>With CO₂ emissions more than</i>	<i>But not more than</i>	<i>the tax amounts to the amount mentioned in column III, added to the amount calculated in column IV, multiplied by the amount of CO₂ emission (g/km) that exceeds the amount of CO₂ emission mentioned in column I</i>	
<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
<i>0 g/km</i>	34	€ 0	€ 24
<i>34 g/km</i>	60	€ 816	€ 84
<i>60 g/km</i>	-	€ 3.000	€ 202

From 1 January, 2025 emission-free cars will be subject to a BPM rate of 360 euros (the minimum rate). The motor vehicle tax for fuel-efficient cars and emission-free cars will be increased to 75 percent and 25 percent respectively of the regular motor vehicle tax rate.

Used vehicles

The BPM, due on used motor vehicles, is calculated with the following formula. The BPM, which would have been due on the motor vehicle in new condition, is to be reduced with a ‘depreciation’ amount.

This ‘depreciation’ amount may be calculated on the basis of the ratio of the value of the vehicle in new condition (i.e. list price) and current market value for the vehicle, which could be substantiated by a taxation report.

Alternatively, a depreciation scheme for used (imported) motor vehicles can be applied (this scheme is included in the BPM legislation). The BPM depreciation depends upon the age of the motor vehicle at the moment of registration and is calculated as follows²³:

<i>Period as from first use</i>	<i>But less than</i>	<i>But less than reduction</i>	<i>For every month passed partially or completely since the period mentioned in the first column, add the following %</i>
0 days	1 month	0%	8%
1 month	3 months	8%	3%
3 months	5 months	14%	2.5%
5 months	9 months	19%	2.25%
9 months	1 year and 6 months	28%	1.444%
1 year and 6 months	2 years and 6 months	41%	0.917%
2 years and 6 months	3 years and 6 months	52%	0.833%
3 years and 6 months	4 years and 6 months	62%	0.75%
4 years and 6 months	5 years and 6 months	71%	0.416%
5 years and 6 months	6 years and 6 months	76%	0.416%
6 years and 6 months	7 years and 6 months	81%	0.333%
7 years and 6 months	8 years and 6 months	85%	0.333%
8 years and 6 months	9 years and 6 months	89%	0.25%
9 years and 6 months		92%	0.083%

²³ Please note that the BPM rate and the reductions for motorcycles differ from cars. Also the energy label facility (see below) does not apply to motorcycles.

Under specific conditions, the BPM on delivery vans is exempted, if the user is a VAT taxable person (i.e., the so-called ondernemersregeling).

As from 2007 BPM is (partly) refundable (i.e., the so-called rest BPM) in case motor vehicles that are registered in the Netherlands after October 16, 2006 will be registered in another EU member state and thus de-registered in the Netherlands.

Motor vehicles used by emergency services (e.g., police, the fire brigade and ambulance services) or on hearses remain outside the scope of BPM. In addition, if a motor vehicle is used more than 90% as a taxi, the BPM is refunded annually over a three-year period.

As of January 1, 2020 the refund of BPM for taxis has been abolished.

2.2.5. Tax period

The BPM is due in full upon first registration or when a person established in the Netherlands uses a non-registered vehicle on the Dutch public roads for the first time.

To be complete, note that the car has to be registered in the Netherlands and thus will get Dutch license plates. It is also possible to get an “arbitrary return” by which the BPM is due but the car keeps the foreign license plates.

2.3. Road tax

2.3.1. Taxable event

Road tax (a.k.a. Motor Vehicle Tax) is due for holding a Dutch registered vehicle (including vehicles that should have been registered).

2.3.2. Taxable person

The holder of the car is the person or entity in whose name the car is registered. The tax authorities can also regard the person or entity that, more or less continuously, uses the car as the holder.

2.3.3. Tax due

The base amount of road tax due for passenger cars is amongst others based on its weight (in kilograms).

Passenger cars: 2021			
<i>Weight</i>	<i>Amount per quarter (EUR)</i>	<i>Additional per quarter (EUR)</i>	<i>For each 100 kg exceeding</i>
500 or less	17,41		
600	23,62		
700	30,02		
800	39,19		
900 – 3200	51,12	14,02	900 kg

3300 or more	384,74	9,73	3300 kg
--------------	--------	------	---------

The road tax amount is increased with an additional fuel tax for diesel cars and cars with dual fuel capacity.

Diesel 2021	
<i>Weight</i>	<i>Amount per quarter (EUR)</i>
500 or less	68,72
600	80,81
700	93,34
800	106,10
900 or more	124,16
Each additional 100 kg above 900 kg	13,45

Dual fuel use 2021	
<i>Weight</i>	<i>Amount per quarter (EUR)</i>
500 or less	80,10
600	96,01
700	111,94
800	127,83
900 or more	139,63
Each additional 100 kg above 900 kg	14,79

Delivery vans for entrepreneurs

<i>Weight</i>	<i>Amount per quarter (EUR)</i>	<i>Additional per quarter (EUR)</i>	<i>For each 100 kg exceeding</i>
500 or less	10,64		
600 up to 1000	18,22	5,33	600 kg
1100 up to 2000	44,95	5,72	1100 kg
2100 up to 2700	102,53	6,17	2100 kg

2800 or more	143,27	1,42	2800 kg
--------------	--------	------	---------

From 2021, the road tax for delivery vans for entrepreneurs will be increased annually by an average of 24 euros.

2.3.4. Regional markup on Road Tax

Each province in the Netherlands is entitled to add a percentage as a markup to the amount of road tax due, the so-called provincial surcharge. For 2021, the average markup is 83,5% (2020 81,3%). A non-resident is deemed to be resident in the province that charges the lowest markup (2021: 67,9%).

2.3.5. Road Tax exemptions

2.3.5.1. Extremely emission efficient cars

Cars with an electric motor, cars with a motor, which is fuelled exclusively by a hydrogen-based fuel cell and for cars with a combustion engine which is fuelled exclusively by hydrogen are exempted from Road Tax until January 1, 2025. For other extremely emission efficient cars a tax reduction of 50% applies until January 1, 2025.

2.3.5.2. Regional markup on Road Tax for extremely emission efficient cars

As of January 1, 2025 provinces will have the possibility to levy motor vehicle tax (provincial surcharges) on emission-free cars at half the rate of the provincial surcharges. For fuel-efficient cars (CO₂ emission of no more than 50 gram per kilometre) a maximum of 75 percent of the regular rate will apply, instead of the current 50 percent.

<i>Extremely emission efficient cars until January 1, 2025</i>	
<i>Petrol Emission</i>	<i>Road tax</i>
0 g/km	Exempt
1g/km < 50 g/km	50% reduction
➤ 50	Normal rate

2.3.5.3. Temporary exemption

Please note that during the period that your vehicle is noted as ‘suspended’ in the registration system of the RDW, you will receive no road tax invoices. When the period of disuse ends, you are once again responsible for the vehicle tax obligations. The Tax Authority/Central Administration/Vehicle Tax will then automatically send an invoice for road tax. There is no need to notify the tax authorities.

For road tax purposes there is a minimum disuse period of three months. If you terminate disuse within three months the road tax authorities will consider the disuse as not affected. This means that you must pay retrospective taxes for the entire period. For commercial vehicles with a maximum permitted weight of more than 3500kg, however, the minimum disuse period for road tax purposes is one month.

2.3.6. Taxable period

The road tax is due on a quarterly basis.

2.3.7. Road tax summary

So in practice, the amount of road tax due is the sum of the base amount (based on the weight of the car), where needed plus an additional amount for diesel and dual fuel plus the regional markup. Special rules apply for extremely emission friendly vehicles.

2.4. Tax on heavy vehicles

2.4.1. Taxable event

The tax on heavy vehicles (Belasting Zware Motorrijtuigen) is charged on the use of Dutch public motorways (expressways) by certain heavy vehicles.

2.4.2. Taxable person

The tax is charged to the holder of the vehicle. A holder in this respect is the person in whose name the vehicle is registered or, in case the vehicle is not registered or is registered in another country, the person that has the vehicle at his disposal (in the Netherlands).

2.4.3. Tax due

The tax is a fixed amount that depends on the amount of axles of the vehicle, the classification of the vehicle according to Directives 88/77/EC and 91/542/EC (with regard to how “clean” the vehicles are) and the taxable period.

2.4.4. Taxable period

The tax is paid either for the period of one year, one month, one week or one day. At the request of the taxable person, a refund of the tax on heavy vehicles can be requested if it was paid for a taxable period of a year. The refunded amount will be calculated on the basis of the number of (full) calendar months that have not passed at the moment of the refund request, minus a 25 EUR administration cost.

If the heavy vehicle is used for so-called combined transportation of goods and certain specific requirements are met, it is also possible to apply for a (partial) refund of the tax on heavy vehicles.

In certain specific cases, an exemption applies (e.g., for police vehicles, army vehicles, road construction vehicles etc.).

3. Income taxes - Businesses and Private persons

3.1. Taxable persons

For Dutch corporate income tax purposes, the applicable rate is 15% for profits up to 245.000 EUR and 25% for profits exceeding this amount for FY 2021. It is expected that for FY 2022 the threshold will be increased to 395.000 EUR and the second rate to 25,8%. The depreciation of motor vehicles and operational costs are fully deductible provided that the vehicle is used in the cause of the business as an asset. The general depreciation period of motor vehicles is in principle limited to a maximum charge of 20% per annum of the purchase value. For cars in stock different rules apply. Companies can under conditions apply for an additional deduction up to 36% of the investment costs for an environmentally friendly vehicle on top of the regular deduction.

3.2. Private persons

The private use of a company car will in principle result in a taxable fringe benefit for income tax purposes. This height of this benefit depends on the CO₂ emission of the company car and the year in which the vehicle is registered for the first time. The height of the benefit is set for 60 months starting from the first of the month following the month in which the vehicle is registered. After these 60 months period the normal rate of the year of the first registration applies.

Year of first registration: 2021

<i>CO₂ Emission</i>	<i>Taxable fringe benefit for income tax</i>
0 g/km	12% for a maximum of € 40.000* 22% for the value of the car above € 40.000
>0 g/km	22%

Year of first registration: 2020

<i>CO2 Emission</i>	<i>Taxable fringe benefit for income tax</i>
0 g/km	8% for a maximum of € 45.000 22% for the value of the car above € 45.000
>0 g/km	22%

Year of first registration: 2019

<i>CO2 Emission</i>	<i>Taxable fringe benefit for income tax</i>
0 g/km	4% for a maximum of € 50.000 22% for the value of the car above € 50.000
>0 g/km	22%

Year of first registration: 2017 or 2018

<i>CO2 Emission</i>	<i>Taxable fringe benefit for income tax</i>
0 g/km	4%
>0 g/km	22%

<i>CO2 Emission</i>	<i>Taxable fringe benefit for income tax</i>
---------------------	--

Under conditions the thresholds for the lower taxable fringe benefit rate do not apply for cars that run on hydrogen or that are fully powered by integrated solar cells. ¹

When an entrepreneur (i.e., private individual) uses his private car for business purposes, 0,19 EUR can be deducted off the profit for each business kilometre (including commuter mileage).

4. Company Car – Wage tax

The private use of a company car will in principle result in a taxable fringe benefit. This is the so-called ‘car costs fiction’. The ‘car costs fiction’ is added to the employee’s wage. The amount to be taken into account is based on the catalogue value and a fixed percentage of the catalogue value of (in principle) 22% for vehicles registered for the first time in 2017, 2018, 2019 or 2020.

The addition for the wage tax is calculated on catalogue value. For the wage tax, the official Dutch pricing list from the official dealer organization of the relevant car, including VAT and BPM, determines the catalogue value. Options and accessories are only included to the catalogue value if they are “factory ready”. The catalogue value is determined at the date the registration was issued. The price at which the car is purchased is not relevant for wage tax purposes.

The taxable fringe benefit in the wage tax is equal to the fringe benefit in the income tax.

The employer is obliged to apply the car costs fiction if a car can be used for private purposes. A fringe benefit does not exist if the private use is less than 500 kilometres per calendar year. This must be convincingly demonstrated by the employee. From a wage tax perspective, commuter mileage is considered as business use for employees (in contrary to Dutch VAT rules).

As this fringe benefit is included in the wage withholding tax, it is automatically included in the wage to be taken into account for the income tax. National insurance premiums and income-related contributions to the Health Insurance Act (Zvw) have to be paid on the private use of the company car. Employers also have to pay employee insurance premiums on the taxable fringe benefit.

5. VAT

5.1. General

Dutch VAT at the standard rate of 21% is in principle charged on most supplies of goods and/or services in the Netherlands.

5.2. Deduction

A VAT taxable person is in principle entitled to deduct all input VAT incurred on the operational costs of company cars (purchase VAT or VAT on lease installments, VAT on petrol and repair costs etc.). Based on the Dutch VAT code (Wet op de omzetbelasting 1968) and decrees by the Secretary of State, for private use and non-business use a year-end adjustment should be made based on provisions of deemed supplies (see below).

5.3. Operational lease vs finance lease

An operational lease agreement is treated as a supply of services, meaning that the lessor pays VAT on each lease installment including finance costs and under conditions excluding BPM and Road Tax.

A financial lease is treated as a supply of the motor vehicle. This means that the lessor must pay VAT at the beginning of the lease period on the full lease amount including the option price but excluding finance costs and under conditions excluding BPM and Road Tax. The lease of a car is treated as a financial lease (supply of goods) if the lease contract meets the following requirements:

- The lessee has full use of the car (apart from common restrictions, such as a prohibition for the lessee to rent out the car without the permission of the lessor).
- Operational costs, insurance costs and the risk of residual value changes or an eventual total loss of the car are to be accounted for by the lessee.
- The contract contains a purchase option which allows the lessee to purchase the motor vehicle at the end of the lease period for a fixed purchase price (it has to be reasonably obvious that the option will be exercised²⁴).
- The lessee can obtain legal ownership by paying off the remaining lease instalments (excluding finance costs) and the option purchase price during the lease period.
- The agreement cannot be ended unilaterally during the lease period (unless the lessee pays advanced instalments).

5.4. Hire purchase

Hire purchase is treated the same way as financial lease from a Dutch VAT perspective, i.e., as the supply of goods.

5.5. Private use of company cars – VAT adjustment

5.5.1. VAT due on private use of company cars

The business is entitled to deduct the VAT incurred on the purchasing costs or lease instalments of the car and the costs made in relation to the car, such as petrol and maintenance, et cetera, in full (insofar as he is entitled to deduct VAT). At the end of the calendar year or financial year, the business makes a VAT adjustment (based on the statutory provisions on deemed supplies). This adjustment is, in principle, based on the actual private use of the car (according to the State Secretary of Finance based on conclusive kilometre records).

²⁴ It is considered reasonably obvious that the call option will be executed if the option price does not exceed 10% of the residual value.

5.5.2. Commuter traffic

Commuting is considered to be private use (in contrast to Wage Tax). Travel from home to a permanent work address agreed upon in the employment contract is considered as commuting. The distance of travel (even though the journey starts from home) to clients or a building site is not considered commuting. Based on several discussions with the Ministry of Finance, it appears that in the event of incidental travel to the business address (for example, a construction worker picking up material) it should be assessed per individual case whether this is commuting and therefore considered as private use. The total number of kilometres for private use is subsequently set off against the total number of kilometres travelled in one year. This ratio multiplied by the actual costs of the car which were subject to VAT determines the amount of VAT due for private use.

5.5.3. Application of a fixed adjustment calculation percentage

If the actual private use or the actual costs are unknown (e.g., in absence of a kilometre log), a decree has allowed the adjustment to be calculated as 2.7% of the catalogue value of the car (including VAT and BPM).

However, if a business has not been able to deduct the VAT on the purchase costs of a car (for example for the purchase of a so-called margin scheme car), the following approved rule may be applied. The VAT on the car costs – such as petrol, maintenance etc. – is deductible according to the normal rules. At the end of the year a fixed adjustment is made for the amount of 1.5% of the catalogue value of the car (including VAT and BPM).

Business owners who supply both taxed and exempted goods and services are partly entitled to deduct the VAT on the costs of the car. We note that consequently also the fixed adjustment correction on the basis of the actual use should be proportionally reduced.

In case the private use of a company car only consists of commuting traffic, a special Decree can be applied for instead of the aforementioned adjustment methods. This Decree has approved the calculation of the number of (private) kilometres needed to travel to and from work with these cars based on the actual use:

1. Determining the daily distance for travelling to and from work and tallying the number of days of travel to and from work.
2. The same calculation method applies for vans with alternating drivers; whereby, for each driver the distance for travelling to and from work as well as the number of times need to be recorded.
3. Instead of tallying the number of times, it is also allowed to take 214 working days (to be reduced pro rata for part-timers) with daily travelling to and from work.

If (and because) a consideration for the use of the company car is charged or withheld, the deemed supply provisions are in principle not applicable and no VAT adjustment can be made. Without further regulations, this would mean that businesses charging or withholding a small contribution for the private use of a company car would not have to make VAT adjustments and would only need to pay VAT included in these small contributions.

In order to prevent this type of ‘abuse’, a statutory provision on the application of the open market value as the taxable amount for these transactions was introduced. This means that a business needs to examine whether the contribution for private use is high enough (the ‘open market value’). If the contribution for private use is lower than the costs for making the car available for private use, the contribution is considered to be of a ‘too low’ value and must be increased to the open market value.

In a Decree the State Secretary of Finance has stated that the Dutch Tax Authorities take the point of view that the open market value of the private use of a car (including commuting) is the same as the costs made by the business owner, including depreciation, in proportion to the private use of the car. When the actual costs or the amount of private use cannot be determined, the State Secretary of Finance has approved that businesses can calculate the ‘open market value’ on the basis of a fixed sum of 2.7 per cent of the listed value of the car (including VAT and BPM).

6. *Legal background*

- Dutch VAT legislation (Wet op de omzetbelasting 1968, BTW);
- Decree of the Dutch Secretary of State of July 11, 2012, No BLKB 2012/639M
- Dutch law on private motor vehicle and motorcycle tax (Wet op de belasting van personenauto's en motorrijwielen 1992, BPM)
- Dutch law on the tax on heavy vehicles (Wet belasting zware motorrijtuigen)
- Dutch Road Traffic Act (Wegenverkeerswet 1994)
- Dutch law on road tax (Wet op de motorrijtuigenbelasting 1994)
- Dutch law on personal income tax (Wet inkomstenbelasting 2001)
- Dutch law on corporate income tax (Wet op de vennootschapsbelasting 1969)

New Zealand



Eugen Trombitas

Partner Indirect Taxes

P: +64 9 355 8686

e: eugen.x.trombitas@pwc.com

Jason Kim

Senior Associate

P: +64 21 2583 753

e: jason.j.kim@pwc.com

New Zealand

1. Importation of cars

1.1. Customs duties

Generally, vehicles are free from customs duty in New Zealand. The exceptions to this are ambulances and motor homes, which are subject to duty at the rate of 10%. Motor vehicles for the transport of 10 or more persons (including the driver) are subject to duty at a rate of 5%.

If the value of the vehicle amounts to NZ \$1,000 or more, Customs requires that the vehicle be entered on an Import Entry. A combined transaction fee of NZ \$55.71 (GST inclusive) will be payable which encompasses both an import entry transaction fee (IETF) of NZ \$29.26 and a biosecurity levy of NZ \$26.45.

1.2. Import VAT/sales tax

Goods and Services Tax (GST) is charged on all vehicles imported into New Zealand at the current standard rate of 15%. GST is calculated on the customs value of the vehicle, plus duty (if any), plus the cost of shipping the vehicle to New Zealand (including insurance charges).

GST-registered businesses making taxable supplies in New Zealand can deduct the “import” GST paid to New Zealand Customs on Box 13 of the GST return form.

2. Car registration

2.1. When does a car need to be registered?

All vehicles driven on New Zealand roads must be registered. They must also be continuously licensed while using the road.

If a vehicle remains unlicensed for 12 months, the registration will be cancelled. If the vehicle is not registered or put ‘on hold’ during that period, the car will be removed from the official Motor Vehicle Register.

To re-register a vehicle, the vehicle must go through a thorough entry compliance inspection and be issued with new plates.

The following vehicles can be unlicensed while they’re off the road (e.g., for repairs or restoration) and do not require an exemption to remain unlicensed:

- vehicles that are not required by law to be registered or licensed; or
- vehicles that are more than 40 years old; or
- agricultural machinery, tractors and mobile machines; or
- exempt class A and B vehicles [‘A’ vehicles are pedestrian controlled goods service vehicles, motor vehicles propelled and supported solely by self-laying tracks, mobile machinery only used in road construction zones and all-terrain vehicles. ‘B’ vehicles are farm vehicles, mobile machinery and includes miscellaneous vehicles such as lawnmowers, tractors and forklifts.]; or trailers and trailer-type caravans having a gross laden weight not exceeding 3,500kgs; or
- all-terrain vehicles.

However, if these vehicles remain unlicensed for one year, their registrations will be cancelled.

Heavy vehicles, passenger service vehicles and rental vehicles are subject to the CoF regime. These vehicles will have their registrations cancelled if they remain unlicensed for two years.

2.2. Who can register a car?

An application for registration of a vehicle must be made by, or on behalf of, the owner of the vehicle.

To register a vehicle a person must be:

- A natural person of or over 15 years of age; or
- A body corporate; or
- An agent of the Executive Government of New Zealand.

Only one person may be registered in respect of a motor vehicle at any one time.

When a vehicle is sold, and the registration is unexpired, the seller is responsible for completing a 'Change of Ownership form' to transfer the registration to the new owner.

2.3. Is it allowed for a foreign owner to register his vehicle in your country?

A foreign owner is able to register a vehicle in New Zealand provided they meet the criteria set out in 2.2.

2.4. Is it allowed to use a vehicle on the public road with foreign license plates?

Only New Zealand license plates can be used on New Zealand public roads.

3. Car taxation

3.1. What are the different car/vehicle taxes?

Registration of the vehicle – Registration is a one-off process that recognizes the person legally responsible for the vehicle. Upon registration a vehicle is added to the Motor Vehicle Register and is issued with registration plates. A certificate of registration is also sent to the person registered as the owner.

Relicensing your vehicle – This involves payment of a fee to use a vehicle on public roads, and must be paid at least annually. All vehicles used on public roads must be licensed continuously and must display a current license label on the windscreen.

Anyone not using their motor vehicle on the road for a continuous period of at least 3 months should apply for an exemption. Exemptions must be applied for in advance either online or by filling out an exemption application form (MR 24). When the exemption expires, you will need to either relicense the motor vehicle or apply for another exemption.

Warrant of Fitness/Certificate of Fitness – All vehicles driven on New Zealand roads must have a current warrant of fitness (WoF) or certificate of fitness (CoF). A WoF is a regular vehicle check that ensures a vehicle meets required safety standards. From January 1, 2014, all vehicles first registered on or after January 1, 2000 are now subject to annual WoF inspections for the lifetime of the vehicle and those registered before will remain on six-monthly WoF inspections for the lifetime of the vehicle. After an initial inspection, new vehicles will not require another WoF inspection until the third anniversary of their first registration.

A CoF is required by heavy vehicles (trucks, large trailers, motor homes), all passenger service vehicles (taxis, shuttles, buses) and rental vehicles. These vehicles are required to be inspected every 6 months.

Fuel – Vehicles that run on petrol, LPG or CNG pay duties that are included in the price of fuel. Vehicles that do not run on petrol are taxed through the Road User Charge regime.

Road user charges (RUC) – If a vehicle is over 3,500kg or uses diesel, or other fuel that is not taxed on sale, road user charges are payable.

To pay these charges, a RUC license must be purchased based on the vehicle type and weight. For most diesel cars a distance license would be purchased. This license is purchased in 1,000 km units and a new license must be purchased before the distance covered by the previous license has been driven. Current Road user charges can be found at <http://www.nzta.govt.nz/vehicles/licensing-rego/road-user-charges/ruc-rates-and-transaction-fees>.

A motor vehicle is exempt from RUC if it:

- is an electric vehicle. Light electric vehicles are exempt until 30 December 2021 while heavy electric vehicles are exempt until 31 December 2025.
- belongs to a class of vehicles whose purpose or design means it is unsuitable for regular road use (e.g. tractors, forklifts, and bulldozers).
- a light diesel vehicle (3,500kg or less) that is used almost exclusively off-road for a certain purpose.

Typically, GST is included in all of the charges mentioned above.

3.2. Registration charges of the vehicle

3.2.1. Taxable event

As outlined in section 3.1 the taxable event upon registration of a vehicle is the payment of the registration fee (and also includes either a 6-month or 12-month vehicle licensing fee). This is a cost imposed on a vehicle owner.

3.2.2. Taxable person

The taxable person is the registered owner of the vehicle or the person purchasing the registration on behalf of the registered owner.

3.2.3. Tax due

In the past, ACC levies were incorporated into registration costs, regardless of the type of vehicle. From July 1, 2016, levies are based on how the vehicle protects the passengers and others on the road if it is involved in a crash.

Most light passenger motor vehicles registered in New Zealand will be assigned to a levy band between the numbers 1 to 4, with 1 signifying a vehicle with the most injury risk and 4 signifying a vehicle with the least. The rating system applies to all registered vehicles, including cars, passenger vans, utes and SUVs that are:

- Classified as a passenger vehicle by NZTA,
- Lighter than 3,500kg, and
- Less than 40 years old.

To find out what band applies to your vehicle you can either:

- Go to <https://shapeyouracc.co.nz/assets/uploads/documents/motor-vehicle-licence-rego-levy.pdf> to look up your make, model and year of manufacture; or
- Go to www.rightcar.govt.nz and enter your car plate number.

The current registration fees and applicable ACC levies are:

Registration of motor vehicle (issued with standard plates, but does not include ACC levy)		6 months	12 months
<i>Private passenger</i>	1301–2600cc	\$203.32	\$255.75
	2601–4000cc	\$234.37	\$286.80
<i>License ACC levies</i>		<i>Petrol driven</i>	<i>Non-petrol driven</i>
Levy		\$46.04	\$104.65
Registration of motor vehicle (issued with standard plates, and includes first vehicle license and ACC levy)		6 months	12 months
<i>Trailer</i>			
Other (standard) goods	0 – 3500kg GVM	\$84.46	\$98.55
<i>Motorcycle</i>			
Private passenger	Petrol driven – 0 - 60cc incl	\$243.49	\$438.43
	Petrol driven – 61cc – 600cc incl	\$271.09	\$471.78
	Petrol driven – 601cc and over	\$328.16	\$585.94
<i>Moped</i>			
Private passenger	Petrol driven	\$128.36	\$208.18

3.2.4. Tax period

The tax period is each time a vehicle is registered or re-registered.

3.3. Vehicle licensing charges

3.3.1. Taxable event

As outlined in section 3.1 the taxable event for a vehicle is the payment of the license fee for a vehicle. This is a cost imposed on a vehicle owner.

3.3.2. Taxable person

The taxable person is the purchaser of the vehicle license.

3.3.3. Tax due

The current licensing fees are:

Motor vehicle type/usage	3 months	6 months	12 months
<i>Passenger car – including ACC levy and online administration fee</i>			
Private passenger vehicle (petrol driven)	\$30.56	\$56.73	\$109.16
Taxi or rental vehicle (petrol driven)	\$44.98	\$85.62	\$166.92

The following table includes the ACC levy, and the online administration fee.

Motor vehicle type/usage		3 months	6 months	12 months
<i>Trailer</i>				
Less than 3500kg		\$11.34	\$18.39	\$32.48
<i>Motorcycle</i>				
Petrol driven – 0 – 60cc incl		\$101.80	\$199.27	\$394.21
Petrol driven – 61 – 600cc incl		\$104.67	\$205.02	\$405.71
Petrol driven – 601cc and over		\$133.20	\$262.09	\$519.87
<i>Moped</i>				
Petrol driven		\$44.22	\$84.14	\$163.96
<i>Goods truck/van/utility</i>				
Private Passenger	Petrol driven – 0 – 3500kg	\$35.18	\$65.99	\$127.67
	Petrol driven – 3501 – 6000kg GVM	\$82.17	\$159.96	\$315.60
	Non-petrol driven – 0 – 3500kg GVM	\$52.02	\$99.70	\$195.08
	Non-petrol driven – 3501 – 6000kg GVM	\$87.21	\$170.07	\$335.82
Transport licensed goods	Petrol driven – 6000 – 12000kg GVM	\$96.21	\$188.08	\$371.82
	Non-petrol driven – 6000 – 12000kg GVM	\$101.25	\$198.18	\$392.04
Other (standard) goods	Petrol driven – 0 – 3500kg GVM	\$35.18	\$65.99	\$127.67

Petrol driven – 3501 – 6000kg GVM	\$82.17	\$159.96	\$315.60
Non-petrol driven – 0 – 3500kg GVM	\$52.02	\$99.70	\$315.60
Non-petrol driven – 3501 – 6000kg GVM	\$87.21	\$170.07	\$335.82

3.3.4. Tax period

The tax period is each time a vehicle is licensed. A vehicle can be licensed for 3 months, 6 months or 12 months.

3.4. Warrant of Fitness (WoF)/Certificate of Fitness (CoF) cost for a vehicle

The reference to WoF in this section also applies to a CoF.

3.4.1. Taxable event

As outlined in section 3.1 the taxable event for a vehicle is the purchase of the WoF test. The WoF test is the inspection of the vehicle to ensure it meets road safety standards. If the vehicle passes the inspection a current WoF is issued. If the vehicle fails the WoF test, areas requiring attention must be fixed. A re-check is free of charge as long as the vehicle is returned to the inspector within 28 days. If the vehicle is not re-checked within the 28-day period, a new WoF test must be purchased. If a vehicle fails its WoF test and the previous WoF has expired, the vehicle cannot be driven on the road unless it is being driven to get repaired or to undertake a new WoF test. This is a cost imposed on the vehicle owner.

3.4.2. Taxable person

The taxable person is the purchaser of the WoF.

3.4.3. Tax due

The price of a WoF varies depending on where the vehicle test is carried out. Vehicle mechanics are able to carry out WoF tests and there are independent testing stations (e.g. Vehicle Testing New Zealand, Automobile Association) in New Zealand that specialize in WoF tests. The price of a WoF is around NZ \$50 for a car, van or light truck and around NZ \$35 for a trailer or motorcycle.

3.4.4. Tax period

From January 1, 2014, all vehicles first registered on or after January 1, 2000 are on annual WoF inspections for the lifetime of the vehicle.

This is subject to the following:

- After an initial inspection, new vehicles do not require another WoF inspection until the third anniversary of their first registration
- Vehicles which are less than three years old are issued a WoF that expires on the third anniversary of their first registration or 12 months after their current WoF expiry – whichever is longest
- Vehicles first registered on or after January 1, 2000 are inspected annually for the lifetime of the vehicle

- Vehicles first registered before January 1, 2000 remain on six-monthly WoF inspections for the lifetime of the vehicle

3.5. Tax on fuel

3.5.1. Taxable event

As outlined in section 3.1 the taxable event for a vehicle is the purchase of petrol, LPG or CNG.

3.5.2. Taxable person

The taxable person is the purchaser of the fuel. The taxes are included in the retail price of fuel.

3.5.3. Tax due

The duties, taxes and levies that are implemented on motor vehicle fuels comprise of national taxes, an accident compensation corporation (ACC) levy, a petroleum or engine fuel monitoring levy and a local authority fuel tax. The petroleum or engine fuel monitoring levy makes up 0.045c of the levies as set out in the Energy (Petroleum or Engine Fuel Monitoring Levy) Amendment Act 2015.

GST is also charged on the price of fuel.

This table sets out the duties and taxes payable on the different sources of fuel (note that GST of 15% will be imposed on top of these duties and taxes payable). The values are correct as of 1 July 2020.

	Unleaded 91 Petrol	Unleaded 95 Petrol	Petrol/ Ethanol Blends	Automoti ve Diesel	Bio- diesel	Metha- nol	LPG
National Land Transport Fund	70.024	70.024	-	-	-	-	10.4
Methanol Excise Duty	-	-	-	-	-	30.2	-
ACC Levy	6	6	6	-	-	-	-
Petroleum or Engine Fuel Monitoring Levy	0.59	0.59	0.59	0.59	0.59	-	-
Local Authorities Fuel Tax	0.66	0.66	0.66	0.33	0.33	0.66	-
Auckland Regional Fuel Tax	-	10	10	10	10	-	-
Totals	77.094	77.094	7.07	0.74	0.74	30.86	10.4

Notes

- Petrol/ethanol blends have an excise of 66.524 cents per liter, only on the petrol portion of the fuel.
- The National Land Transport Fund tax is a duty levied under the Customs and Excise Act 2018. The revenue from this tax goes towards the National Land Transport Fund which is administered by the New Zealand Transport agency.

-
- Diesel is not subject to National Land Transport Fund tax because diesel vehicles are subject to road user taxes, which go toward the National Land Transport Fund.
 - All taxes and levies are in NZ cents per liter.

3.5.4. Tax period

The tax period is each time fuel is purchased by a vehicle owner or on behalf of the owner.

3.6. Road User Charges (RUC)

3.6.1. Taxable event

As outlined in section 3.1 the taxable event for a vehicle is the purchase of a RUC license. This is a cost imposed on a vehicle owner.

3.6.2. Taxable person

The taxable person is the purchaser of the RUC license.

3.6.3. Tax due

Details of current road user charges are available at: <https://www.nzta.govt.nz/vehicles/licensing-rego/road-user-charges/ruc-rates-and-transaction-fees/>

3.6.4. Tax period

The tax period is each time a RUC license is purchased by a vehicle owner or on behalf of the owner. As RUC licenses are current for a number of kilometres rather than a period of time the tax period will vary between vehicle users.

4. Income taxes – Taxable persons

4.1. Level of deduction of car related expenses

A full tax deduction is available to businesses for car related expenditure (such as interest, lease costs, fuel costs) and an amount of depreciation loss incurred in operating a motor vehicle.

Self-employed taxpayers using a car partially for business and partially for other purposes are required to maintain either:

- Complete and accurate records of the reasons for and distance of journeys undertaken for business purposes; or
- A motor vehicle logbook for a 90-day test period every three years to establish a business mileage pattern. Where no records or logbook are maintained, the tax deduction is limited to the lesser of the percentage of the actual business use or 25% of the total operating expenditure and depreciation.

5. Goods and Services Tax (GST)

5.1. General-rate – Deduction rules

GST is charged on supplies made in New Zealand, in the course or furtherance of a taxable activity. Generally, GST is imposed on supplies of goods and services at the standard rate of 15%.

GST-registered persons making taxable supplies can claim an input tax deduction for GST costs incurred on goods and services which will be used or available for use in making taxable supplies.

From April 1, 2014 non-resident businesses who do not make any taxable supplies in New Zealand may register and recover GST costs incurred in New Zealand.

5.2. Deduction

An input tax deduction cannot be made in respect of GST charged unless there is a “tax invoice” from the supplier meeting the requirements set out below. No invoice is required where the charge is NZ \$50.00 (GST inclusive) or less.

A “tax invoice” for amounts of more than \$50.00 must show all of the following:

-
- The words “tax invoice” in a prominent place;
 - The supplier’s name and GST registration number;
 - The recipient’s name and address;
 - The date when the tax invoice was issued;
 - A description of the goods and services supplied;
 - The quantity or volume of the goods and services supplied;
 - All amounts must be expressed in terms of New Zealand currency as at the time of supply;
 - Either:
 - The GST exclusive price of the supply, the amount of GST charged, and the total price charged for the supply inclusive of GST; or
 - The total price charged for the supply inclusive of GST plus a statement that the total includes GST.

A “tax invoice” for amounts of between \$50 and \$1,000 does not need to include the name and address of the recipient. A “second-hand goods” input tax deduction is available to a GST-registered person who acquires “second-hand goods” (e.g. a second-hand car) from a non-GST-registered supplier. The deduction is available to the extent to which the second-hand goods will be used to make taxable supplies. The deduction is only available to the extent that payment has been made.

5.3. Hire-purchase: supply of goods?

For GST purposes in New Zealand, a hire purchase agreement includes:

- An agreement that provides that the payer will own the goods once he or she has made the specified instalment payments, or
- An agreement where goods are hired with the option to purchase.

There are special time of supply rules that apply to any vehicle supplied under a hire purchase agreement. The GST Act deems the vehicle to be supplied at the time that the agreement is entered into.

Output tax must be accounted for at the time the agreement was entered into and input tax can be reclaimed (subject to the tax invoice requirements, as discussed above). Therefore, if the vendor is selling to a GST-registered recipient, they should issue the recipient with a tax invoice at the time the agreement is entered into.

The GST amount is calculated on the higher of the “cash price” or the market value. The cash price is the lowest price at which a person could have purchased the vehicle from the vendor on the basis of payment in full at the time the contract was made.

5.4. Leasing: Supply of services?

For GST purposes in New Zealand, the lease of a car is a supply of goods. GST is payable periodically, at the earliest of when any rental payment is due or payable.

If the lease is a “credit contract”, GST is payable on the principal amount only. Any imputed interest component of a credit contract is not subject to GST.

6. Company car

6.1. GST due on private use of company car

The GST due on the private use of a company car is paid via the Fringe Benefit Tax (FBT) Return. The GST will be paid under the following two categories:

-
- If no contribution to the private use is made by the person using the car, any GST due on the private use of the vehicle will be included in the FBT Return;
 - If a contribution has been made towards the private use, this is included in the GST return. This contribution will reduce the FBT value of the vehicle recorded in the FBT return.

In the event that the vehicle is owned by a sole trader, input tax can be claimed upfront on the extent of the taxable use. Annual adjustments should then be made to reflect any non-taxable use.

6.2. Company car in the personal tax return – Benefit in kind

In principle, when an employer puts a company car at the disposal of an employee and the employee uses the company car for business and private purposes, tax on the value of the private use is payable.

If the employee pays no contribution to the employer for the private use of the car, they are provided with a benefit. The employer will be subject to fringe benefit tax (FBT) when a company vehicle is made available to an employee or shareholder/employee for private use (not based on actual private usage). The value of fringe benefits provided is not included in the gross income of employees.

The taxable value of the benefit in relation to cars can be calculated in two ways:

- The vehicle can be valued on an annual basis at 20% of the cost price, where the vehicle is owned by the employer, or market value (GST inclusive) of the vehicle where the vehicle is leased by the employer; or
- 36% of the vehicle's tax written down value (GST inclusive).

In each case, the FBT value is reduced proportionately for whole days when the vehicle is not available for private use at any time.

6.3. Other taxes on company cars

None.

7. Income taxes – Drivers' personal taxation

7.1. Private car in the personal tax return

7.1.1. Private use

The costs of using private cars are not deductible unless they have been used in deriving gross income (excluding employment income).

7.1.2. Commuter traffic

Commuter traffic costs would generally not be included in a personal tax return. Commuter traffic costs could only be claimed if they were in relation to a business purpose in which case they would either be paid by a business or personal costs would be reimbursed by a business.

7.1.3. Business kilometres

Business kilometres would not generally be included in a private tax return. Business kilometres could only be claimed when they are incurred for business purposes, therefore when a private car is used by an employee for business purposes, a business would usually reimburse the employee for the kilometres relating to business use.

An employee can be reimbursed using actual costs or by using a mileage rate. To reimburse on actual costs accurate records must be kept of the work-related and private costs.

This table indicates the prescribed mileage rates for an employee's vehicle.

Vehicle Type	Tier One Rate	Tier Two Rate
Petrol or Diesel	79 cents	27 cents
Petrol Hybrid	79 cents	16 cents
Electric	79 cents	9 cents

The Tier One Rate is a combination of the employee's vehicle's fixed and running costs. The Tier One Rate is used for the business portion of the first 14,000 kilometres travelled by the vehicle in a year. This includes private use travel.

The Tier Two Rate is for running costs only. The Tier Two Rate is used for the business portion of any travel over 14,000 kilometres per year.

Employees will need a record showing their business-related use of the vehicle over the income year, such as a logbook. This will be used to calculate the exempt portion of reimbursement using the set kilometre rates.

In the absence of such a record, the use of the Tier One Rates will be limited to the first 3,500 business kilometres. The Tier Two Rates may be used for the kilometres travelled for employment purposes above the 3,500 kilometre threshold.

A reimbursement is exempt from income tax "to the extent to which it reimburses the employee for expenditure for which the employee would be allowed a deduction if the employment limitation did not exist".

8. Selling cars

8.1. Taxable persons

GST-registered persons must charge GST on the sale price of the vehicle.

Vehicles exported from New Zealand within 28 days of the time of supply are zero-rated for GST purposes.

8.2. Private persons

In New Zealand private persons selling a vehicle do not need to charge GST on the sale.

9. Future developments

9.1. Emissions Trading Scheme

New Zealand has a large vehicle import industry, predominantly for Japanese vehicles. New emission standards, which came into force at the start of 2012 will prevent most Japanese cars manufactured before 2005 from being imported.

10. Legal background

- Land Transport Act 1998
- Income Tax Act 2007
- Energy (Fuels, Levies and References) Act 1989
- Energy (Fuels, Levies and References) Amendment Act 2015
- Goods and Services Tax Act 1985
- Customs and Excise Act 2018
- Road User Charges (Rates) Regulations 2013

Norway



Yngvar E. Solheim

Automotive Tax Leader

p: +47 95 26 06 57

e: yngvar.solheim@pwc.com

Lars Flatåker

Director Indirect Taxes VAT/Car taxes

p: +47 95 26 05 25

e: lars.flataaker@pwc.com

Per Einar Lunde

Manager Global Mobility/Personal taxation

p: +47 95 26 04 05

e: per.einar.lunde@pwc.com

Norway

1. Car registration

1.1. When does a car need to be registered?

At the moment a vehicle is put into free circulation on Norwegian public roads, the vehicle should be registered. Also, in the case a vehicle changes owner and is intended to be used on Norwegian public roads, a re-registration for the vehicle needs to be requested.

1.2. Who can register a car?

Both private persons and legal entities.

In principle it is the owner of the vehicle who is obliged to register the vehicle. The owner of the vehicle must provide evidence of identity before the registration can be completed. Private persons must provide a valid passport, driving license or other identification issued by public authorities. Companies and other legal entities must provide a certificate of business registration in Norway. The owner of the car will also have to provide a confirmation of payment of car insurance and of road traffic insurance tax before the registration can be completed.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, both foreign private persons and foreign taxable persons should be able to register a vehicle in Norway.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Yes. Before a foreign-registered car can be used in Norway, certain conditions must be met. The rules governing duty-free importation and temporary use are provided in the “Regulation relating to duty-free importation and temporary use of foreign-registered motor vehicles in Norway”. The regulation also applies to foreign-registered trailers and caravans.

The principal rule is that a foreign-registered motor vehicle may be used by a person who is permanently resident outside Norway or is going to stay temporarily in Norway. Such motor vehicles may not be used for commercial transport in Norway.

Temporary stay in Norway

Persons who commute between Norway and another country or who are resident in Norway temporarily may use foreign-registered motor vehicles for up to 12 months without a driving permit. If the stay is extended up to two years, he must apply for a driving permit. This applies to those who commute to work in Norway from abroad. The conditions are that the person either commutes daily or stays abroad for at least 185 days during 12 months. The person must not have a spouse or a child aged 17 or less who is resident in Norway.

If, when entering Norway, a person will stay more than one year, but can document that the stay in Norway will not exceed two years, it is possible to apply to the Tax Office for permission to drive a foreign-registered vehicle for up to two years.

Examples of documents that can be relevant are:

- Employment contract
- Documentation of admission to a study program
- Spouse's or another family member's documentation on the length of the stay
- Papers showing that you will return to work in a different country than Norway
- Documentation that you are renting out your own home in a different country than Norway.

The documents must be limited in time to one or two years counted from your date of arrival. If you have entered into an employment contract that includes agreement on a trial period, the trial period does not qualify as documentation of a temporary stay.

Permanently resident abroad

Persons who are not staying temporarily in Norway according to the above but have a spouse or a child aged under 18 who are permanently resident abroad may also use foreign-registered motor vehicles in Norway. The condition is that he regularly visits the spouse or child abroad, normally at least once a month. A further requirement is that the person has a common domicile with the persons abroad.

Examples of documents that can be relevant are:

- Documentation of family ties
- Employment contract
- Residential connection (e.g. rental agreement) or registration in the population registry
- Documentation of commuting between Norway and a different country

If the person satisfies the conditions for either staying temporarily in Norway or being permanently resident abroad, he will not have to apply to the local Tax Office for a driving permit. He should keep relevant documentation in the vehicle showing that he satisfies the conditions

In addition, it is possible for a person who is permanently resident in Norway to import and drive a foreign registered rental car, -borrowed car or -company car. Such use of a foreign registered vehicle is condition upon notification/application to the local Tax Office, and there are various detailed criteria that have to be met.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Norway, the following car taxes become due, namely:

- Registration tax (Engangsavgift),
- Traffic Insurance Tax (trafikkforsikringsavgift) and
- Toll fees (where applicable)
- Greenhouse gas tax (on greenhouse gases in air-conditioning systems)

2.2. Registration tax

2.2.1. Taxable event

The registration tax must be paid in advance to the Tax authorities. When payment has been received, the Tax authorities will issue the vehicle registration document which the person who has paid the tax must present to the district office of the Norwegian Public Roads Administration (NPRA) when registering the vehicle.

2.2.2. Taxable person

The person who registers the vehicle is responsible for ensuring that the correct tax has been paid.

2.2.3. Tax due

One-off registration tax is computed based upon the tax group, unladen weight, CO₂- and NO_x emissions, as well as for some vehicles, cylinder volume. A tax calculator for use when importing a car can be found on www.skatteetaten.no. When the vehicle has been registered, this information will be transferred from the Central Motor Vehicles Register to the Tax Authorities data system. Here, a check will be made to ensure that the tax paid has been calculated on the correct basis. In general, the excise duties on vehicles are quite high in Norway. A vehicle that is only powered by electric motor(s) is exempted from the registration tax.

2.2.4. Tax period

The payment is linked to each registration.

2.3. Road Traffic Insurance Tax

2.3.1. Taxable event

All mandatory Car Liability Insurance Policies are subject to the Road Traffic Insurance Tax. The obligation to pay the tax arises when an insurance policy has been issued in respect of a certain car. The insurance tax becomes a part of the insurance company's cost and is on-charged to the holder of the insurance policy.

There is also an annual car tax for vehicles weighing 7,500 kg and up.

2.3.2. Taxable person

The company that issues a Car Liability Insurance Policy for a certain car is the taxable person.

2.3.3. Tax due

Per 1 March 2021, the tax for petrol vehicles and modern diesel vehicles with net weight below 7,500 kg is 8,40 NOK per day (3,066 NOK annually). For diesel vehicles weighing less than 7,500 kg without a factory installed particle filter, the tax is 9.80 NOK per day (3,577 NOK annually).

Electric cars are no longer exempt from road traffic insurance tax. The exemption ended 1 March 2021. The tax for electric vehicles is 5,54 NOK per day (2,022 NOK annually).

The annual car tax for vehicles weighing 7,500 kg and up ranges from 500 to 20,000 NOK, depending on the size of the car and level of emissions.

2.3.4. Tax period

The tax period for cars that weigh less than 7,500 kg is one quarter of a year (1 January to 30 March, and so forth). The tax is calculated per day that the motor vehicle has been covered by liability insurance and will be charged out by the insurance company that is responsible for the car's obligatory car liability insurance.

The annual car tax for heavy vehicles is charged out automatically based on the vehicle registration registry and falls due 20 February and 20 August.

2.4. Toll fees

There are a large number of toll roads in Norway. The fees vary; on the major toll roads the fee is normally between 20 NOK and 40 NOK for a light vehicle, while other projects have substantially higher fees.

3. Income taxes – Taxable persons

Costs related to company cars are in principle deductible for the company (i.e., fuel, insurance, maintenance, etc.).

4. VAT

4.1. General

The standard Norwegian VAT rate is 25%. This VAT rate applies to unused motor vehicles.

Electric cars are zero-rated for VAT purposes. Hybrid cars that run on fuel and electricity are not encompassed by the exemption. Sales of such cars are VAT-liable at 25% VAT.

Previously registered motor vehicles are zero rated for VAT purposes.

4.2. Deduction

VAT on costs related to passenger vehicles and certain specific vans (Varebil klasse 1) is not deductible. VAT on costs such as maintenance, petrol, parking, etc., related to the use of these vehicles will thus not be deductible.

VAT on costs related to specific vans (Varebil klasse 2, i.e., vehicles with green number plates) and larger vehicles is deductible for companies that perform VAT-liable activities, provided that the vehicle is used in connection with performing the VAT-liable activities.

VAT on vehicles used as sales goods, rental vehicles in a commercial rental activity, or as means for passenger transport in return for a consideration in a passenger transport business, is deductible.

Input VAT deducted on passenger vehicles for use in leasing activities or for use in passenger transport shall be reversed if the vehicle is sold or reallocated to non-deductible use during the first four years following the registration of the car. The reversal amount shall be reduced by 1/30 for each whole month the first year and then 1/60 for each whole month the following three years from the date of registration.

5. Company car

5.1. VAT due on private use of company cars

Due to the fact that, from a Norwegian VAT point of view, no input VAT deduction is allowed, no VAT is due for the private use of a company car by the employee.

5.2. Taxable benefit

The taxable benefit in respect of a vehicle provided by the employer in the year 2021, is fixed to 30% based on the listed price of the car as new, up to 325,400 NOK. For any amount of the listed price exceeding 325,400 NOK, the taxable benefit rate is 20%.

The basis for calculation is reduced to 75% of the listed price if

- the car is older than three years as of January 1 of the income year or
- business kilometers exceed 40,000km in the income year.

If the car (not electric) is older than three years as of January 1 of the income year and the car is used more than 40,000km in business travel, the basis for calculation is 56.25% of the listed price. This demands an installed and correct used electronic drivers log (i.e. GPS tracking) which must also be possible to administrate by the employer.

For electric cars, the basis for calculation is 60% of the listed price, reduced to 45% if the electric car is older than three years as of January 1 of the income year.

For company cars in tax class 2 (delivery trucks with no back seats) a deduction of the list price is applicable before calculating the benefit according to the 30 and 20 % system mentioned above. The deduction is 50 % of the listed price but maximum 150,000 NOK. The deduction cannot be combined with the deductions available for old cars, business driving above 40,000 km or electric vehicles. For the tax class 2 cars it is also an option to state the benefit similar to actual driven kilometers private with a certain rate, for 2020 3.40 per km. This demands an installed and correct electronic drivers log (i.e. GPS tracking) which must also be possible to administrate by the employer.

The taxable benefit is calculated on a monthly basis (for each commenced month the vehicle has been available at the employee's disposal).

The calculated taxable benefit includes all private use, including commuter traffic, see below.

Example 1: Private use of vehicles provided by the employer in 2021.

The vehicle was first registered in 2016 with a listed price of 554,000 NOK.

The basis of calculation is 554,000 NOK × 75% (older than three years) = 415,500 NOK and the vehicle has been put to the employee's disposal for 12 months. The benefit is calculated to be:

97,620 NOK (30% of 325,400 NOK) + 18,020 NOK (20% of 415,500 NOK – 325,400 NOK) = 115 640 NOK

Example 2: Private use of vehicle in tax class 2 provided by the employer in 2021.

The vehicle was registered for the first time in 2016 with a listed price of 554,000 NOK. The car is driven 45,000 km and 25,000 of these are private driving. The vehicle has been put to the employee's disposal for 12 months.

The benefit is calculated to be:

Alternative 1: An electronic tracking is in place. $20,000 \text{ NOK} \times 3.40 \text{ per km} = 68,000 \text{ NOK}$ (benefit).

Alternative 2: The basis for calculation is $554,000 - 150,000(\text{max}) = 404,000$. $97,620 \text{ NOK}$ (30% of 325,400 NOK) + $15,720 \text{ NOK}$ (20% of $404,000 \text{ NOK} - 325,400 \text{ NOK}$) = $113,340 \text{ NOK}$ (benefit). The benefit could also be calculated according to example 1 above when beneficial, and an electronic tracking is in place.

6. *Income taxes – Drivers' personal taxation*

If the employee is commuting between home and work, he can claim an income deduction of 1.56 NOK per kilometer for the first 50,000 kilometers and 0.76 NOK for the next 25,000 kilometers. However, a deduction will not be granted for the first 23,900 NOK(2021). The deduction may be claimed by the employee, regardless of transportation method.

If an individual is using a private vehicle for business, he can receive a non- taxable allowance for this driving. The rate is 3.50 NOK per kilometer and there is no limited distance.

If the employee does not receive any allowance for the business kilometers, he can claim a deduction according to the above-mentioned rates, provided the driving is made plausible to the tax authorities (e.g., by keeping a travel log).

7. *Electric vehicles*

See specific evaluation of taxable benefit in kind for employees under section 5.2. Electric vehicles are exempt of Registration Tax and VAT, please refer to section 2.2.3 and 4.1. In terms of the Traffic Insurance Tax, a reduced rate applies to electric vehicles. Please note that the previous exemption for Traffic Insurance Tax for electric vehicles was abolished from 1 March, 2021. Please refer to section 2.3.3.

8. *Future developments*

No major amendments to the legislation regarding car taxation are currently proposed. However, the Government has indicated that it is considering imposing VAT on electric vehicles with a value of over 600,000 NOK. The intention is to impose VAT on the part of the sales price exceeding the NOK 600,000 threshold.

Thus, an electric car with a value of 599,999 NOK will be subject to VAT zero rate, while an electric car with a value of 700,000 NOK will be subject to VAT on the 100,000 NOK exceeding the 600,000 NOK threshold.

9. *Legal background*

- General Tax Code
- Road Code

Poland



Michal Zwyrtek

Automotive Tax Director

p: +48 502 18 4848

e: michal.zwyrtek@pwc.com

Katarzyna Lipa

TRS Manager

p: +48 519 507 986

e: katarzyna.lipa@pwc.com

Poland

1. Car registration

1.1. When does a car need to be registered?

In general, a car needs to be registered before it is admitted into free circulation on Polish public roads. Moreover, in cases where a vehicle's owner changes and a vehicle is intended to be used on the Polish public roads, a new application for registration of this vehicle needs to be submitted to the proper local authorities.

From January 2020, the deadline for submitting the registration application is 30 days after the car is acquired. Failure to comply with this obligation is punishable by a fine up to PLN 1 000. Please note that the seller of the car also has to inform the authorities about the transaction.

Additionally, Polish law provides for special regulations concerning a situation when the vehicle registered abroad is purchased by a Polish resident and delivered to the territory of Poland (see section 1.4). Please note that in order to register such a car inter alia the confirmation of excise duty payment (for passenger vehicles) is required.

1.2. Who can register a car?

The registration is performed upon the request of:

- the legal owner of the car;
- the Polish user of the car – in cases where a foreign entity put the vehicle at the Polish user's disposal (e.g., upon the lease or rental agreement);
- the plant or separate business unit manager authorized by the owner – in cases where the vehicle is owned by a multi-plant firm or other entity which consists of separate business units.

Such a request should be submitted to the proper local authorities.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, it is allowed. Polish provisions do not specify any special conditions to be met in order to register a vehicle by a foreign owner. However, there may be some difficulties concerning the determination of the proper local authorities in Poland.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Yes, provided that:

1. the vehicle meets certain technical conditions;
2. the vehicle has number plates with Latin letters and Arabic numbers;
3. the user of this vehicle possesses a document confirming registration of the vehicle in a foreign country;
4. the vehicle should have a symbol showing the country in which it is registered.

Vehicle imported from the territory of a non-Member of the European Union, after the release of the vehicle by the Customs Service is approved for use for a period of 30 days.

However, in cases where a vehicle registered abroad was purchased by a Polish resident and delivered to the territory of Poland, such a vehicle should be registered in Poland within 30 days after the delivery and foreign number plates should then be replaced by the Polish ones.

2. Car taxation

2.1. What are the different car taxes/fees?

According to the Polish law, the following taxes/fees are due with regard to cars:

- Value-added tax (VAT);
- Excise duty on passenger cars supplied before their first registration in Poland;
- Car registration fees;
- Tax on transportation means;
- Fee for using the national roads.

Please bear in mind that car taxation may vary as far as electric vehicles are concerned. For detailed information on taxation of electric vehicles please see section 7.

2.2. Value-added tax (VAT)

For detailed information concerning VAT on cars please see section 4.

2.3. Excise duty on passenger cars sold before their first registration in Poland

2.3.1. Taxable event

Excise duty is due in cases where one of the following transactions regarding a passenger car is performed before its first registration in Poland:

- Sale – tax point arises when an invoice is issued, but not later than within seven days after the delivery of a car;
- Import – tax point arises when the customs debt arises;
- Intra-Community acquisition – as a rule, tax point arises:
 - at the moment of transferring the right to dispose of a car as an owner – if the right to dispose of the car as owner was acquired after the car was moved to the territory of Poland;
 - at the moment of transferring a car to Poland – if the right to dispose of the car as owner was acquired before the car was moved to the territory of Poland;
 - at the moment of filing the application for registration of the car in Poland, pursuant to the provisions on road traffic – if the person (entity) applying for registration of the car in Poland is not its owner;
 - at the moment of making structural changes to the vehicle, other than a passenger car, being already registered in Poland leading to a change of the type of this vehicle into a passenger car.
 - at the moment of purchase or possession of a passenger car not previously registered in Poland, if there is no possibility to identify the entity that made any of the above-mentioned taxable transactions at an earlier stage, and there is no possibility to determine whether the due tax was settled or not.

The excise duty on passenger cars is a so-called one-phase tax. This means that the above transactions are subject to excise duty only in case the excise duty has not been settled at the earlier stage of turnover (e.g., the sale of a vehicle would not be subject to excise duty if excise duty has already been settled upon intra-Community acquisition or importation of this vehicle).

2.3.2. Taxable person

As a rule, taxable persons can be:

- a person/entity who sells a passenger car (before it was registered for the first time on the territory of Poland):
 - which was produced in Poland, or
 - with regards to which excise duty has not been paid as a result of the activities mentioned in above points;
- importers as well as persons/entities performing an intra-Community acquisition of a passenger car in Poland;
- a person/ entity who
 - makes structural changes to a vehicle other than a passenger car already registered in Poland that changes the type of this vehicle into a passenger car, or
 - purchases or possesses a passenger car not previously registered in Poland, if there is no possibility to identify the entity who made any of the taxable transactions mentioned in section 2.3.1. at the earlier stage, and there is no possibility to determine whether the due tax was settled or not.

2.3.3. Tax due

Generally, the excise rate depends on car's engine cubic capacity and amounts to:

- 18.6% – in case when the engine capacity exceeds 2,000cc, or
- 3.1% – in case when the engine capacity is lower or equal to 2,000cc.

No excise duty should be paid upon the intra-Community acquisition or first sale of vehicles in Poland in case the vehicles are subsequently exported from Poland within 30 days following the intra-Community acquisition or sale.

Please note there is no excise duty on the electric and hydrogen powered cars.

Also, hybrids are subject to preferential treatment in terms of the excise, depending on their type and engine cubic capacity:

- HEV & mHEV cars in case when the engine capacity is lower or equal to 2,000cc – 1,55%;
- HEV & mHEV cars in case when the engine capacity is between 2,000 and 3,500cc – 9,3%;
- HEV & mHEV cars in case when the engine capacity exceeds 3,500cc – 18,6%;
- PHEV cars in case when the engine capacity is lower or equal to 2,000cc – exempted until 31 December, 2022 , after this date 3,1%;
- PHEV cars in case when the engine capacity is between 2,000 and 3,500cc – 9,3%;
- PHEV cars in case when the engine capacity exceeds 3,500cc – 18,6%.

2.4. Car registration fees

2.4.1. Chargeable event

The fee for issuing the registration card along with stickers as well as the fee for issuing number plates are charged every time the vehicle is registered or re-registered (e.g., as a consequence of change of the vehicle's ownership).

Additionally, if the car is registered for the first time in Poland, the fee for issuing the vehicle card is charged.

2.4.2. Chargeable person

The fees should be settled by a person who is requesting the registration of a vehicle. Amounts of fees:

Amounts of fees	
<i>Fee</i>	<i>Amount</i>
Fee for issuing the registration card along with stickers	72,50 PLN
Fee for issuing number plates	80.00 PLN
Fee for issuing the vehicle card	75.50 PLN

2.5. Tax on transportation means

2.5.1. Taxable

In general, the tax on transportation means concerns:

- lorries and semi-trailer trucks if their maximum total weight exceeds 3.5t;
- trailers if their maximum total weight along with the vehicle exceeds 7t;
- buses.

The tax should be declared, in principle, in the tax return submitted on an annual basis (by 15, February every year). However, this tax is payable in two installments. The first installment should be paid by 15 February, and the second one by 15 September.

2.5.2. Taxable person

The fee is payable by the legal owner of the vehicle. A legal owner is also treated as an entity without legal personality for which the vehicle is registered and entities being users of vehicles registered in Poland, which were entrusted to them by the foreign individual or legal entity.

2.5.3. Tax due

For the year 2021, the transportation tax on lorries, semi-trailer trucks and trailers is based on the maximum total vehicle's weight, whereas the tax on buses is based on number of seats. The rate is set by the local government and cannot exceed annual rates presented in the table below.

Means of transport	Size	Maximum annual rate [PLN]
Lorries	Above 3,5t up to 5,5t	880,77
	Above 5,5t up to 9t	1469,31
	More than 9t but less than 12t	1763,16
	Equal or above 12t	3364,56
Semi-trailer trucks	3,5t up to 12t	2056,99
	Above 12t up to 36t	2600,58
	Above 36t	3364,56
Trailers	7t but less than 12t	1763,16
	Equal or above 12t up to 36t	2056,99
	Above 36t	2600,58
Buses	Less than 22 seats	2081,96
	22 seats or more	2632,17

2.6. Fee for using the national roads

2.6.1. Taxable event

The fee for using the national roads is due for vehicles with a certain gross mass (maximum total weight exceeding 3.5t) and buses.

2.6.2. Taxable person

The fee is payable by a person performing transport on the national roads.

2.6.3. Tax due

In July 2011 Poland launched the electronic system of charging the fees for using the national roads for transport indicated under relevant provisions. It covers fees due on vehicles with a maximum total weight exceeding 3.5t and buses. The fees are charged based on the distance driven on the road covered by the system and the rates are in PLN per kilometer.

The rates vary depending in particular on the

- category of vehicle;
- maximum total weight of a vehicle;
- exhaust fumes emission class.

Persons performing transport on the national roads should possess an electronic device that records the distance covered by a given vehicle.

3. Income taxes – taxable persons

3.1. Level of deduction of car-related expenses

A passenger car is a road vehicle with a maximum total weight of 3.5 tons, designed to transport no more than nine persons including the driver except for:

- vehicles having one row of seats separated from the cargo hold with a wall or another fixed partition, classified as multi-purpose cars or vans;
- vehicles having one row of seats with an open cargo hold;
- vehicles having driver's cabin with one row of seats and cargo hold body as two separate constructions;
- vehicles of a special purpose, e.g., truck-mounted cranes, excavators etc.

3.1.1. Regulations concerning passenger cars

Depreciation write-offs calculated on the initial value of a passenger car may be treated as deductible up to the limit of 150.000 PLN (225.000 PLN in case of passenger cars being electric vehicles). This limitation applies also to operating leasing installments and payments resulting from lease, rental or similar agreements – these payments are deductible in the proportion in which the amount of 150.000 PLN (or 225.000 PLN in case of electric cars) remains to the overall value of such a car. However, in case of operation leasing, lease, rental or similar agreements concluded before 1 January 2019, the deductibility of these costs is governed by the previous regulations, according to which such payments were fully deductible.

Moreover, CIT Law limits the deductibility of insurance premiums for passenger cars, the value of which exceeds 150.000 PLN (only part of share premiums is tax deductible). However, according to the common approach of the tax authorities, this limitation applies to motor hull insurance. The third party liability insurance and casualty insurance are fully deductible.

Based on the Polish CIT Law, the expenditures related to the use of a car used exclusively for business purposes are fully deductible. However, in order to deduct the full amount of such expenditures, the taxpayer is required to keep a detailed vehicle mileage logbook (the same as for the VAT purposes), unless it is not required on the basis of VAT Legislation. In case the taxpayer does not possess such a logbook, the vehicle is considered to be used for mixed purposes (both business and private use) and only 75% of the expenditures in question are deductible.

Furthermore, in the case of sole proprietorship only 20% of expenditures related to the use of private cars (not recognized as fixed assets) for business purposes are deductible. This limitation applies also to insurance premiums.

3.1.2. Regulations concerning trucks

In the light of the Polish CIT provisions,

- depreciation write-offs and insurance premiums relating to trucks constitute tax deductible costs in full amount and
- costs of use of a rented truck are fully deductible for tax purposes.

3.1.3. Loss or liquidation of a vehicle

In case of any damage to or liquidation of a vehicle, which was not covered with the voluntary insurance, any losses or repair costs after the car accident do not constitute tax deductible costs.

3.2. Leasing

Below is a summary of general information concerning:

- conditions that need to be fulfilled in order to classify an agreement related to a lease of a vehicle as an operational or financial lease under the CIT Law;
- tax consequences resulting from the above-mentioned classification.

Classification of leasing agreements for CIT purposes		
	<i>Operational lease</i>	<i>Financial lease</i>
Period for which agreement must be concluded	A fixed period of time, however, not shorter than two years.	A fixed period of time.
Payments	Total amount of lease payments must be equal or higher than the initial net value of the leased vehicle (i.e., net of VAT) or (if the next leasing agreement pertaining to this vehicle is signed) equal to its market value at the date of the next leasing agreement.	Total amount of lease payments must be equal or higher than the initial net value of the leased vehicle (i.e., net of VAT) or (if the next leasing agreement pertaining to this vehicle is signed) equal to its market value at the date of the next leasing agreement.
Additional requirements	The lessor does not benefit from the given exemptions listed in the Polish CIT Law.	The leasing agreement needs to include a provision authorizing the lessee to depreciate the leased asset for CIT purposes. Consequently, the lessor is not entitled to depreciate the leased asset.

Tax consequences resulting from the agreement	The amount of rental payments up to the 225.000 PLN (in case of electric vehicles) and 150.000 PLN (in case of regular vehicles) constitute tax deductible costs for the lessee and the total amount of installments constitutes taxable revenue for the lessor. The lessor is entitled to depreciate the leased object for CIT purposes taking into account the above limitations.	The capital element of lease payment is effectively tax neutral for CIT purposes for the lessee and lessor. Only the interest element (surplus over the initial value of a leased asset) constitutes tax-deductible cost for the lessee and taxable revenue for the lessor.
---	---	---

Polish Accounting Regulations distinguish other divisions of leasing agreement (see section 8).

4. VAT

4.1. General

Rules regarding input VAT deductibility for cars and car-related expenses significantly changed starting from April 1, 2014. The change results from the implementing decision no. 2013/805/EU issued on December 27, 2013 by the Council of the European Union. This decision allows the Polish government to introduce limitations on VAT deductibility regarding purchase and lease of passenger cars and car-related expenses.

In the Polish VAT Law the deductibility of input VAT incurred on a purchase (lease) of a car depends on its classification – generally, as a passenger car or a truck. The criteria used for this classification are basically the same as those resulting from the Polish CIT Law (see section 3.1) and were changed starting from April 1, 2014.

4.2. Deduction

Provisions binding in 2015

The general VAT deductibility rule is that taxpayers are allowed to deduct 50% of VAT related to the purchase/lease of vehicles with a gross weight under 3.5 tonnes. The same rule (50% VAT deduction cap) will apply to maintenance costs and other costs related with using vehicles with a gross weight under 3.5 tonnes.

Starting from July 1, 2015 the taxpayers are allowed to also deduct 50% of input VAT connected with expenses related for purchase of fuel for passenger cars.

Apart from the above-described general rules, exceptions allowing full (100%) input VAT deduction are applicable in case of the following situations:

- the taxpayer purchases specific kinds of vehicles, such as:
 - cars allowed to carry at least 10 persons (including the driver);
 - vehicles having one row of seats separated from the cargo hold with a wall or another fixed partition, classified as multi-purpose cars or vans;
 - vehicles with one row of seats having an open cargo hold;
 - vehicles having driver's cabin with one row of seats and cargo hold body as two separate constructions;
 - vehicles of a special purpose, e.g., truck-mounted cranes, excavators etc.;

- the taxpayer's scope of business activities includes – among others – re-sale, renting or leasing cars, or concluding similar agreements; this relates, however, only to cars which are designated for sale or lease (rent) and not for cars used by such taxpayers;
- the taxpayer uses cars solely for the purpose of its business activity (other than re-sale, renting or leasing cars, or conducting similar agreements); in such a case, additional requirements, described below, need to be fulfilled.

Conditions for full VAT deductibility in case of cars used solely for business purposes

Taxpayers wishing to fully deduct VAT on purchase/lease of cars under 3.5 tonnes need to ensure that such vehicles will be used solely for business purposes and it will not be possible to use them in any other way (e.g. for private purposes). This may be achieved in particular by establishing specific internal regulations regarding use of company vehicles. Moreover, for each vehicle claimed to be used solely for business purposes, a specific type of hard evidence will have to be maintained.

This evidence should, among others, provide the following types of information: vehicle plate number, mileage readings (at the beginning and at the end of each reconciliation period), entries of each person using the car indicating: date and purpose of the trip, exact distance covered, trip description, first and last name of the driver.

The authenticity of the above information should be confirmed by the taxpayer.

4.3. Leasing

Treatment of leasing agreements for VAT purposes		
	<i>Operational lease</i>	<i>Financial lease</i>
General	For VAT purposes, operational leasing is (as a rule) treated as a service.	Based on the VAT Law, financial leasing is treated as supply of goods if <ul style="list-style-type: none"> • the agreement is concluded for a definite period of time; • the property right is transferred to lessee as a result of the normal course of action or upon payment of the last instalment; • the agreement is considered as a financial lease for CIT Law purposes, ie, depreciation is written off by the lessee (except for the land).
Lessee	As a rule, the lessee is entitled to deduct VAT charged on the lease payments subject to limitations relevant for passenger cars (see section 4.2).	In principle, the lessee has a right to recover input VAT resulting from the invoice issued by the lessor subject to limitations relevant for passenger cars (see section 4.2).

Lessor	Under the Polish VAT Law, the lessor is treated as a service supplier. The lessor should issue an invoice for each installment and recognize the tax point. In case of a leasing transaction, the tax point arises upon receipt of the lease payment – in whole or in part – but no later than upon the lapse of the time limit for payment specified in the contract or invoice.	In case of a financial lease, the lessor is treated as a supplier of goods. Therefore, the lessor is obliged to issue an invoice and recognize the tax point according to the standard rules applicable with regard to the supply of goods (generally tax point arises upon delivery of goods and invoice should be issued no later than the 15th day of the month following the month in which goods were delivered).
--------	---	--

5. Company cars

5.1. VAT due on private use of company cars

As a rule, private use of a company's car by the employee is treated as a taxable supply of services by the employer.

In cases where the employee pays no fee for using the company's car for his/her private purposes, such a use should be considered as a free-of-charge supply of services by the employer, provided that the employer had the right to recover the entire input VAT incurred on the acquisition of goods and services connected with these services. Referring to section 4.2, if the taxpayer has the right to recover only a portion of input VAT incurred on the acquisition of a car, free-of-charge use by employees should not be subject to VAT.

If the employee uses the company's car for his/her private purposes in return for a fee paid to the employer, the employer is deemed to render a rental service to its employee.

Additionally, the Polish VAT Law stipulates different methods for determining the taxable amount in case of the private use of the company's car, depending on whether the employee pays any fee to the employer:

- in the case of free-of-charge use of a company's car, the taxable amount should be based on the costs of provision of this service borne by the taxpayer (employer);
- in the case of use of a company's car by the employee in return for a fee, the taxable amount should be equal to the amount due to the employer. Generally, if such a fee significantly differs from the market price, the tax authorities are allowed to establish it for tax purposes on the market level.

In practice, the fee for the use of a company's car by the employee may be calculated as the number of kilometres driven for private purposes multiplied by a fixed rate depending on the engine size of the vehicle (see section 6.3.1).

5.2. Company cars – income taxes

If for private purposes, the value of this service is treated as a benefit in-kind, in which the employee does not pay any fee to the employer for use of a company's car constitutes his/her taxable income.

Starting from January 1, 2015, the value of received benefit in-kind is fixed and amounts to:

- 250 PLN monthly for the use of a car with engine capacity lower or equal to 1600cc;
- 400 PLN monthly for the use of a car with engine capacity above 1600cc.

However, if the employee reimburses his employer for the private use of a company's car and provided that the said reimbursement is determined in accordance with the arm's length principle, no benefit in-kind is granted to the employee.

6. Income taxes – drivers' personal taxation

6.1. Private car in the personal tax return

The vehicle costs made in respect of the private use of a vehicle are not deductible in the employee's personal tax return.

6.2. Commuter traffic

The car costs incurred with respect to commuting are not deductible for the employee's personal income tax purposes.

6.3. Business kilometers

6.3.1. Business trips

In the case when an employee uses his own car for a business trip and the employer refunds the costs of this usage, such a refund does not constitute a taxable income of the employee provided that it does not exceed the limit set for the number of business kilometers driven by an employee multiplied by maximum statutory rate per kilometer, as presented below:

- Cars with engines up to 900cc: 0.5214 PLN/km
- Cars with engines over 900cc: 0.8358 PLN/km

At the same time, the employer may treat the above-mentioned refund as a tax deductible cost up to the limit described above.

6.3.2. Local business-related travel

In the case when an employee uses his own car for local travel for business purposes and the employer refunds the costs of this usage, in principle, such a refund does not constitute a taxable income for the employee provided that it does not exceed the limit indicated under section 6.3.1.

7. Electric vehicles

As far as the electric vehicles are concerned, the increasing popularity of this mean of transport resulted in the following regulations:

- For the preferences in excise duty on electric cars please see part. 2.3.3;
- For the income taxes regulations please note part. 3.1.1;
- Leasing changes are available in part 3.2.

Please note, that electric vehicles may be subject to subvention from the public low-emission fund. The maximal amount of subvention depends on the type of car and generally may not exceed PLN 36 000 for passenger vehicles and PLN 200 000 for high-capacity trucks.

8. Treatment of leasing agreement for accounting purposes

According to Polish accounting regulations assets adopted under a contract according to which one of the parties "the financing party", lets to "the user", the tangible assets or intangible fixed assets for use for consideration or for deriving benefits therefrom for a definite period, the said assets need to be included in fixed assets of the user provided that the contract meets at least one of the following conditions:

- it transfers the right of ownership of its object to the user after the expiry of its period of validity;
- it includes the user's right to acquire the object thereof, after the expiry of its period of validity, at a price lower than its market value as on the day of acquisition;

- the period of validity of this contract covers most of the anticipated period of useful life of the tangible asset or property right but not less than three fourths of the said period. The right of ownership of the subject matter of the said contract may be transferred to the user after the expiry of the period of its validity;
- total amount of fees exceeds 90 per cent of the market value of the object of this contract as on the day of conclusion thereof, the said amount being fixed as on the said day and being reduced by a discount, as well as falling due within the validity period. The said amount shall include the final value of the object of this contract the user agrees to pay for the object's ownership being transferred to him. The amount shall not include the payments made to the financing party for additional performances, taxes and the object insurance premiums if the user covers the said amounts regardless of the fees paid for the use thereof;
- it includes the financing party's promise to conclude another contract with the user of letting the same object for use for consideration or to extend the to-date contract, on more advantageous terms than those provided for in the to-date contract;
- it stipulates the possibility to be terminated by notice, with the reservation that all the costs and losses incurred by the financing party as a result thereof shall be covered by the user;
- the contract's object has been adjusted to the individual needs of the user. It may be used exclusively by him without undergoing any changes.

Entities, save for the entities referred to in paragraph 1e, subparagraphs 1 to 6, which did not exceed, for the previous financial year, at least two of the following three values:

- 1) 25,500,000 zloties – in the case of the balance-sheet assets total at the end of the financial year;
 - 2) 51,000,000 zloties – in the case of the net revenues from the sales of goods and products for the financial year;
 - 3) 50 persons – in the case of average annual full-time employment
- may qualify contracts according to the rules determined in income tax provisions.

9. *Legal background*

- CIT legislation (the CIT Law in particular)
- VAT legislation (the VAT Law in particular)
- Local tax laws
- Excise Law
- Accounting Law
- Traffic Law

Portugal



Catarina Gonçalves
Tax Partner

p: +351 916 601 376
e: catarina.goncalves@pwc.com

Catarina Nunes
Senior Manager Tax

p: +351 213 599 621
e: catarina.nunes@pwc.com

Portugal

1. Car registration

1.1. When does a car need to be registered?

New or second-hand cars have to be registered before they are put into free circulation on Portuguese public roads.

1.2. Who can register a car?

The car must be registered by the owner.

1.3. Is a foreign owner allowed to register a vehicle in the country?

In practice, the Public Registration Entity requires that the owner has a Portuguese tax identification number for the registration of the car.

1.4. Can a vehicle with a foreign number plate be used on public roads?

As a general rule, the utilization of foreign cars triggers the need for registration with the competent authorities within a 20-day period from which the vehicle entered into Portugal.

However, under certain conditions, there is a temporary admission regime allowing vehicles with a number plate from another EU member-state to remain in Portuguese territory for six months without having to register.

2. Car taxation

2.1. What are the different car taxes?

The following taxes are due upon registration and use of a car:

- Tax on Vehicles (Imposto sobre Veículos, or ISV);
- Circulation Tax (Imposto Único de Circulação, or IUC)

2.2. Tax on vehicles (ISV)

Tax on vehicles (ISV) must be paid in order for the Portuguese Tax Authorities to grant a registration certificate referring to the date on which the owner of the car requested its introduction into circulation.

2.2.1. Taxable event

As a general rule, the taxable event occurs with the production, assembly, admission from another EU country or import into Portugal of a vehicle that is required to have a license plate herein.

A taxable event is also deemed to occur in the following cases:

- When a new number plate is issued for a car for which there has been a previous cancellation of the number plate with reimbursement of the ISV or any other tax advantage;
- Modification of the car that requires its re-classification into a category subject to a higher ISV, or changes in the engine that lead to an increase of CO₂ emissions or engine displacement;
- Ceasing or non-application of one or several conditions for exemption from ISV;
- Cars unlawfully introduced in Portugal.

2.2.2. Taxable person

The taxable person is the person or entity in whose name the car is registered. It includes the following:

- Registered operators (previously authorized as such by the customs authorities);
- Recognized operators (recognized as such by the customs authorities).

2.2.3. Private persons that import or admit cars from other EU countries for their private use. Tax due

The assessment of the ISV amount is based on the following:

- For passenger cars, cars for mixed use and motor vehicles for the transport of goods (taxed under Table A below), ISV depends on the engine displacement measured in cubic centimetres, the CO₂ emissions and the level of emissions of particles, when applicable.
- For motor vehicles meant for the transport of goods, weighing up to 3,500kg and cars for mixed use (taxed under Table B below), ISV depends on the engine displacement measured in cubic centimetres and the level of particle emission, when applicable.
- For auto caravans, motorcycles, tricycles, four-wheeled vehicles, as well as cars manufactured before 1970, the ISV depends on the engine displacement measured in cubic centimetres.

2.2.3.1. ISV based on engine displacement and CO₂ component

The following table determines the ISV and it also includes the amounts in euros to be deducted in accordance with the engine displacement component (in cubic centimetres) and with the CO₂ component (in grams per kilometers, for petrol or diesel cars).

Table A

Engine displacement component		
<i>Engine displacement (cc)</i>	<i>Tax per cc (EUR)</i>	<i>Amount to deduct (EUR)</i>
≤ 1000	0.99	769.80
1001 >1250	1.07	771.31
>1250	5.08	5616.80

CO ₂ emissions component		
<i>CO₂ emissions (g/km)</i>	<i>Tax (EUR)</i>	<i>Amount to deduct (EUR)</i>
For petrol cars (New European Driving Cycle – NEDC)		
≤ 99	4.19	387.16
100 ≤ 115	7.33	680.91
116 ≤ 145	47.65	5353.01
146 ≤ 175	55.52	6473.88
176 ≤ 195	141.42	21422.47
>195	186.47	30274.29

For diesel cars (New European Driving Cycle – NEDC)		
≤79	5.24	398.07
80 ≤ 95	21.26	1676.08
96 ≤ 120	71.83	6524.16
121 ≤ 140	159.33	17158.92
141 ≤ 160	177.19	19694.01
>160	243.38	30326.67
<i>CO₂ emissions (g/km)</i>	<i>Tax (EUR)</i>	<i>Amount to deduct (EUR)</i>
For petrol cars (Worldwide Harmonized Light Vehicle Test Procedure – WLTP)		
≤ 110	0.40	39.00
111 ≤ 115	1.00	105.00
116 ≤ 120	1.25	134.00
121 ≤ 130	4.78	561.40
131 ≤ 145	5.79	691.55
146 ≤ 175	37.66	5 276.50
176 ≤ 195	46.58	6 571.10
196 ≤ 235	175.00	31 000.00
>235	212.00	38 000.00
For diesel cars (Worldwide Harmonized Light Vehicle Test Procedure – WLTP)		
≤110	1.56	10.43
111 ≤ 120	17.20	1 728.32
121 ≤ 140	58.97	6 673.96
141 ≤ 150	115.50	14 580.00

151 ≤ 160	145.80	19 200.00
161 ≤ 170	201.00	26 500.00
171 ≤ 190	248.50	33 536.42
>190	256.00	34 700.00

An ISV intermediate rate, corresponding to a percentage of the tax resulting from Table A, is applicable as follows:

- 60% of the tax, for passenger cars with hybrid engines prepared to operate both on electric or solar energy, and on petrol or diesel;
- 40% of the tax, for cars for mixed use with a gross weight above 2,500kg, with at least seven seats, including the driver's seat, and without permanent or adjusted four wheel traction;
- 40% of the tax, for passenger cars with engines prepared to operate exclusively on natural gas;
- 25% for passenger cars with plug-in hybrid engines, for which the battery can be charged by connection to the electricity grid and which have a minimum battery life, in the electric mode, of 25 kilometers.

2.2.3.2. ISV exclusively based on engine displacement component

Table B determines the ISV exclusively based on the engine displacement component (in cubic centimeters)

Table B

Engine displacement		
<i>Engine displacement (cc)</i>	<i>Tax per cc (EUR)</i>	<i>Amount to deduct (EUR)</i>
≤ 1,250	4.81	3020.78
> 1,250	11.41	11005.76

An ISV intermediate or reduced rate, corresponding to a percentage of the tax obtained by the application of Table B, should be used in order to determine the ISV for the following vehicles:

a.	Cars for the transport of goods with or without cargo space, with more than three seats (including the driver's seat) and without four wheel traction, and that do not have permanent or adjusted four wheel traction	15%
b.	Cars for the transport of goods with or without cargo space, with more than three seats (including the driver's seat) and without four wheel traction, and that have permanent or adjusted four wheel traction	50 %
c.	Cars produced before 1970	95 %
d.	Auto caravans	30 %
e.	Cars for mixed use with a gross weight above 2,300kg, with a cargo space length greater than or equal to 145cm, with a cargo space height greater than or equal to 130cm, without four wheel traction and with a bulkhead separating the driver's seat completely	15 %
f.	Cars for the transport of goods with or without cargo space, with a maximum of three seats (including the driver's seat), except for those ones not falling in the above categories	10 %

The acquisition of diesel vehicles is subject to an increase of ISV in the amount of EUR 500 for passenger vehicles and of EUR 250 for cargo vehicles, unless its level of particle emission is lower than 0,001 gr/km.

Motorcycles, tricycles and four wheeled vehicles

For the above vehicles, the ISV amount in euros may vary according to the respective engine displacement (in cubic centimeters).

<i>Engine displacement (cc)</i>	<i>Tax (EUR)</i>
120 ≤ 250	66.90
251 ≤ 350	83.08
351 ≤ 500	111.13
501 ≤ 750	167.24
> 750	222.27

Second-hand cars

From another EU member State

At the time of the first registration in Portugal of a second-hand car from another EU member state, the ISV is also charged, on a provisional basis.

The ISV should be determined on the same basis as for a new car (see Tables A and B). However, the displacement component should be reduced by a specific determined percentage in accordance with the age of the car:

<i>Time of use</i>	<i>Reduction percentage</i>
≤ 1 year	10
1 ≤ 2 years	20
2 ≤ 3 years	28
3 ≤ 4 years	35
4 ≤ 5 years	43
5 ≤ 6 years	52
6 ≤ 7 years	60
7 ≤ 8 years	65
8 ≤ 9 years	70
9 ≤ years	75
> 10 years	80

Exemptions

Under specific conditions several exemptions are applicable to taxis, vehicles used for firefighting, military-use vehicles (including police), certain cars used by charities, cars used by the Portuguese State and cars used by handicapped persons.

Motor vehicles not subject to ISV

Cars powered exclusively by electric engines or renewable energy, ambulances and vehicles used for the transport of patients, in accordance with applicable regulations, as well as certain types of vehicles for the transport of goods are not subject to ISV.

Special exemption regimes are foreseen for persons that transfer their residency from another EU member state or a third country to Portugal. Specific conditions must be fulfilled.

2.2.4. Tax period

As a general rule, vehicles are subject to ISV when registered for the first time.

However, a vehicle can still be taxed after the first registration for ISV when a deemed taxable event occurs, as previously referred.

2.3. Circulation tax (IUC)

The Circulation tax (IUC) currently in force in Portugal may be calculated differently for two similar cars depending on whether these cars were registered in Portugal for the first time before or after July 1, 2007.

Due to a difference in the applicable computation formula, cars registered in Portugal from July 1, 2007 onwards are subject to a higher IUC than those registered before that date.

This tax system was introduced in Portugal as part of an overall reform of car taxation, whereby the vehicle's polluting capacity indicators are taken as the criteria for determining the tax base.

2.3.1. Taxable event

The taxable event occurs with the ownership of a vehicle and, as general rule, the tax becomes due on the date of the number plate. IUC is applied in the following categories:

- Category A:
 - Passenger cars and mixed-use cars with a gross weight under 2,500kg, registered between 1981 and January 1, 2008;
- Category B:
 - Passenger cars with gross weight of up to 3,500kg and with up nine seats including the driver's seat, passenger cars with more of 3,500Kg and with up nine seats, including driver's seat and light motor vehicles for mixed use with a gross weight not exceeding 2,500 kg, whose date of first registration, within the national territory or in a Member State of the European Union or the European Economic Area, is subsequent to the entry into force of this Code (1 January, 2008).
- Category C:
 - Cars for the transport of goods and cars for mixed use with a gross weight higher than 2,500kg, used for the private transportation of goods, transport on own account or lease without driver;
- Category D:
 - Cars for the transport of goods and cars for mixed use with a gross weight higher than 2,500kg, used for the public transportation of goods, transport for the account of a third party or lease without driver;

-
- Category E:
 - Motorcycles, motor bicycles, tricycles and four wheeled vehicles registered from 1992 onwards;
 - Category F:
 - Boats for private use with an engine power equal to or greater than 20kW, registered from 1986 onwards;
 - Category G:
 - Aircraft for private use.

Additionally, IUC is also due on cars that, although not subject to registration in Portugal, remain in Portugal for more than 183 days in each calendar year (consecutive or not), with the exception of commercial vehicles with a gross weight equal or above 12 tonnes. In these cases, IUC should be assessed until the 30th day following the period of 183 days.

2.3.2. Taxable person

The taxable person for IUC is one of the following:

- The person or entity in whose name the car is registered;
- The lessee, in the case of a financial leasing, and other entities having purchase options in lease contracts

2.3.3. Tax due

The taxable base is assessed using different criteria depending on the category of the vehicle:

- Category A: engine displacement, voltage, type of fuel and age of the number plate;
- Category B: For category B vehicles, the cylinder capacity and carbon dioxide (CO₂) emission level for the combined test cycle resulting from the tests conducted under the 'New European Driving Cycle' (NEDC) or the 'Worldwide Harmonized Light Vehicle Test Procedure' (WLTP), depending on the test system to which the vehicle was subjected for the purpose of its technical approval, or, when this element is not part of the certificate of conformity, the emissions resulting from actual measurement carried out in a legally authorized technical center in the terms foreseen for the calculation of the vehicle tax; Category C and D: gross weight, number of axles, type of driving axle suspension, age of the first number plate;
- Category E: engine displacement and age of the number plate;
- Category F: engine power;
- Category G: the maximum authorized weight at take-off;

Annex A is a table with the tax rates applicable for 2021 (these values are updated on an annual basis).

Annex A

Category A

Cars registered up to 2007 (passenger and mixed use cars – weight < 2,500kg)

Engine capacity (cc)			Tax (EUR)		
<i>Petrol</i>	<i>Other combustion</i>	<i>Electrical</i>	<i>After 1995</i>	<i>From 1990 to 1995</i>	<i>From 1981 to 1989</i>
≤ 1,000	≤ 1,500	≤ 100V	18.42	11.61	8.14
1,001 ≤ 1,300	1,501 ≤ 2,000	> 100V	36.96	20.77	11.61
1,301 ≤ 1,750	2,001 ≤ 3,000	-	57.73	32.27	16.19
1,751 ≤ 2,600	> 3,000	-	146.47	77.25	33.39
2,601 ≤ 3,500	-	-	265.98	144.83	73.75
> 3,500	-	-	473.90	243.43	111.85

Diesel cars included in Category A – additional IUC

Additional tax according to the registration/plate's year

Engine capacity (cc)	Tax (EUR)		
Diesel	After 1995	From 1990 to 1995	From 1981 to 1989
≤ 1,500	3.14	1.98	1.39
1,501 ≤ 2,000	6.31	3.55	1.98
2,001 ≤ 3,000	9.86	5.51	2.76
> 3,000	25.01	13.19	5.70

Category B

Cars (passenger and mixed use - weight < 2500 kg)

Engine capacity (cc)	Tax (EUR)	CO2 emissions (g/km)		Tax (EUR)
		NEDC	WLTP	
≤ 1,250	29.39	≤ 120	≤ 140	60.28
1,251 ≤ 1,750	58.97	121 ≤ 180	141 ≤ 205	90.33
1,751 ≤ 2,500	117.82	181 ≤ 250	206 ≤ 260	196.18
> 2,500	403.23	> 250	≤ 261	336.07

Additional levy on Category B vehicles in which the first plate on Portugal or European Union occurred after 2017:

Co2 emission (g/Km)		Additional tax (EUR)
NEDC	WLTP	
180 ≤ 250	205 ≤ 260	29.39
> 251	> 261	58.97

Diesel cars included in Category B – additional IUC

Engine capacity (cc)	Additional tax (EUR)
Diesel	
≤ 1,250	5.02
1,250 ≤ 1,750	10.07
1,750 ≤ 2,500	20.12
> 2,500	68.85

For vehicles registered as of July 2007 (inclusive), the amounts due result from the sum of the amount due based on the engine capacity (displacement) and the amount due based on the CO₂ emissions, multiplied by the respective coefficient according to the car's acquisition year.

The coefficient varies as follows:

- 2007: 1.00;
- 2008: 1.05;
- 2009: 1.10;
- 2010 onwards: 1.15.

Category C and D

The IUC due for the vehicles for the transport of goods with a gross weight of less than 12t depends on their respective use, as follows:

Category	C	D
<i>Gross weight (kg)</i>	<i>Private use</i>	<i>Public transport services</i>
≤ 2,500	32.52 EUR	17.27 EUR
2,501 ≤ 3,500	53.85 EUR	29.47 EUR
3,501 ≤ 7,500	129.04EUR	67.06EUR
7,501 ≤ 11,999	209,31 EUR	111.76EUR

IUC for the vehicles for the transport of goods with gross weight exceeding 12 tonnes is calculated taking into account several characteristics of the vehicle, namely: the type of vehicle; gross weight; the number of axles; the age of the vehicle, and the use of the vehicle for private or public transport of goods.

2.3.4. Tax period

IUC is levied annually with reference to the month of the date of the number plate.

IUC is also due until the cancellation of the number plate or the registration undertaken as a result of the legal destruction of the car.

3. Income taxes – taxable persons

3.1. Car depreciation

Generally, for passenger cars and mixed-use vehicles, the depreciation is 25% per annum, under the straight-line method.

It applies to a maximum cost base in accordance with the acquisition year, as follows:

Acquisition year	Maximum cost base (EUR)			
	<i>Electric</i> ²⁵	<i>Plug-in hybrid</i>	<i>VNG or LPG</i> ²⁶	<i>Others</i> ²⁷
Up to 2009				29,927,87
2010				40,000.00
2011	45,000,00			30,000.00
2012-2014	50,000.00			25,000.00
2015 and onwards	62,500.00	50,000.00	37,500.00	25,000.00

3.2. Other deductible expenses

Expenses with car-sharing systems

²⁵ Vehicles powered exclusively by electric power.

²⁶ LPG (liquefied petroleum gas); VNG (vehicular natural gas)

²⁷ Between 2009 and 2014, others refer to any vehicle other than electric.

Companies incurring in expenses with car-sharing systems may deduct, for tax purposes, an additional 10% of expenses (conditions and limitations apply).

3.3. Autonomous taxation

For corporate income tax purposes, expenses regarding passenger cars and certain light goods cars are subject to an autonomous flat tax rate ranging from 10% to 35%, depending on the acquisition cost and the type of the car, as follows:

Acquisition cost (EUR)	Type of vehicle and applicable autonomous taxation rate			
	Electric Energy	Plug-in hybrids	VNG	Others, including LPG
< 27,500.00	0%	5%	7.5%	10%
≥ 27,500.00 and < 35,000.00	0%	10%	15%	27.5%
≥ 35,000.00	0%	17.5%	27.5%	35%

If the taxable income of the year is a tax loss, these flat rates are increased by 10 percentage points.

The following should be taken into account as car expenses: depreciation, lease payments, rentals, insurance, maintenance and repair costs, fuel, tolls, parking and municipal car taxes.

The autonomous taxation is not applicable to light passenger vehicles used exclusively for public transportation. The maximum cost base is not applicable to light passenger vehicles used exclusively for public transportation or if the taxpayer's activity is the renting of the vehicle.

For new passenger and mixed-use vehicles of companies in the business of public service transportation or renting, the declining-balance depreciation method can be applied.

4. VAT

4.1. General

The standard VAT rate in Portugal is currently 23% in the Mainland, 22% in the Autonomous Region of Madeira, and 16% in the Autonomous Region of the Azores

4.2. Deduction

As a general rule VAT incurred on the import, purchase, rental, repair, use and transformation of vehicles is not deductible. The exceptions to this rule are:

- Electric or hybrid plug-in cars (passenger and mixed use) with an acquisition value that does not exceed the limits referred in section 3.1 above;
- Passenger cars when used for the main business activity of the taxable person (e.g. taxis, rent-a-car, driving schools);
- Vehicles exclusively used for the transportation of goods/cargo (e.g. trucks, light commercial vehicles);
- Passenger and mixed-use cars powered by LPG or VNG, for which VAT is deductible in 50%;
- Electricity used for electric or hybrid plug-in cars which is fully deductible

VAT on fuel for vehicles is generally not deductible.

However, VAT incurred in the acquisition of diesel, LPG, natural gas and biofuels is deductible in 50% of VAT and if used in buses, taxis, vehicles without a number plate, tractors mainly used in agriculture, or cars for the transport of goods with more than 3,500kg gross weight (lorries), VAT is 100% deductible (also applicable for input VAT incurred on the acquisition of petrol if related to one of the vehicle above referred).

4.3. Financial and operational lease

The lease of a vehicle is a supply of services for VAT purposes, whose taxable base includes both rent and interest values.

If the vehicle is sold at the end of the lease contract, the residual amount paid therein is subject to VAT. This operation qualifies as a supply of goods for VAT purposes.

4.4. Hire purchase (lease without automatic transfer of legal ownership)

The lease of a vehicle with a binding purchase clause is a supply of goods for VAT purposes, being the VAT due with its delivery.

5. Company car

The personal use of a company car by employees, where there is a written agreement between the employee and the employer, is considered to be employment income.

The taxable benefit from the total use of a company car corresponds to 0.75% of the market value of the car, multiplied by the number of months of use of the car. The market value will result from the application of a depreciation factor published by the relevant authorities. In this case, the expenses, including depreciation, related with the use of a company car are not subject to the autonomous taxation above referred.

In addition, a further taxable benefit in kind may arise for the employee in the case of acquisition of a company car.

If the employee acquires the car, the benefit will correspond to the difference (if positive) between the market price of the car and the amounts already taxed as a benefit for private use, plus the price the employee has to pay for that acquisition. The market price corresponds to the difference between the acquisition price and the product of that value by a depreciation factor published by the relevant authorities.

The above benefits in kind are not liable to withholding tax but must be added to all other income for the computation of the annual individual income tax due. Therefore, the total amount of the benefit will have to be included in the annual statement to be given by the company to the employee by January 20 of the year following the one in which the income was obtained. In addition, the company is also obliged to report these benefits in kind to the tax authorities.

According to the Portuguese Social Security Code, the benefit arising from the private use of a company car that generates costs to the company, should be subject to Social Security contributions if a written agreement is concluded between the employee and the employer and mentions the following requirements:

- The allocation of a specific car to the employee
- All operating expenses and the cost of the car being borne by the employer
- Written acknowledgment of the possibility that the car can be used for personal purposes or 24 hours a day (the latter condition does not apply if the employee is exempted from formal working timetable).

Social Security contributions are also due when under the written agreement it is assigned to the employee a permanent and specific car with an explicit authorisation to use the vehicle on rest days. However, contributions will not be due in months when the employee worked on at least 2 days of his/her mandatory weekly rest days, or on 4 days on his/her weekly or additional rest days.

6. *Income taxes – drivers’ personal taxation*

Employees are not allowed to make any deduction on their Portuguese personal income tax returns in connection with company cars.

Self-employed individuals with the obligation to keep organized accounts may deduct some expenses related to cars in accordance with the corporate tax and VAT rules.

Companies are allowed to reimburse an employee for a mileage allowance (kilometers) as a compensation for the use of a personal car (not a company car) at the company’s service (i.e., for business purposes). This allowance is not liable either to personal income tax or social security when the amounts paid do not exceed the threshold established by the Portuguese tax authorities. The referred threshold is published annually. For 2021, the upper limit amounts to 0.36 EUR per kilometer.

7. *Electric Vehicles*

For corporate income tax purposes, the expenses related to vehicles powered with engines that are exclusively electric are exempt from autonomous taxation and the tax depreciation base is higher than other vehicles.

8. *Recent developments*

The State Budget Proposal of Law for 2022 was not approved by the Portuguese Parliament, therefore the eventual changes for 2022 remain dependent on the presentation of a new proposal.

9. *Legal background*

- Income tax codes (CIRS and CIRC)
- Portuguese VAT Code
- ISV and IUC Codes
- Tax Benefits Code (EBF)

Romania



Daniel Anghel

Automotive Tax Leader

p: +40 21 225 3688

e: daniel.anghel@pwc.com

Adina Vizoli

Director Tax

p: +40 21 225 3684

e: adina.vizoli@pwc.com

Lorena Tudor

Senior Manager Tax

p: +40 21 225 3520

e: lorena.tudor@pwc.com

Carmen Dan

Manager Tax

p: +40 21 225 3457

e: carmen.dan@pwc.com

Romania

1. Car registration

1.1. When does a car need to be registered?

New cars should be registered in Romania before their release for circulation on the public roads. Used vehicles registered in other states and owned by Romanian residents should be registered in Romania within 90 days upon their entry into the country. In case any information (e.g. ownership) within the registration certificate is changed, a new registration certificate for the vehicle should be requested from the competent authorities within 30 days from the moment the change took place.

Moreover, as per the Law no. 55/2020, the validity of the documents is maintained throughout the alert state due to the COVID-19 pandemic, as well as for a period of 90 days from the end of this state, for driving licenses, temporary releases for circulation and other related issued documents.

In the case of a temporary release for circulation, the validity is maintained only for cars that have compulsory civil liability insurance for damages caused by traffic accidents within the validity period.

1.2. Who can register a car?

Vehicle owners or their representatives have the obligation to request the registration of new or used cars.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Foreign citizens that are resident in Romania have the obligation to register the vehicles they own and use in Romania, and that are registered in other states, within 90 days after obtaining their residency certificate/permit.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Non-residents are allowed to use their vehicles with foreign number plates on Romanian public roads over an indefinite period of time.

However, Romanian residents have the obligation to register their cars with foreign number plates in Romania if the period for which they use these cars on Romanian public roads exceeds 90 days.

2. Car taxation

2.1. Other taxes

- Vehicle registration certificate: 37 RON
- Plates: between 17 RON and 45 RON
- Mandatory insurance: between 670 RON and 2,700 RON
- Driver's license release tax 68 RON
- Authorization for temporary circulation 13 RON

Note that the above insurance values are only for guidance and the value of the insurance may vary significantly depending on the cylindrical capacity and on the insurance companies.

2.2. Vehicle tax

2.2.1. Taxable event

Under the Romanian Fiscal Code, vehicles that require registration are subject to local taxes (the vehicle tax). Cars acquired during the year are also subject to vehicle tax starting 1st of January of the year following the year when the cars were acquired.

2.2.2. Taxable person

Anyone that owns any means of transport which must be incorporated/registered in Romania shall owe an annual tax (vehicle tax) for that means of transport.

In case of a means of transport which is subject to a financial leasing contract, for the entire duration of contract, the duty on the means of transport shall be owed by the lessee.

Exemptions from the vehicle tax are in force for certain categories such as war veterans, war widows, persons with severe or serious disabilities, the means of transport of the public institutions, historic vehicles, electrically driven vehicles etc.

2.2.3. Tax due

The vehicle tax is computed depending on the vehicle cylinder capacity, by multiplying each group of 200 cm³ or fraction thereof by the appropriate amount in the following table:

Cylindrical capacity	Fixed amount/200cc**	Vehicle tax
≤ 1,600cc*	8 RON	up to 64 RON
1,601cc–2,000cc	18 RON	between 144 –180 RON
2,001cc–2,600cc	72 RON	between 720–936 RON
2,601cc–3,000cc	144 RON	between 1,872–2,160 RON
≥ 3,001cc	290 RON	≥ 4350 RON

*For motorcycles, motor tricycles and quadricycles with a cylindrical capacity over 1,600 cc the vehicle tax is of RON 9/200cc

**For hybrid cars, the vehicle tax is reduced to a minimum of 50%, based on the local council's provisions.

***For electric vehicles, no vehicle tax is due.

Note that the value of the vehicle tax might be increased as per the local authorities' decision.

The same principle of computing the vehicle tax depending on the vehicle cylinder capacity and multiplying each group of 200 cm³ or fraction thereof with a fixed amount is applicable in taxing buses, motor coaches, mini-buses (RON 24/200cm³), other vehicles with mechanical traction with the total maximum authorized weight of up to 12 tons, inclusive (RON 30/200cm³), registered tractors (RON 18/200cm³).

Moreover, for commodity transport motor vehicles with total authorized weight equal or over 12 tons, the vehicle tax shall be determined by the number of axles and maximum admitted gross loaded weight.

2.2.4. Tax period

The vehicle tax is paid annually, in two equal installments, due by March 31, and September 30 respectively. Up to 10% discount can be obtained by the taxpayer if the annual vehicle tax is paid in full by March 31.

If the vehicle tax does not exceed 50 RON, the vehicle tax should be paid in full by March 31.

3. Income taxes – Taxable persons

3.1. Level of deduction of car-related expenses

As a general rule, car-related expenses – such as tax depreciation, leasing installments, interest for the car leased, insurance, expenses from car operation, maintenance, repairs etc. – are deductible only if incurred for the purpose of generating taxable income. For vehicles weighing less than 3,500kg, having fewer than 9 passenger seats (including the driver's seat) and exclusively used for passenger transport the related expenses are fully deductible only if the vehicles are used exclusively for business purposes. Otherwise, the deductibility of car related expenses is limited to 50%.

However, this deductibility limitation does not apply to car depreciation. Please refer to item 3.1.2 below for details on tax depreciation for vehicles.

Expenses from operation, maintenance and repair of vehicles used by individuals in company leadership and management positions for business purposes are deductible within the limits of one vehicle per person and subject to 50% deductibility if the vehicle is not used entirely for business purposes.

3.1.1. Fuel expenses

Fuel expenses for company vehicles weighing less than 3,500kg, having fewer than 9 passenger seats (including the driver's seat) and exclusively used for passenger transport are 50% deductible for corporate tax purposes as of January 2012.

However, fuel expenses for company vehicles shall be fully deductible only for cars used for carrying out certain activities. Please refer to item 3.1.3 below for exemptions to the 50% deductibility rule.

3.1.2. Tax depreciation

From a fiscal point of view, a car can be depreciated over a period of four to six years by using the straight-line or declining-balance depreciation method based on the number of kilometers or the number of operating hours provided in the technical books.

Under an operational lease agreement, the leasing installments booked by a lessee are tax deductible subject to the 50% deductibility rule. Also, the lessor can deduct the depreciation expenses incurred with the cars leased.

Under a financial lease agreement, the depreciation with the vehicle leased is tax deductible, while the interest expenses incurred by the lessee are subject to the 50% deductibility rule.

Depreciation for vehicles used for passenger transport, with up to 9 seats, is limited to 1,500 RON /month for each vehicle.

3.1.3. Exemptions to the 50% deductibility rule

When using the company car only for business purposes, there will be no expense- deductibility limit.

The 50% deductibility limit does not apply if:

- Vehicles are used solely for emergency services, safety and security, courier services, as well as cars used by sales and acquisitions agents;
- Vehicles are used for paid passenger transport, including taxis;
- Vehicles are used for service provision against payment, including rental to other parties, training activity within the driver's courses;
- Vehicles are used for commercial purposes.

Moreover, in order to ensure full deductibility of the vehicles expenses and related VAT, the taxpayers should justify the use of the vehicles with proper documentation, including vehicle logs which should include at least the following information: the vehicle category, the purpose and the location of the travel, distance travelled, fuel consumption norm / km.

3.2. Transfer pricing

Car purchases and/or lease transactions performed between related parties are subject to transfer pricing rules and taxpayers should be able to sustain their arm's length nature by preparing a transfer pricing documentation file.

4. VAT

4.1. General

Romanian VAT at the standard rate of 19% is due on most supplies of goods and/or services performed in return for a consideration.

A taxable person is any person conducting economic activities in an independent manner, irrespective of the purpose or result of those activities. In addition, any person who performs an intra-Community supply of a new means of transport (i.e., a vehicle where no more than six months have passed since the date of first entry into service or which has not travelled more than 6,000 kilometers) is also deemed a taxable person.

4.2. Deduction

For taxable persons carrying out transactions with a right to deduct VAT, the input VAT incurred for their purchases in respect of their economic activity can, in principle, be deducted to 100%.

However, with respect to the local acquisition, importation, intra-Community acquisition, rental or lease of cars and to the expenses directly linked to a vehicle owned or used by a taxable person (such as repair, maintenance, spare parts or fuel), in case the vehicles are not used exclusively for the purposes of the economic activity and have a maximum weight of 3,500 kg and a maximum of 9 passenger seats – 50% of the input VAT is deductible.

Exceptions to this rule:

- Vehicles used solely for emergency services, safety and security, courier services, as well as cars used by sales and acquisitions agents
- Vehicles used for paid passenger transport, including taxis
- Vehicles used for service provision against payment, including rental to other parties, training activity within the driver's courses, transfer of the right of use within a financial or operational lease contract
- Vehicles used for commercial purposes, or for the purpose of resale

4.3 Hire purchase: Supply of goods?

For VAT purposes, a hire purchase in Romania can be assimilated to a supply of goods based on a contract stipulating that the payment is made in installments and providing that the ownership is transferred at the latest upon payment of amounts due.

Financial components for the sales of goods in installments or for leasing services (i.e., interest expenses) represent, in fact, a part of remuneration for the supply of goods/services. However, if interest is triggered after the making available of the goods, in exchange for an arrangement of receiving milestone payments, such interest is considered remuneration for a credit facility and it is VAT exempt. Also, the output VAT is applied upon the initial transfer of goods and there is no VAT on further installments.

4.4 *Leasing: Supply of services?*

From a VAT perspective, the financial or the operational lease represents a supply of services for consideration. Consequently, the lessor will apply VAT on each instalment, including the financial component (i.e., interest) and the related commissions.

If, at the end of the leasing period, the lessee opts to purchase the leased asset, the lessor will perform a supply of goods for consideration and will charge output VAT on the transfer value (if any).

However, if the lessee opts to purchase the leased asset earlier than 12 months from the starting date of the leasing contract, the transaction will be re-classified from leasing (services) into supply of goods. This will trigger tax consequences for the leasing company as it will need to charge VAT on the entire value of the leased asset from the moment when the good was placed at the disposal of the lessee.

In the case of cancelled financial leasing contracts for which the goods are not repossessed in due time, the lessor does not have the obligation to adjust the input VAT, provided he initiates and performs actions in order to recover the goods irrespective if such goods are recovered or not.

However, in view of the European Court of Justice jurisprudence, in case of early termination of leasing agreements, the lessor has the obligation to collect VAT for the amounts charged for the early termination of such contracts.

5. *Company car*

5.1. *VAT due on private use of company cars*

As per the Romanian VAT law, the use of the company's goods for which VAT was fully or partially deducted by the company's personnel, for other purposes than carrying out its economic activity, is considered a supply of services for consideration, except in case the goods in question were subject to the special 50% deduction limitation.

5.2. *Company car in personal tax returns – benefit in kind*

The private use of the company car by an employee (excluding trips between home and workplace/ place where the activity is rendered and return) is considered as being a taxable benefit in kind granted by the employer.

In case the company car is used **solely for personal purposes**, the taxable value of the benefit is determined monthly by applying 1.7% on the booking value of the vehicle. If the car is rented by the company (this includes leasing), the taxable benefit is assessed at the value of the rent.

In case the company car is used for **both business and private purposes**, the taxable value should be proportional to the number of kilometers used for personal purposes compared to the total number of kilometers used during a month. Still, the personal usage of the company car, in case of mixed usage, is not considered a benefit in kind if the related expenses are deductible at company's level within the deductibility threshold of 50%.

The income tax – 10% - and social security contributions (please see below) related to this benefit in kind should be computed, withheld, reported and paid to the Romanian State Budget by the employer, on a monthly basis.

Type of social security contributions	Due by the employer	Due by the individual
Pension contribution	0%,4% or 8% ¹	25%
Health fund contribution	-	10%
Work insurance contribution	2.25%	–

¹ depending on the working conditions - no employer pension contribution in case of normal working conditions; a quota of 4% employer's pension contribution applies for particular working conditions or a quota of 8% employer's pension contribution applies for special working conditions;

If the vehicle is used by the employee **only for business purposes**, it would not be considered a taxable benefit. Please note that in such cases, justifying documents should be kept and be available in order to sustain the business purposes in front of the Romanian tax authorities (such documents include, but are not limited to: car log books, delegation orders, company policy, GPS tracking logs etc.).

6. Income taxes – Drivers’ personal taxation

6.1. Employees

In Romania, employees do not fill in and submit personal tax returns in respect of the salary income and the salary-related benefits, unless these are paid by a foreign employer. In case of local employment contracts, all income taxes and social security contributions due are computed, withheld, declared and paid to the Romanian State Budget by the Romanian employer (the taxes declared and paid on a monthly basis being final tax). Also, no tax deduction is granted for employees in respect of the private car expenses incurred for business purposes (i.e., commuting or other business purposes). However, in case the private car is used for business purposes, it may be agreed for the reimbursement, to the employee, of the costs incurred for the business usage of the car, based on justifying documents (e.g., invoices, receipts) in line with the company’s policy in this respect. In case of reimbursement of the transportation costs related to the trip to and from the employee’s workplace, the current tax legislation provides that it is non-taxable income (for both salary income tax and social security purposes), provided it is granted by the employer as stipulated in the employment contract. For elimination of any salary tax risk, such benefit should be reflected either directly or through addendum, in the individual’s employment contract (not only in the collective agreement) and justifying documents should be available.

6.2. Freelancers

Please refer to our comments under point 3.1.

7. Grants related to electric cars

Romanian companies and individuals that want to acquire electric vehicles may benefit from a non-refundable grant from the Environment Fund Administration, if certain conditions are met. The eco-ticket granted per vehicle acquired may be in amount of:

- RON 45.000 for the acquisition of a new pure electric vehicle;
- RON 20.000 for the acquisition of a new hybrid electric vehicle with an external power source which generates a CO₂ emission of less than 50 g/km.

The value of the eco-ticket will be deducted from the sales price with VAT of the new electric/hybrid vehicle.

8. *Legal background*

- Emergency Ordinance 195/2002 regarding the circulation on public roads
- Law No. 1/2017 regarding the abolishment of certain taxes and tariffs
- Accounting Law 82/1991;
- Order 1802/2014 for the approval of the accounting regulations complying with the European Directives
- Law 227/2015 regarding the Fiscal Code and its application norms
- Government Ordinance 51/1997 on leasing operations and leasing companies
- Government Ordinance 660/2017 for the approval of the Financing Guideline of the Program for the reduction of gas emissions
- Government's Emergency Ordinance no. 52/2017 establishing the procedure for the refund of the environmental stamp for motor vehicles
- Law 55/2020 regarding some measures to prevent and counter the effects of the COVID-19 pandemic

Russia



Enrika Schevchenko
Automotive Tax Leader

p: +7 495 967 6225
e: enrika.shevchenko@pwc.com

Natalia Ugarova
Director Tax

p: +7 812 326 6688
e: natalia.ugarova@pwc.com

Russia

1. Car registration

1.1. When does a car need to be registered?

As a general rule, Russian legislation requires the registration of vehicles which have maximum electric motor power of more than 4kW, as well as those having maximum constructive speed of more than 50 km/hour and trailers to them, as well as the vehicles imported in the territory of the Eurasian Economic Union for the time period more than 1 year.

The state registration requirement shall be also applicable, *inter alia*, to the following types of vehicles: basic vehicles and chassis of vehicles that are transported to end manufacturers or in connection with export outside the territory of the Russian Federation; vehicles that are experimental (test) samples; other vehicles in cases and in accordance with the procedure established by the Government of the Russian Federation. These requirements do not apply to vehicles that are considered as goods sold by a legal entity or an individual entrepreneur engaged in trading activities.

The registration of vehicles is carried out by registration state authorities – either independently or in cooperation with specialized organizations (that could be dealers or manufacturers of vehicles subject to meeting certain requirements). For instance, such specialized organizations may prepare necessary documents for submission to the registration authorities on behalf of the vehicle owner.

The owner of the vehicle shall submit an application for registration of the vehicle to the registration authority within 10 days from the date of its release into commercial circulation (if the vehicle was manufactured for the vehicle owner's own use) or from the date of its temporary importation in the territory of the Russian Federation for more than 1 year or from the date of acquisition by the vehicle owner of the ownership title to the vehicle.

Also, any change in the initial registration data of the vehicle (e.g., name of the vehicle's owner), as specified in the registration documents, must be registered.

1. *Currently only electronic passports of vehicles are issued in Russia.*

1.2. Who can register a car?

Currently, in Russia a vehicle may be registered based on the application of the vehicle owner (or the vehicle owner's representative) or (in certain cases) upon the initiative of the registration authorities.

The vehicles can be also registered in the name of Russian or foreign entities (companies or individuals).

Registration of vehicles may be carried out by any division of the registration authorities to which the vehicle owner may apply, regardless of the place of registration of an individual, individual entrepreneur or the location of the legal entity, being the vehicle owner.

If a foreign entity applies for registration of a vehicle, such an entity should have a Russian address that (as a rule) is registered (recorded) with the respective authorities (e.g. tax authorities that registered the foreign company's subdivision in Russia, or the migration authorities that registered the migration documents of the foreign individual, etc.).

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, on the condition that a foreign owner (company or an individual) has a Russian address.

1.4. Can a vehicle with a foreign number plate be used on public roads?

In principle, all vehicles used on Russian public roads must undergo registration in Russia, therefore implying replacement of foreign number plates with Russian number plates.

As an exception to this rule, Russian legislation allows that foreign number plates can be used on vehicles which are temporarily imported to Russia for a period up to 1 year.

When driving a vehicle with foreign number plates the driver (the foreigner) must have the customs documents confirming temporary import of the vehicle. Breach of an obligation to re-export the car after expiration of a one-year term can lead to an administrative fine and confiscation of a vehicle.

1.5. Registration of pledge over a vehicle

Starting from July 1, 2014 a new pledge on a vehicle is enforceable against a third party only after its registration in a special register kept by Russian notaries (except for the case when such third party knew or should have known about the pledge existence before it was registered).

2. Car taxation

2.1. What are the different car taxes?

In accordance with Russian tax legislation, a car producer, owner or user may be subject to the following taxes and charges:

- State charges/duties for legal actions in respect of cars
- Transport tax for legal entities and individuals
- Recycling fee

Upon importation of cars, the following taxes are due:

- Excise tax
- Import VAT
- Import duties
- Recycling fee

Costs associated with acquisition/use of the cars may be deducted for the purposes of calculation of the following taxes:

- Profits tax (due by legal entities)
- Personal income tax (due by individuals, in case cars are used by them for business purposes and the respective individuals are registered as individual entrepreneurs).

Starting from 2016 companies are also liable for environmental fees.

Environmental fee is paid by producers and importers of goods / packaging which are included in the list established by the legislation. The environmental fee for packaged and not ready-to-use goods is paid only for the packaging itself.

If goods are sold to producers of wheeled vehicles (chassis) and trailers for them which are subject to recycling fee, the environmental fee is paid only in relation to the packaging of such goods.

The list of products subject to environmental fee currently includes textile, tires, batteries, paper, plastic, wood and metal packaging, incandescent lamps and curved glass, oil products, oil strainers, consumer electronics, air conditioner equipment, etc. The payment of environmental fee for the period should be made by April 15 of the year following the reporting year.

Amount of environmental fee depends on type of goods and it is defined by multiplication of the following elements: (1) environmental fee rate, (2) recycling coefficient set for the reporting period and (3) weight (or number - depending on the product type) of goods / packaging released into circulation for domestic consumption in the territory of the Russian within the calendar year preceding the reporting period.

2.2. State charges/duties for legal actions in respect of cars

2.2.1. Recycling fee

2.2.1.1. Taxable event

Starting from September 1, 2012 a new charge was introduced in Russia. The announced reason behind the introduction of the recycling fee is to fund the future safe utilization of wheeled vehicles and chassis. Since 2016 recycling fee is also charged on construction, agriculture and some other types of machinery.

2.2.1.2. Taxpayers

The payers of recycling fee are:

- Car / vehicle importers (from September 1, 2012)
- Local car / vehicle manufacturers (from January 1, 2014)
- Car / vehicle owners (in certain cases).

2.2.1.3. Amount of tax

The recycling fee is payable on both imported and locally produced vehicles/chassis.

The rates are established by the Russian Government and depend on the type of vehicle and its engine volume or full weight. The following rates of recycling fee are established for different categories of new vehicles²⁸:

- For light vehicles: 3,400 RUB – 700,200 RUB (42 EUR – 8,566 EUR) per vehicle
- For trucks: 178,500 RUB – 3,469,500 RUB (2,184 EUR – 42,445 EUR) per vehicle
- For buses: 171,000 RUB – 1,558,500 RUB (2,092 EUR – 19,066 EUR) per vehicle
- Chassis: 300,000 RUB – 2,035,500 RUB (3,670 EUR – 24,902 EUR) per unit
- Construction, agriculture and some other types of machinery: 285,000 RUB – 2,242,500 RUB (3,487 EUR – 27,434 EUR) per vehicle.

Recycling fee for imported vehicles/chassis is administered by the customs authorities and for locally manufactured vehicles - by the tax authorities.

Compliance and payment procedures should differ for “large” and “regular” producers.

Classification criteria for large producers are determined by the Ministry of Industry and Trade (MIT). The register of companies – the largest producers of vehicles and chassis is published on the official MIT website.

2.2.1.4. Subsidy

Starting from 2014 the Russian Government introduced subsidies for Russian car manufacturers aimed at compensation of some of their costs (e.g., electricity, payroll related costs, R&D, certain production and warranty costs), based on special Governmental Resolutions.

To receive subsidies a manufacturer should sign an agreement with the Russian Ministry of Industry and Trade.

Whilst the recycling fees result in additional expense for car manufacturers, the subsidies represent additional income that may, to a certain extent, mitigate economic burden of such additional expense for car manufactures, although there is no direct link between the obligation to pay the recycling fees and the right to receive the subsidies. With that, the subsidies may be received by car manufacturers with some delay as compared to payment of the recycling fees.

²⁸ The amount in EURO is indicated based on the RUB/EUR exchange rate as of 26.10.2021

Starting from recently many subsidies are available only for OEMs who have signed a special investment contract with the governmental authorities.

2.2.2. Other state charges/duties

2.2.2.1. Taxable event

State charges/duties for legal actions in respect of cars become due when a taxpayer requests the authorized state and municipal bodies/officials to perform state legal actions towards the respective vehicle. For example, such legal actions may include:

- Issue of a number plate for a vehicle;
- Issue of a certificate confirming state registration of a vehicle, etc.

2.2.2.2. Taxpayers

Payers of state charges/duties are both legal entities and individuals who request state and municipal bodies/officials to perform respective actions in respect of cars.

2.2.2.3. Amount of tax

The amount of charge/duty depends on the type of legal action to be performed by the state and municipal body/official and is determined as a fixed amount which is usually immaterial. For example, the following charge/duty rates are valid for 2021:

- Issue of a number plate for a car/other vehicle – 2,000 RUB/1,500 RUB (24 EUR/18 EUR);
- Issue of a vehicle certificate of title (passport of the vehicle) – 800 RUB (10 EUR);
- Issue of a certificate confirming state registration of a vehicle (paper/plastic version) – 500 RUB (6 EUR)/1,500 RUB (18 EUR).

2.3. Transport tax for legal entities and individuals

2.3.1. Taxable event

There is no taxable event per se. Transport tax is due by taxpayers merely based on the fact that there are vehicles registered in their name.

2.3.2. Taxpayers

The payers of transport tax are legal entities and individuals if there are vehicles registered in their name in accordance with Russian legislation.

Starting from 1 January 2021, the obligation of taxpayers to prepare and submit tax return on transport tax has been cancelled. Legal entities have to calculate and pay advance payments to the budget. The total amount of tax for the year is calculated by the tax authorities based on the data recorded in special registers and is sent via notifications to the taxpayers.

2.3.3. Amount of tax

For cars, buses and motorcycles/scooters the amount of tax due is calculated based on the tax rate multiplied by engine capacity of vehicles expressed in horsepower (hp) and a scale-up factor which was introduced starting from January 1, 2014 with a view to levy higher taxes on luxury cars:

Amount of tax = Tax rate x Engine capacity x Scale-up factor

Fixed tax rates (i) are established by the regional legislation of each particular region within the limits specified by the federal legislation and (ii) depend on the type of vehicle and the horsepower of the vehicle. The effective federal tax rates are the following

Type of vehicle	Engine capacity (hp)	Tax rate (RUB)
Light cars	≤100	2.5
	>100 ≤150	3.5
	>150 ≤200	5

	>200 ≤250	7.5
	>250	15
Motorcycles and scooters	≤20	1
	>20 ≤35	2
	>35	5
Buses	≤200	5
	>200	10
Freight cars	≤100	2.5
	>100 ≤150	4
	>150 ≤200	5
	>200 ≤250	6.5
	>250	8.5

The Russian regional authorities have the right to increase or decrease the above-listed federal tax rates no more than ten times.

Scale-up factors are established by federal law in respect of light cars only and depend on the price of the vehicle and its age. The scale-up factor rates are as follows:

Price of vehicle (mill RUB)	Age of vehicle	Scale-up rate
>3 ≤5	≤3	1.1
>5 ≤10	≤5	2
>10 ≤15	≤10	3
>15	≤20	3

2.3.4. Tax period

The tax period for all taxpayers is established as a calendar year. Legal entities are obliged to pay tax no later than March 1 of the year following the expired tax period. The advance payments should be made during the year if this obligation is set by the regional laws.

2.4. Property tax for legal entities

Starting from 2019 the movable property is exempt from property tax and therefore vehicles are not subject to property tax.

3. Income taxes – taxable persons

3.1. Taxes

In accordance with Russian tax legislation, legal entities are subject to profits tax, whilst individuals are subject to personal income tax (PIT).

3.2. Level of deduction

3.2.1. Profits tax

The acquisition costs of a car are generally deductible via depreciation based on statutory depreciation rates. The annual depreciation rate is 20-33% for light vehicles and minivans (depending on the planned usage period); 10-20% for trucks (depending on the tonnage and planned usage period). Generally, a depreciation premium of 30% should be available for vehicles, i.e., 30% of the acquisition cost may be deducted at once, when the car is put into use (this premium, however, should be recaptured if the car is sold within 5 years).

Other car-related expenses are also generally deductible for profits tax purposes of the company as long as the car is used for business activities, with the following exceptions:

- Expenses on obligatory insurance of civil liability may only be included within the insurance tariffs established by Russian legislation and the requirements of international conventions;
- Compensation to employees of expenses associated with the use of their personal cars for business purposes is deductible within the statutory limits, which are very low.

As Russia is a form-driven jurisdiction, deductibility of car-related expenses largely depends on the ability of a company to provide the specific documentary support required to prove that the car is used for business purposes.

Intra-group transactions (e.g., intra-group purchase or lease of cars) in some cases may be subject to transfer pricing rules effective since January 1, 2012.

3.2.2. Personal income tax (PIT)

Individuals being individual entrepreneurs who use cars for performing business activities may reduce their taxable income by deducting car-related expenses provided that these expenses are (i) related to income-generating activities and (ii) properly supported by documents. Individual entrepreneurs applying a patent tax system, presumptive tax system or simplified tax system (with 6% tax rate on revenue) are not eligible for the deduction.

Employees using their private cars to perform their job duties do not receive any deductions for PIT purposes. The compensation received by them from the employer for the use of their private cars for business purposes (if any) is not subject to PIT provided that a company has in place documents supporting the business use of cars.

3.3. Leasing

Two following types of lease should be distinguished for profits tax purposes: operational lease and financial lease. Lease payments are generally deductible for profits tax purposes. However, for a financial lease the Tax Code establishes specific deductibility rules depending on whether the leased object is recorded on the balance sheet of the lessee or the lessor, as follows.

3.3.1. Leased property is accounted for on the balance sheet of the lessor

If the leased property is accounted for on the lessor's balance sheet, the lessor depreciates the property and deducts depreciation charges for profits tax purposes. Accelerated depreciation (with a coefficient of up to 3) is generally available with respect to fixed assets leased under financial lease arrangements; however, this coefficient is not applicable to light vehicles and minivans.

The deductible expenses of the lessee in this case would consist of lease payments.

3.3.2. Leased property is accounted for on the balance sheet of the lessee

According to the Russian Tax Code, if a lease agreement provides that the leased property is accounted for on the lessee's balance sheet, the lessor has the right to deduct the cost of such leased property over the period of the lease agreement proportionally to lease payments.

In such a case, the lease property shall be depreciated by the lessee (with availability of accelerated depreciation). The lessee would then deduct the lease payments reduced by the amounts of the depreciation charge for profits tax purposes.

3.3.3. Other considerations

- Sale and lease-back arrangements may be associated with certain tax risks – it may be argued that such arrangements do not qualify as a financial lease in terms of the Russian law.
- Leasing contracts should be carefully drafted to avoid negative tax consequences for both the lessor and the lessee (e.g., free-of-charge transfer of fixed assets at the end of the leasing term, non-deductibility of leasing payments and non-recoverability of related VAT for a lessee).
- Please note that further to the new IFRS 16 (Lease Accounting Standard), RAS - Accounting of Lease 25/2018 was introduced in Russia. The application of this standard is mandatory only starting from 2022 (unless the company voluntarily decides to apply the new standard before 2022). Generally, the idea behind the introduction of the RAS 25/2018 is to make IFRS/RAS approaches closer in terms of lease aspects.

4. VAT

4.1. General

The supply of goods, services and works on the Russian territory, as well as the importation of goods into Russia are regarded as taxable transactions for VAT purposes and shall be taxed at the standard VAT rate (unless they qualify for the application of the reduced rate or specific VAT exemption(s)). The VAT rate in Russia was increased from 18% to 20% starting from January 1, 2019.

A taxpayer is a legal entity or an individual entrepreneur. For import VAT purposes, individuals may also be recognized as taxable persons.

The taxable amount is normally defined as the market value of goods (services, works) supplied including the amount of excise duty and excluding the amount of VAT. The taxable value for import VAT purposes is defined as the customs value of imported goods, increased by applicable customs and excise duties.

4.1.1. VAT recovery in respect of locally purchased cars

Input VAT should be recoverable for a taxpayer under the following conditions:

- The car will be used in VAT-able activity;
- The taxpayer acquires ownership title to the purchased car and properly accounts for the purchased car;
- The transaction is properly documented.

4.1.2. VAT recovery for imported cars

Import VAT is recoverable for an importer under the following conditions:

- Import VAT was actually paid by the importer to the Russian budget at customs;
- The car will be used in VAT-able activity;
- The importer acquires ownership title to imported cars and properly accounts for these cars;
- Payment of import VAT is supported with proper documentation.

Customs VAT should be physically paid to the Russian budget. Therefore, there will be a certain time lag between the payment of customs VAT and its further recovery and this would result in some cash-flow cost for the Russian importer.

4.1.3. VAT on digital services

Starting from January 1, 2017, digital services provided by non-Russian companies to individuals located in Russia (i.e., B2C sales) are subject to Russian VAT. Digital services cover a wide range of operations, including provision of rights for software, usage of databases, cloud storage services, hosting services etc. In order to comply with the Russian VAT rules, non-resident suppliers should register with the Russian tax authorities and pay Russian VAT from all B2C sales.

Starting from January 1, 2019 the above rules are extended to sales of digital services to business entities (i.e., B2B sales).

Thus, it should be considered by non-Russian suppliers if any digital services are provided to Russian customers along with the cars and if such sales result in obligation to obtain VAT registration in Russia.

4.2. Second Hand cars

Upon the supply of cars purchased from individuals (not VAT payers) for further resale, the taxpayer determines the output VAT based on the margin between the sales price of the car inclusive VAT and the related purchase price.

4.3. Customs taxes

When importing cars and releasing them for free circulation in Russia an importer must pay customs payments, which include the following.

4.3.1. Customs processing fees

Customs processing fees are established as a flat rate depending on the customs value and vary from 775 RUB (appr. 10 EUR) to 30,000 RUB (appr. 373 EUR) per customs declaration.

4.3.2. Customs duty

Customs duty rates towards imported vehicles are as follows:

- The customs duty rate for new light vehicles with both petrol engine and diesel (semidiesel) engine is either 12,5% or 15% of their customs value depending on the car's actual engine volume.
- The customs duty rate for used (second hand) light vehicles with both petrol engine and diesel (semidiesel) engine is 20% of their customs value but not less than minimum duty calculated as the engine volume in cm³ multiplied by a flat rate varying from 0.32 EUR to 0.80 EUR per cm³ depending on the car's actual engine volume.
- The customs duty for used (second hand) light vehicles with both petrol engine and diesel (semidiesel) engine older than seven years is calculated as the engine volume in cm³ multiplied by a flat rate varying from 1.40 EUR to 3.20 EUR per cm³ depending on the car's engine volume.
- The customs duty rate for cars with electric engines (categories M1 and M1G) is 0% of their customs value, however, 0% customs duty rate is effective until the end of 2021. It has been recently proposed to extend it until 31 December, 2023 but the final decision has not been made yet.
- Import duty rate for hybrid vehicles depends on the power (whichever engine is more powerful), i.e., if the power of petrol engine is more than the power of electric one, an importer should apply import customs duty rates for vehicles with petrol engine of the same volume and vice versa.
- The customs duty rates for new heavy vehicles (trucks, etc.) are from 0% to 15% depending on the type of the vehicle.
- The customs duty rate for Sport Utility Vehicles (SUV) with engine capacity exceeding 4,200 cm³ is 10% of their customs value.

4.4. Excise tax

Imported cars (both used and new) are subject to excise duty in Russia. Excise tax is calculated based on the engine power of the car as follows (the rates are applicable for 2021):

- Zero for cars with an engine power less or equal to 90 horsepower.
- 51 RUB (0.6 EUR) (per horsepower for cars with an engine power from 90 horsepower to 150 horsepower (inclusive).
- 491 RUB (6 EUR) per one horsepower for cars with an engine power from 150 horsepower to 200 horsepower (inclusive).
- 804 RUB (9.8 EUR) per horsepower for cars with an engine power from 200 horsepower to 300 horsepower (inclusive).
- 1,370 RUB (16.8 EUR) per horsepower for cars with an engine power from 300 horsepower to 400 horsepower (inclusive).
- 1,418 RUB (17.3 EUR) per horsepower for cars with an engine power from 400 horsepower to 500 horsepower (inclusive).
- 1,464 RUB (17.9 EUR) per horsepower for cars with an engine power of 500 horsepower.

For example, if the imported car has an engine power of 250 hp, the excise duty equals 250 hp x 804 RUB = 201,000 RUB (2,459 EUR).

4.5. Import VAT

VAT is assessed at the rate of 20% on top of the customs value inclusive of customs duty and excise tax.

5. Company car

5.1. VAT due on private use of company cars

There is no VAT due on the private use of a company car. At the same time, recovery of input VAT associated with the acquisition of the respective car may be challenged by the tax authorities based on the grounds that the car is not used for business purposes.

5.2. Company car – income taxes

Under Russian tax legislation, in case a company car is provided to an employee for private use on a free-of-charge basis, the employee receives an in-kind benefit. This in-kind benefit is subject to PIT based on its market value.

Additionally, there is a risk that the company (employer) may be required to charge obligatory insurance contributions on the amount of such in-kind benefit.

6. Income taxes – drivers' personal taxation

As outlined above, car related costs are not deductible for PIT purposes unless an individual acts as an individual entrepreneur. The compensation received by an individual from its employer for the use of private cars for business purposes is not subject to PIT provided that a company has in place documents supporting the business use of cars.

7. Electric vehicles

There are no special taxation/registration rules for vehicles with electric engines in Russia. Generally, electric and hybrid vehicles are not that popular in Russia at the moment as compared to Europe.

With that, in accordance with Letter of Ministry of Finance of the Russian Federation No. 03-05-04-04/19434 dated April 7, 2015, tax burden decrease with regard to electric vehicles may be subject to further consideration by legislative bodies of Russian regions in accordance with their authority (e.g., establishment of incentives for electric vehicles owners in the form of full or partial transport tax exemption). Currently, such transport tax exemption is established in the Moscow region, Saint-Petersburg and Kaluga region.

8. Technical regulations

Unified technical regulations of the Eurasian Economic Union for certification of vehicles came into force in 2015. Technical regulations for certification of cars and trucks apply starting from January 1, 2015; for agricultural and forestry tractors and other machines (including certain types of construction machines) – from February 15, 2015.

9. Future developments

Recent legislative changes (including draft laws) concerning operations with vehicles affect issues in terms of recycling fees.

Recycling fee

A draft Federal Law “On introduction of changes to part one and two of the Tax Code of the Russian Federation (regarding the inclusion of separate non-tax payments in the Tax Code of the Russian Federation)” was developed. The draft Law *inter alia* implies replacing of the environmental and recycling fees by the single recycling duty. Overall, its provisions duplicate those being effective in respect of the recycling and environmental fees for now, but the administration of the fee is planned to be transferred to the Federal Tax Service. The draft Law is currently under public discussions and has not been submitted for consideration to the Russian State Duma yet.

Please note that draft laws, which are mentioned in this report, may be subject to further considerations, whereas their provisions may be amended or deleted, as well as other new provisions may be added.

10. Legal background

- Tax Code of the Russian Federation
- Civil Code of the Russian Federation
- Customs Code of the Eurasian Economic Union
- Russian Federal Law No. 196-FZ dated December 10, 1995 “On road traffic safety”
- Resolution of the Russian Government No. 938 dated August 12, 1994 “On state registration of motor and other types of self-powered vehicles on the territory of the Russian Federation” (with subsequent amendments thereto)
- Federal Law No. 283-FZ dated August 3, 2018 "On state registration of vehicles on the territory of the Russian Federation"
- Government Decree No. 1764 dated December 21, 2019 "On state registration of vehicles in registration divisions of the State road safety Inspectorate of the Ministry of internal Affairs of the Russian Federation"
- Federal law No. 164-FZ dated October 29, 1998 “On Finance Renting (Leasing)”
- Resolution of the Russian Government No. 863 dated December 28, 2004 “On customs processing fees”
- Order of the Russian Ministry of Finance No. 15 dated February 17, 1997 “On statutory accounting for leasing operations”
- Letter of Ministry of Finance of the Russian Federation No. 03-05-04-04/19434 dated April 7, 2015
- Russian Federal Law No. 89-FZ dated June 24, 1998 “On production and consumption waste”
- Government Decree No. 1073 dated October 8, 2015 “On process of levy of environmental fee”

-
- Government Decree No. 1291 dated December 26, 2013 “On recycling fee of wheeled vehicles and chassis”
 - Government Decree No. 81 dated February 6, 2016 “On recycling fee of off-road hoppers and trailers”
 - Order of the Ministry of Industry and Trade of the Russian Federation No. 65 dated January 28, 2014 “On recognition of the payers specified in article 24.1 paragraph 3 subparagraph 3 of the Federal Law No. 89-FZ dated June 24, 1998 “On production and consumption waste” as companies – the largest producers of wheeled vehicles and chassis and on their inclusion in the register of companies – the largest producers of wheeled vehicles and chassis”
 - Customs Union Commission Decision No. 823 dated October 18, 2011 “On Adoption of Technical Regulation of the Customs Union On Safety of Machines and Equipment”
 - Eurasian Economic Commission Decision No. 60 dated July 20, 2012 “On Adoption of Technical Regulation of the Customs Union On Safety of Agricultural and Forestry Tractors and Trailers”
 - Customs Union Commission Decision No. 877 dated December 9, 2011 “On Adoption of Technical Regulation of the Customs Union On Safety of Wheeled Vehicles”
 - Customs Union Common Customs Tariff established by Customs Union Commission Decision No. 54 dated July 16, 2012 (in the latest edition)

Slovakia



Christiana Serugova
Tax and Legal Services Leader
p: +421 903 261 010
e: christiana.serugova@pwc.com

Rastislava Krajcovicova
Director Tax
p: +421 903 268 040
e: rastislava.krajcovicova@pwc.com

Jana Borska
Senior Manager Tax
p: +421 905 793 802
e: jana.b.borska@pwc.com

Eva Fricova
Senior Manager Tax
p: +421 903 268 048
e: eva.fricova@pwc.com

Slovakia

1. Car registration

1.1. When does a car need to be registered?

The mandatory registration of vehicles and their holders in the register of vehicles results from the Act No. 8/2009 Coll. on Road Traffic as amended. Subject to certain exemptions, all vehicles that are not registered in the register of vehicles must be registered with the “Traffic Inspectorate” (special department of the Slovak Police) competent pursuant to the residence or registered seat of the vehicle holder or the address of his permanent establishment or branch. A vehicle has to be registered within 30 days of its acquisition by the owner. The owner must also state who shall be registered as the holder of the vehicle.

The obligation to register a vehicle does not apply if all the following conditions are met:

- it is a newly manufactured vehicle,
- it is intended for sale, and
- it is owned by a legal entity with a trade license to manufacture or sell vehicles.

The registration of the vehicle by the Traffic Inspectorate is subject to presentation of a certificate on compulsory contractual insurance or other proof of entering into such insurance agreement (if compulsory contractual insurance is applicable to the respective vehicle). In the case of legal entities an extract from the Commercial Register is required. This applies also to all changes to the registration data.

Upon registration, the Traffic Inspectorate assigns to the vehicle a registration (license) number (*in Slovak: “evidenčné číslo vozidla”*). This registration is recorded and evidenced by issuing a registration certificate.

If a vehicle is a newly manufactured vehicle acquired in Slovakia from another Member State of the European Union, the Traffic Inspectorate performs the registration only if a confirmation issued by the tax authorities confirming payment of Slovak VAT is presented. This certificate is not required if the vehicle owner presents a certificate of registration for VAT together with a confirmation that the tax authorities were informed about the acquisition of such a new vehicle from another Member State of the European Union.

The registration is subject to an administrative fee. The amount of the administrative fee depends on the engine power in kW and on the age of the vehicle.

1.2. Who can register a car?

A vehicle must be registered by its owner. The owner must indicate who will be registered as the holder of the vehicle.

If the owner and holder of the vehicle are not the same person, both of them must be jointly present at the registration. Otherwise, the owner of the vehicle is registered as the holder of the vehicle.

The holder of the vehicle can be either an individual (over 15 years of age, with legal capacity), a legal entity or a branch of a legal entity registered with the Commercial Register or in other registers. Only one person can be registered as the holder of the vehicle.

Other persons may act on behalf of the owner or holder of the vehicle only if they are granted a written power of attorney with certified signature of the owner or the holder of the vehicle.

When filing an application for registration electronically, the application must be signed by a certified electronic signature. This applies also for a power of attorney if the filing is made by a third person based on power of attorney.

A vehicle producer, or a representative of a vehicle producer of a completely manufactured car, not yet registered in the Slovak Republic or in another state can apply for registration of the vehicle using electronic service established for that purpose if the application is signed with a certified electronic signature.

The vehicle producer and their representative must follow a special procedure and fulfil requirements and reporting duties regarding each produced or imported car as per special provisions of the Road Traffic Act.

A person operating their business within the scope of vehicles resale (vehicles registered in the Slovak Republic or in other state) can apply to register the vehicle in the vehicle registry if the vehicle has been typologically approved as an *ES individually imported vehicle*, or approved via special electronic services by the respective district office (in Slovak: “*Okresný úrad*”) if signed with the certified electronic signature. The vehicle importer / vendor must follow a special procedure and fulfil specific requirements and duties as stated by the Road Traffic Act.

The owner or the holder (if authorized by the owner) are obliged to personally notify the Traffic Inspectorate of a change of the vehicle’s owner. This obligation may be performed also by electronic means. In the case of the use of electronic means the fees for the registration of a new owner are reduced, up to 70 EUR per registration application.

The owner and the holder of the vehicle are obliged to notify the Traffic Inspectorate (either personally or electronically) within 30 days of the transfer of vehicle’s possession to another person. The Traffic Inspectorate will only register certain changes in the vehicle register with the owner's approval or based on a court decision.

Deregistration from the Traffic Inspectorate should be done either by the vehicle's holder or owner. A person other than the vehicle's owner or holder can act on behalf of the owner or holder in matters of registration and changes to the registration only on the basis of a written power of attorney with a notarized signature of the owner or the holder, or on the basis of a decision of a relevant authority.

If the holder and the owner are not the same person, a third party can only act on behalf of the holder regarding the registration and changes to the registration of the vehicle if the owner of the vehicle has granted that party a written power of attorney with a certified (notarized) signature for such a specific action. If the owner or the holder authorizes another person in the application for registration of the vehicle and includes such a fact in the application and signs it in front of the local Traffic Inspectorate officer, the notarized signature of the owner or the holder is not required.

In 2016, there was a significant extension of electronic services provided by the Ministry of Interior of the Slovak Republic. The vehicle’s owner or holder thus have more opportunities to fulfil their obligations under the Road Traffic Act without a need to physically be present at the Traffic Inspectorate and bring the vehicle to be checked. Pursuant to the Act on electronic signature, e-services can be used by holders of an ID card with electronic chip.

Via e-services, it is possible to file an application on registration of the transfer of possession, an application for change of the number plates, an application for first registration of the vehicle, or even to report loss or theft of the number plates, or to get an overview of, legal, tax or customs status of the vehicle, originality checks or any records regarding the vehicle. It is also possible to obtain a detailed overview of compulsory contractual insurance, technical and emission controls, list of all previous owners of the vehicle and other vehicle’s technical data.

11.1 Is a foreign owner allowed to register a vehicle in Slovakia?

The Slovak Traffic Inspectorate can register a vehicle in the Slovak register of vehicles only in the case the holder of the vehicle is the Slovak resident, or the holder is a legal entity which either has its registered seat in Slovakia or its branch is registered in Slovakia.

Thus, a foreigner can be registered as an owner of a vehicle with the Slovak Traffic Inspectorate only in the case the holder is residing in Slovakia – the holder can be the same as the owner or the holder might be a different person. If the foreign individual is not only the owner, but also the holder of the vehicle, it means that the foreign individual has to obtain permanent or temporary residence in Slovakia.

Similarly, a foreign legal entity may be registered as the owner of a vehicle in Slovakia, but in order to be registered as the holder of the vehicle the foreign company has to establish at least a branch in Slovakia. Beside this (i.e., owning and holding a vehicle registered in Slovakia), for foreign individuals or foreign legal entities the same rules and conditions apply as is the case of Slovak nationals (individuals) or Slovak legal entities.

1.3. Can a vehicle with a foreign number plate be used on public roads?

Yes, a vehicle registered abroad can be driven on Slovak public roads if the vehicle has a number plate of the foreign country where it is registered according to the international treaty binding for the Slovak Republic.

This does not apply for the vehicle registered in one of the Member States of the European Economic Area, for which only a number plate with 12 yellow stars in a circle with a blue background and the two letters of the respective country are sufficient.

2. Car taxation

2.1. What car taxes are payable in Slovakia?

In Slovakia, there are following taxes payable:

- car taxes due for vehicles registered in Slovakia used for business purposes, i.e. the motor vehicle tax and
- charges for the approval of an individually imported or an individually manufactured vehicle (this charge varies)

The approval of the entry of an individually imported or manufactured vehicle on the market is based on the issuance of a certificate of assumption of the responsibility for waste management for an individually imported or manufactured vehicle. This certificate is issued by the coordination centre for end-of-life vehicles on request, or by any producer of vehicles if a coordination centre has not been established. The issuance of the certificate may be subject to payment or may be free of charge. If the certificate is issued in exchange for payment, this must not exceed the actual costs of ensuring the processing of the end-of-life vehicle after deducting the potential revenue from processing the end-of-life vehicle; however, it must not exceed the amount paid by the producer of the vehicle to the responsible producing organization for ensuring the processing.

A vehicle producer is obliged to:

- use coding to facilitate the identification of components of vehicles and used materials and equipment which are suitable for reuse and recovery;
- not use in the manufacturing process materials and components and not place on the market vehicles containing materials and components which include heavy metals;
- use only recyclable and reusable materials, parts and construction blocks for production;
- provide for the collection of end-of-life vehicles from end-users throughout the Slovak Republic to the extent of at least one facility for the collection of end-of-life vehicles in each district and inform end-users of vehicles of the need to hand them over for processing and the availability of points of collection;
- ensure that the persons operating facilities for the collection of end-of-life vehicles do not refuse to take over end-of-life vehicle from the holders thereof and takeover end-of-life vehicles without requiring a fee, provided that the end-of-life vehicle is complete;
- provide processors of end-of-life vehicles with information on the environmentally sound processing of end-of-life vehicles on a technical medium or by electronic communication within six months of placing on the market a new model of a vehicle manufactured or imported by them.

Moreover, vehicle producers must publish information on the design of vehicles and their components with a view to the recoverability of end-of-life vehicles and their components, including the methods of recycling, and materials on environmental progress related to the cars.

2.2. Motor vehicle tax

2.2.1. Taxable event

Taxable vehicles are those registered in the Slovak Republic and used for business or other entrepreneurial activities subject to income tax in the Slovak Republic. The motor vehicle tax is administered by the tax office where the seat of the company is registered or by the permanent address in case of natural persons.

The use of the vehicle for business and entrepreneurial activities is defined as:

- the actual use of the vehicle for business purposes;
- vehicle was recorded in the accounting books;
- vehicle was recorded in the tax evidence;
- applying of expenses related to the usage of vehicles;
- the use of the vehicle for business purposes by taxpayer.

Vehicles marked in the registration certificate as special vehicles, used for special activities, and not designated for transport are not subject to tax.

Also, the following vehicles, are not be subject to tax:

- vehicles type M - newly manufactured or newly purchased and so-far unregistered vehicles, and vehicle used for trail rides;
- vehicles type H - historical vehicles; vehicles type S – certain sports cars.

In addition, the vehicles used by diplomats or consular offices, based on reciprocity; various rescue and emergency vehicles; vehicles used solely in agriculture production or wood production; and vehicles for regular transportation of persons under an agreement for services, are exempt from tax.

2.2.2. Taxable person

The taxpayer is an individual or legal entity that:

- is registered as the owner of the vehicle in its documentation;
- has a branch registered as the owner of the vehicle in its documentation;
- uses a vehicle where the person registered as owner died, was dissolved, or was deleted from the commercial register;
- uses the vehicle for business, and the person registered as owner does not do so;
- is an employer who pays travel allowances to an employee for the use of the vehicle for the employer's business and that employee does not use this car for own business.

2.2.3. Tax period

The tax period is a calendar year. A taxpayer must file the tax return and pay the tax liability for the previous year by January 31 of the following year.

If a tax liability arises or terminates during the tax period, the amount of annual tax is adjusted. However, the extent of the vehicle's use for business throughout the tax period has no effect on the amount of the tax liability. The tax liability is calculated for each vehicle separately as annual tax divided by 12 and times the number of months a vehicle was subject to tax.

The tax liability arises on the first day of a month in that the conditions are met (e.g., a vehicle is used for business). In case of change of a taxpayer (e.g., sale between two companies) the tax liability arises in the month following after the month in which the change was effective (the information was changed in technical documentation of the vehicle).

The tax liability ceases on the last day of the month in which, for example, the vehicle was deregistered, the business was terminated or interrupted, the taxpayer was wound up without liquidation, the holder of the vehicle changed, or the taxpayer stopped to use the vehicle.

The date of arising and ceasing of the tax liability have to be provided in the tax return, except the employer paying out allowances to employees for their vehicle use.

2.2.4. Announcing obligations

In case that during the tax period the vehicle was not subject to tax and it was not recorded in the bookkeeping or tax evidence or no expenses relating to the usage of this vehicle were applied for tax purposes, the taxpayer has to announce this fact by the deadline for filing the tax return, i.e., January 31 of the following year.

2.2.5. Annual tax

The annual tax is calculated for each vehicle separately based on the tax rate and months of usage.

The tax rates are given by the law and depend from:

- for electric vehicles powered solely by electricity based on engine performance in kW
- for passenger cars, based on engine capacity in cubic centimetres;
- for utility vehicles, such as delivery vans, lorries, trucks and trailers and buses, based on the number of axles and the vehicle's weight.

2.2.6. Tax rates for vehicles

Passenger cars				
Vehicle type	Base for calculation	Minimum	Maximum	Annual tax in EUR
Category L, M and N powered solely by electricity	Engine performance in kW	no limit	no limit	0
Personal vehicles	Engine capacity in cm ³	-	150	50
		150	900	62
		900	1 200	80
		1,200	1,500	115
		1,500	2,000	148
		2,000	3,000	180
		3,000	no limit	218

Utility vehicles and buses (excluding trailers and semi-trailers)			
<i>Number of axles</i>	Total weight or maximum permitted weight of loaded vehicle in tonnes		Annual tax in EUR
	Minimum	Maximum	
<i>up to 2</i>	-	1	74
	1	2	133
	2	4	212
	4	6	312
	6	8	417
	8	10	518
	10	12	620
	12	14	777
	14	16	933
	16	18	1,089
	18	20	1,252
	20	22	1,452
	22	24	1,660
	24	26	1,862
	26	28	2,075
	28	30	2,269
30	no limit	2,480	
<i>3</i>		15	566
	15	17	673
	17	19	828
	19	21	982
	21	23	1,144
	23	25	1,295
	25	27	1,452
	27	29	1,599
	29	31	1,755
	31	33	1,964
	33	35	2,172
	35	37	2,375
37	40	2,582	
40	no limit	2,790	
<i>4 and more</i>		23	721
	23	25	877

	25	27	1,033
	27	29	1,189
	29	31	1,337
	31	33	1,548
	33	35	1,755
	35	37	1,968
	37	40	2,172
	40	no limit	2,375

2.2.7. Increase and decrease of the annual tax

The annual tax will be decreased for vehicles of the categories L, M1, N1, N2, O1 to O3 (including motorcycles and personal cars) by:

- a. 25% in first 36 months, starting with the month of first evidence of the vehicle;
- b. 20% in following 36 months; and
- c. 15% in additional following 36 months.

After these 3 times 36-month period (108 months) the full annual tax will apply for the following 36 months.

After 4 times 36 months period (144 months) the annual tax will be increased by:

- d. 10% in following 12 months; and by
- e. 20% for vehicles which are more than 156 months old.

In addition to the above the annual tax will be decreased by 50% for:

- Hybrid motor vehicles;
- Motor vehicles powered by gas - CNG or LNG;
- Motor vehicles powered by hydrogen.

If during the tax period the vehicle was used in combined transport (e.g. transport to a train) at least 60-times, the annual tax can be decreased by an additional 50%.

Since 2020, a preferential adjustment of the annual tax rate based on the age of the vehicle applies for vehicles of categories M2, M3, N3 (e.g., passengers cars with more than 8 seats and cars for transportation of goods), and a flat decrease of the annual tax rate for the vehicles of a category O4, regardless of the age of the vehicle, and a new annex determining the fixed tax rates set specifically for trailers and semi-trailers have been introduced.

2.2.8. Tax advances

When filing the motor vehicle tax return (by January 31 of the following year) an estimated tax should be calculated. This estimate is calculated based on vehicles subject to tax as at January 1 of the current year. If the estimated tax exceeds:

- 700 EUR, the taxpayer should divide his estimated tax liability into four equal quarterly advance payments;
- 8,300 EUR, the taxpayer should divide his estimated tax liability into 12 equal monthly advance payments.

If the estimated tax is lower than 700 EUR or in the case that the tax liability arises during the tax period, the taxpayer does not have to pay any advance payments. However, based on the taxpayer's request, the tax administrator may determine the payment of tax advances.

After the tax period, the taxpayer reconciles the advances paid with the final tax liability in the annual tax return and pays the outstanding amount by the deadline for filing the tax return (January 31 of the following year).

3. Income taxes – taxable persons

The acquisition price of a car acquired by a purchase or financial lease and included in the company's fixed assets register is tax deductible through depreciation up to 100% of the purchase price of the car. This does not apply if the purchase price is 48,000 EUR and more and, in the respective tax period, the company achieves either a tax loss or a relatively low tax base. In such cases the car's tax depreciation charges may be limited down to acquisition price 48,000 EUR only.

If the company uses a car under operational lease, where the acquisition price of the car is 48,000 EUR and more, the company (lessee) may be required to limit yearly tax deduction of leasing charges to 14,400 EUR in those years when either a tax loss or a relatively low tax base is achieved.

If the company leases (rent) its own car under an operational lease, it can apply tax depreciation charges based on the respective tax depreciation group, however, maximum up to the level of the leasing income relating to the respective period.

Vehicles are depreciated for income tax purposes over four, exceptionally six, years. Electric vehicles (BEV and PHEV) are depreciated for two years only. In case of cars depreciated over six years, the taxpayer can choose between straight-line or accelerated depreciation methods. Cars depreciated over four years can be depreciated using the straight-line method only.

If a car is purchased by a VAT-payer that does not have the right to claim input VAT, or by a non-VAT payer, VAT is part of the acquisition price and can also be depreciated for tax purposes. If a car is acquired through a financial lease, VAT is not included in the acquisition price, regardless of whether the car is purchased by a VAT payer or a non-VAT payer. In this case, the VAT is considered a tax-deductible expense for corporate income tax purposes unless the lessee is entitled to recover the VAT.

The tax written-down value of a car liquidated is a tax-deductible expense. The tax written-down value of a damaged car is a tax-deductible expense, up to the level of related compensation or sale proceeds received. The tax written-down value of a car sold is a tax-deductible expense, up to the level of the sales proceeds included in the tax base.

Motor vehicle tax is also a tax-deductible expense.

4. VAT

4.1 General

Generally, the standard VAT rate of 20% applies to supplies of services and goods (such as cars) in Slovakia. The lower VAT rate of 10% applies only to certain products, e.g. some pharmaceutical products, some books, certain food products (e.g., bread, meat, fish, milk honey, most fruit and vegetables, etc.), selected newspapers, magazines and periodicals and certain accommodation services.

Local reverse charge is applied on local sales of any goods carried out by foreign entities to Slovak established customers (taxable persons) where the place of supply is in Slovakia. Foreign suppliers are no longer accountable for Slovak VAT on local supplies of cars to Slovak established customers. Instead, Slovak taxable persons are responsible for self-assessing Slovak VAT on such supplies.

In the event of an intra-Community acquisition (through a purchase or financial lease, if applicable) or the import of **a new car**, VAT is due regardless of whether the acquirer or importer is registered for VAT or not. If the person is not a VAT payer in Slovakia, and acquires the new car from another EU member state he must file a VAT return and pay the related VAT to the tax office within seven days after the acquisition of the new car from the other EU member state.

A regular VAT payer includes this transaction in its VAT return and Control Statement following the general rules and pays the related VAT within 25 days after the end of the tax period in which the VAT liability was incurred.

Intra-Community supply of a new car is always VAT exempt, regardless of the status of acquirer (non-taxable person, taxable person, VAT payer, etc.).

There is a special arrangement for traders of used cars, in accordance with EU Directive 2006/112/EC, i.e., this VAT regime is based on the taxation of a difference between purchase and sale price (margin taxation).

4.2 Deduction

Under the Slovak VAT Act, the right to deduct VAT on goods and services arises to a VAT payer on the day that the tax liability arose for those goods or services. It is possible for VAT payers to deduct the input VAT incurred from a purchase or lease of all cars, including a passenger car and its accessories provided these are used for business purposes subject to VAT.

If the cars (subject to depreciation rules under Income Tax Act) are used for business and purposes other than business, the VAT payer may decide to claim only a proportion of input VAT corresponding to the forecasted business usage, in which case he does not have to pay output VAT related to private (non-business) use of the car. However, in case of VAT related to services or goods other than those subject to depreciation rules (i.a. fuel costs), the VAT payer can claim only a proportion of input VAT corresponding to the usage of the car for business purposes.

Furthermore, the VAT payer has to make an adjustment of the deducted input VAT if he changes the scope of the use of the movable tangible property for business and non-business purposes and if the VAT payer decided to deduct only a part of input VAT corresponding to the scope of the use for business activities. VAT adjustment period is 5 years including the year of the acquisition of the car.

VAT payer has to make also an adjustment of the deducted VAT from services performed on the VAT payer's fixed assets which has led to its permanent increase in the value where the VAT payer has not applied a VAT deduction on the acquisition of the fixed asset and VAT payer supplies this fixed asset for its personal consumption, for the personal consumption of its employees, or supplies such fixed asset free of charge. VAT adjustment period is 60 calendar months for services performed on cars.

Provisions regarding adjustment of input tax apply for the movable tangible property that meets the definition of investment property, i.e., movable property where the acquisition price exceeds 3,319.39 EUR (excluding tax) and the useful life exceeds one year. Therefore, this applies also for cars.

In the event of an occasional intra-Community supply of a new car from Slovakia to another EU member state, each person is considered a taxable person (regardless of whether he is a VAT payer or not) and has the right to deduct the VAT incurred due to the purchase, intra-Community acquisition, or import of the car.

4.1.1. Hire purchase

If there is an obligation to purchase the car at the end of the lease period (not generally a right for the lessee, but an obligation), this transaction is considered a supply of goods. Thus, the VAT rules for supply of goods apply and VAT becomes due at the time the right to handle the car as the owner is transferred from the lessor to the lessee.

Following this ECJ Case C-164/16 Mercedes-Benz Financial Services UK Ltd some leasing supplies that have until now been considered for VAT purposes as supplies of services may be considered as supply of goods, i.e., have different VAT treatment and implications. Therefore, it is necessary to analyse agreed terms and conditions in detail for determining the correct VAT treatment of leasing.

In all other cases, the lease of the goods is generally treated as a supply of service.

The place of supply in case the lease is considered a supply of service

- for the short-term lease of cars (up to 30 days) is the place where the car will be placed at the disposal of the customer;
- for other lease structures for cars (those except for a short-term lease) the place of supply is where the customer has its seat, place of business, or fixed establishment to which the service will be supplied.
- for other than short-term lease of cars, if provided to a person other than a taxable person, the place of supply is where the customer has its seat, place of business or fixed establishment.

4.1.2. Lease

An operational lease and financial lease with the right to buy the car is considered a supply of a service and is subject to VAT. The VAT is generally due on the installments.

5. See above the description of the hire purchase in section 4.2.1. Company Car

5.1. VAT due on private use of company cars

In connection with part 4.2, the use of a company car for private purposes where input VAT was fully deducted at the time of purchase is considered as supply for consideration and is subject to VAT.

If fuel costs relating to personal use of a car are borne by the company, the input VAT related to the personal use is generally non-deductible.

5.2. Company car in payroll– benefit in kind

When an employer puts a company car at the disposal of an employee, and the employee **is entitled to use** the company car for private as well as business purposes, the car is considered a benefit in kind for the employee. The computation of such benefit-in-kind reflects the period since putting the car in use. In the first calendar year, the employee's income for every calendar month of having the car available for private use is calculated as 1% of the car's acquisition price (including VAT). In the next seven calendar years, for the benefit-in-kind purposes the car's acquisition price (including VAT) is annually decreased by 12.5%, as of the first month of the respective calendar year.

For a car acquired via financial lease or car used based on an operational lease, the acquisition price of the legal owner (the lessor) is used to calculate the benefit.

If fuel costs relating to personal use of a car are borne by the company, an additional taxable benefit arises for the employee in the value of actual fuel costs incurred during private use.

6. Income taxes – driver's personal car

If the employee uses his private car for his employer's business purposes, the employer has to reimburse the employee in accordance with the Slovak Act on Travel Allowances. Based on the Slovak Act on Travel Allowances, the use of a private car is compensated by a fixed allowance of 0.193 EUR for each kilometre driven. The employee is also compensated for the cost of fuel based on the actual price of the fuel and the consumption stated in the car's technical manual.

Travel allowances paid within the statutory limits set out in the Act on

Travel Allowances are tax-deductible costs for the employer, and not taxable income for the employee.

The employer's provision of compensation of the employee above the statutory limits is tax deductible for the employer provided that the employee is entitled for this benefit in kind based on his employment contract. However, such income remains to be subject to personal income tax at the hands of the employee and also subject to social and health insurance contributions for the employer and the employee.

7. *Compulsory contractual insurance on motor vehicles*

Under the Act on Compulsory Contractual Insurance for Damage Caused by Use of a Motor Vehicle, every owner or legal holder of a vehicle, or in case of lease with the option to purchase the asset, the lessee (the “**motorist**”) has the obligation to conclude a contract for compulsory contractual motor vehicle liability insurance (the “**CCI**”) each calendar year.

The insurance company is obliged to issue the green card to the insured person without undue delay after the conclusion of the CCI contract. When operating a domestic motor vehicle, the driver is obliged to carry the green card with him and to present it at the request of policemen when pulled over.

Although CCI is not bound to a specific person, it refers to damage that the motorist causes to other persons or property by operating a vehicle.

The due date for having CCI concluded with an insurance company is the first day on which the vehicle is used.

The insured party has the right to request the insurance company to reimburse the injured party for the proven claims for compensation of:

1. personal injury and costs connected to the death of a person,
2. damage, destruction, theft, or loss of an object,
3. lost profit,
4. legitimately incurred expenses in connection with legal representation in the exercise of claims under the point 1., 2. and 3. above if the insurance company fails to meet its obligations to initiate the investigation necessary to ascertain the extent of the insurance claim payment, or wrongly refused to provide indemnity or unduly shortened the indemnity.

The insurance average limits must be stipulated in the CCI contract.

The insurance minimum coverage:

- for the damages under point 1. above must be at least 5,240,000 EUR, regardless of the number of persons injured or killed; and
- for the damages under the points 2., 3. and 4. above must be at least 1,050,000 EUR regardless of the number of harmed persons.

If the sum of the claims of several harmed persons exceeds the indemnity limit stated above or in the CCI contract, the indemnity (insurance claim payment) to each person shall be reduced according into the proportion to of the indemnity limit to the sum of the claims of all harmed persons.

Insurance companies are obliged to inform the motorist in writing about the prices and conditions for CCI for the next insurance period no later than ten weeks before the termination of the term of the insurance. The CCI contract terminates, among others, by destruction of the vehicle, by registration of the vehicle’s ownership transfer, or in case that the premium according to the CCI contract is not paid within the period of one month from its due date, if not agreed otherwise (but the delay of payment cannot be agreed as longer than 3 months in the CCI contract).

The vehicle accident insurance differs from the CCI. The vehicle accident insurance is not mandatory and in general, its aim is to cover damages which the motorist caused to his own vehicle.

8. *Electric vehicles*

Slovakia is one of the leading countries as regards car production and was repeatedly ranked first by number of cars produced per capita. To ensure the long-term maintenance of this leadership and the gradual increase in domestic value added in automotive (development, design), Slovakia takes an active approach to progressive trends in motor mechanics and develops activities related to research and development. The importance of green transport was highlighted by the Program Declaration of the Slovak Government for the years 2021 - 2027, in which the Government declared its focus on sustainable mobility.

The electromobility initiatives are following up on the previous strategies of indirect state incitements in the form of financial aid for new electric vehicles, financial aid for municipalities and private entities for the construction of charging infrastructure. Within the previous scheme the government provided financial aid of 8,000 EUR for electric vehicles and 5,000 EUR for plug-in hybrid vehicles in the years 2019 and 2020. In 2021 due to the budgetary restraints caused by the COVID-19 pandemic the financial aid was not offered. However, the program is foreseen to be re-launched again for the year 2022. In 2021 the government provided financial aid in the amount of over 600,000 EUR for the construction of charging infrastructure, which will lead to the creation of 241 new charging points, of which 43 will provide for accelerated charging.

The investment into the charging infrastructure is perceived as a vital incentive for the electromotive industry and is in line with the demands of the automotive industry. There are currently 924 recharging points in Slovakia, in terms of the number of electric vehicles, this represents 4 vehicles per 1 charging point with approximately 2 recharging points on every 100 km. This puts Slovakia on the bottom half of EU Countries, in terms of availability of the charging points. On the other hand, according to the EAFO (European Alternative Fuel Organisation) Slovakia is one of the best-equipped countries in Central Europe. The largest providers of public chargers in Slovakia include GreenWay Infrastructure and ZSE Drive.

Despite the government initiatives, the share of electric vehicles in Slovakia represents only 1,9% of the passenger cars, which is well below the EU average. In 2020 there were 1,863 electric cars and 1,643 plug-in hybrid cars. The growth of this number is expected to be stagnant in the upcoming future due to the withdrawal of government support in 2021, the economic hardships of COVID-19 pandemic and the rising prices of electricity.

9. *Future developments*

Since January 1, 2016, the system of electronic stamps replaced motorway stickers with electronic stamps for using specified road sections, i.e., designated sections of motorways and speedways in Slovakia.

As of July 1, 2021, the issuing of technical control, emission control and originality control labels has been abolished.

As of July 7, 2020, the obligation to subject the vehicle after a serious traffic accident and damage event at a certified repair site is postponed to the end of 2021, which means that this obligation will take effect as of the beginning of 2022.

Since May 20, 2018, a new Act no. 106/2018 Coll. The Operation of Vehicles in Road Traffic (the “Operation of Vehicles Act”) came into effect and replaced the old act. The new Operation of Vehicles Act brings various changes, including:

- lower fines for late technical and emission check-ups,
- longer periods for technical check-ups of motorcycles, tractors and sidecars,
- emission check-ups with new category of results as “temporarily eligible” gives a chance to repair a vehicle within 60 days and retake the check-up,
- stringent rules and fines for illegal manipulation with odometers,
- creation of national register of operational records of vehicles which includes various records from the operation of the vehicle, technical and emission controls, controls of originality, VIN number, etc.,
- issuance of emission stickers for eligible vehicles which shall be allowed to enter various low-emission zones,
- allowance to register cars with the steering wheel on the right side,
- more secure purchase of vehicles from the legal entities with the trade license to sell vehicles that shall include VIN number on all sale documents.

10. Emission reduction

The WLTP methodology (Worldwide Harmonized Light-Duty Vehicle Test Procedure) came into force as part of the new Euro 6c- and 6d-TEMP standards on September 1, 2017 for new models and applies to all newly registered vehicles after 1 September 2018. This methodology provides more realistic fuel consumption values for a single vehicle and it is based on a revised test cycle with stricter test rules.

The CO₂ targets that car producers had to meet by 2021 were based on the old NEDC test, the so-called New European Driving Cycle. From the introduction of the new WLTP test in September 2017, the WLTP-CO₂ values are translated back to NEDC-equivalent values to monitor compliance against the CO₂ targets set by the European Union. The WLTP values of new cars are monitored against producers' new CO₂ target values based on the WLTP and Real Drive Emissions (RDE), which from January 1, 2021 are governed by the Euro 6d that prescribes the maximum permitted deviation between these two tests to 50%.

The main objective of the new emission standards and the introduction of the new testing methods is to decrease emissions by 37.5% by 2030. The emission standards are perceived as extremely demanding and hard to implement by car producers, as the current average emissions by cars sold in the EU are set at 95 g CO₂/km. These emissions will be progressively decreasing which is predicted to force some car producers to transform their production exclusively into the production of electric cars.

11. Legal background

- Act on Motor Vehicles Tax
- Income Tax Act
- VAT Act
- Act on Local Taxes
- Travel Allowances Act
- Accounting Act
- Accounting Principles
- Act on Compulsory Contractual Insurance for Damage Caused by Use of a Motor Vehicle Road Traffic Act
- Act on the Operation of Vehicles in Road Traffic
- Act on Uniform Information System for Road Transport
- Act on Vignettes
- Act on Electronic Signature
- Act on Wastes
- Clean Air Act

Slovenia



Aleksander Ferik

Director Tax

p: +386 1 58 36 069

e: aleksander.ferik@pwc.com

Slovenia

Short summary of changes in force since January 2021

After 1 January, 2021, the MVT is calculated in accordance with the new Motor Vehicle Tax Act. The Act introduces certain changes in the calculation of MVT according to the applicable law. The essential changes for charging MVT at import are:

- MVT is charged only from vehicles registered in the Republic of Slovenia (RS).
- MVT is a single tax.
- According to the MVT calculation method, vehicles are classified into four groups. These are:
 - (1) Motor vehicles of heading 8703, with the exception of: motor vehicles of heading 8703 10, caravans, tricycles and quadricycles, motor vehicles powered solely by electricity (tariff code 8703 80), other motor vehicles without CO₂ emissions and motor vehicles with an engine power not exceeding 4 kW nor exceeding a maximum speed of 25 km / h.
 - (2) Caravans, tricycles and quadricycles of tariff code 8703 and motor vehicles of tariff code 8711, except for motor vehicles powered solely by electricity (tariff codes 8703 80 and 8711 60) and other motor vehicles without CO₂ emissions and motor vehicles whose power the engine does not exceed 4 kW nor does it exceed a maximum speed of 25 km / h.
 - (3) Motor vehicles of tariff codes 8703 and 8711, the engine power of which does not exceed 4 kW nor does it exceed a maximum speed of 25 km / h. (4) Motor vehicles exclusively electric (tariff codes 8703 80 and 8711 60) and other motor vehicles of tariff codes 8703 and 8711 without discharge.
- MVT is not calculated from the tax base derived from the customs value, but is linked only to environmental factors. So the value of the vehicle for the MVT calculation is irrelevant.
- MVT is calculated in an individual group according to the obligations set for that group. These obligations are: according to the CO₂ emission and the type of fuel used to drive the motor vehicle, according to the EURO emission standard and the type of fuel used to drive the motor vehicle, according to the engine power. The method of filling in the individual fields of the customs declaration relating to the MVT and the amounts of individual obligations are set out in the Annex.
- For CO₂ emissions, the data after the NEDC measurement is no longer taken into account, but the measurement according to the new (stricter) WLTP method. If the NEDC measurement data is known, the value is increased by the inverter.
- The value of the charged MVT is reduced due to the age of the vehicle, the number of seats and, if the vehicle is also intended for the transport of goods (taking into account the condition that it is such a vehicle).

There are some also new exemptions (e.g., for fire engines and vehicles for the purpose of civil protection of RS).

1. Car registration

1.1. When does a car need to be registered?

At the moment the motor vehicle (new or second-hand) is put on the public road, it should be registered and have a valid certificate of registration, a license for temporary registration or a valid certificate for trial driving. Each motor vehicle must have its individual number plate, which is issued for its identification.

1.2. Who can register a car?

The owner of the car (natural or legal person) can register the car.

Only a car whose owner is either a natural person with a permanent address in Slovenia or a legal person established in Slovenia can be registered. If the car is owned by more than one person, the car is registered in the name of one person only, based on their mutual agreement. Registration in the name of two or more persons is not possible.

A car subject to a lease, rental or sales contract with reservation of ownership rights can be registered in the name of the user of the car with the owner's written consent. However, the owner's name should be stated in the certificate of registration.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Foreigners who have been granted permanent or temporary residence in Slovenia can register motor vehicles and trailers in Slovenia. Vehicles that foreigners drive out of Slovenia after the expiry of their residence in Slovenia are also eligible for temporary registration, as are vehicles bought in Slovenia that will be registered abroad. The latter are issued with a registration valid for a limited time which is necessary for a vehicle to be transferred.

Foreigners can obtain certificates of temporary registration issued on prescribed forms by the administrative unit in the territory where they have their permanent or temporary residence, or at an organization authorized for the registration of new vehicles.

1.4. Can a vehicle with a foreign number plate be used on public roads?

A motor vehicle registered abroad can be used on the public roads with a foreign number plate if it has a registration number, certificate of registration and the indication of the home country as prescribed by the International Convention on Road Traffic. In addition, the vehicle has to be compliant with environmental regulations, and in winter time it has to possess the necessary winter equipment.

2. Car taxation

2.1. What are the different car taxes?

The taxes usually levied on motor vehicles in Slovenia are:

- Motor vehicle tax
- Road usage fee (Circulation tax)
- Environmental duties
- Administrative fee
- VAT

2.2. Motor vehicle tax

MVT is paid from motor vehicles from tariff codes: 8703 (except 8703 10) and 8711 customs tariffs from Council Regulation (EEC) no. 2658/87), which must be registered in the Republic of Slovenia in order to participate in road traffic in accordance with the regulations governing the registration of motor vehicles.

MVT is paid from motor vehicles referred to in the previous paragraph, which are placed on the market for the first time or are registered for the first time in the territory of the Republic of Slovenia.

MVT is also paid from motor vehicles that are subsequently converted into motor vehicles that are subject to MVT taxation. A motor vehicle is considered to be converted when, in accordance with the regulations governing motor vehicles, individual approval of the converted vehicle is required. This applies to motor vehicles registered for the first time in the Republic of Slovenia from 1 January 2021 inclusive.

2.2.1. Taxable event

The obligation for calculation of tax arises when the turnover of motor vehicles is performed. Motor vehicle traffic is considered to have taken place when:

- an invoice for the sale of a motor vehicle has been issued;
- on import: a customs debt is incurred or would have been incurred if no exemption from customs duties or a fixed rate of duty had been set;
- the motor vehicle is taken for own use;
- the motor vehicle is handed over if it is disposed of free of charge;
- the motor vehicle is obtained from another Member State;
- the motor vehicle is converted into a motor vehicle which is subject to MVT taxation;
- the owner brings a motor vehicle into the Republic of Slovenia due to the transfer of residence;
- registration of a motor vehicle in the Republic of Slovenia is required for the first time.

The obligation to calculate the motor vehicle tax does not arise if the manufacturer of the motor vehicle sells the motor vehicle directly for export or amount from the Republic of Slovenia before the first registration.

The manufacturer is obliged to keep records of such motor vehicles, the date of sale of the motor vehicle and the date of export or amount from the Republic of Slovenia and submit it together with evidence of export or amount of the motor vehicle from the Republic of Slovenia within eight days.

2.2.2. Taxable person

A taxable person is a person who acquires a motor vehicle from another Member State, an importer of a motor vehicle, a person who enters a motor vehicle from another Member State for the purpose of transfer of residence, or a manufacturer of a motor vehicle intended for registration in the Republic of Slovenia.

A taxable person is also a person who converts a motor vehicle into a motor vehicle that is subject to MVT taxation and the vehicle is intended for registration in the territory of the Republic of Slovenia, from which motor vehicle tax has not yet been paid in the Republic of Slovenia.

Exemptions:

Certain exemptions apply where MVT is not paid, such as: from motor vehicles which are exported or delivered to another Member State before the first registration in the territory of the Republic of Slovenia, from vehicles procured for the transport of large families, from vehicles procured for the transport of the disabled, from vehicles procured for the needs of diplomatic and consular missions and international organizations, from vehicles temporarily exported or imported into the Republic of Slovenia etc.

2.2.3. Tax due

The MVT assessment forecast is submitted in electronic form via the eDavki (i.e., eTax) system. A taxable person who is a natural person may submit a return in physical form (this option is valid until 31 December, 2021).

The taxpayer submits a return for the assessment of MVT no later than 15 days from the date of the tax liability.

The taxpayer pays the tax within 30 days after the service of the decision on assessment of the tax.

2.2.4. Tax rate

The tax base is determined according to the type of motor vehicle (tariff code). The criteria for determining the tax base according to the type of individual motor vehicle are: the type of fuel used for propulsion, CO₂ emissions from combined driving (hereinafter: CO₂ emissions), expressed in g / km, engine power expressed in kilowatts (kW), and the environmental category defining the EURO emission standard (hereinafter: the EURO emission standard). The data for determining the tax base are specified in the certificate of conformity, in the register of registered vehicles of the ministry responsible for transport prescribed by the law governing motor vehicles, in the records of the financial administration or in another authentic document containing data for determining the tax base. When determining the tax according to CO₂ emissions, the data on CO₂ emissions according to the Globally Harmonized Test Procedure for Vehicles (WLTP) are taken into account. For motor vehicles that do not have data on CO₂ emissions according to WLTP, the converter is taken into account.

Calculation of tax for motor vehicles of tariff code 8703 (so-called "personal" motor vehicles), except for exceptions

MVT for vehicles of heading 8703, except: motor vehicles of heading 8703 10 (not subject to VAT), motor vehicles, tricycles and quadricycles, motor vehicles with an engine power not exceeding 4 kW nor do they exceed a maximum speed of 25 km / h, motor vehicles powered solely by electricity (heading 8703 80) and other non-CO₂ motor vehicles, as the sum of the obligations in terms of CO₂ emissions and the type of fuel used to power the motor vehicle and the obligations in terms of the EURO emission standard and the type of fuel used to power the motor vehicle.

1. **Tax liability according to CO₂ emissions and type of fuel:** The obligation in euro in respect of CO₂ emissions and the type of fuel used to power the motor vehicle shall be:

	Petrol surcharge (for each g / km of CO ₂ emissions above the lower limit)	Minimum obligation for petrol (in euros)	Surcharge for diesel (for each g / km of CO ₂ emissions above the lower limit)	Minimum obligation for diesel (in euros)
Over 50 to 100	0,4	0	0,5	0
Over 100 to 140	0,7	20	0,8	25
Over 140 to 190	5	48	6	57
Over 190 to 230	30	298	36	357
Over 230	50	1.498	60	1.797

For a motor vehicle with CO₂ emissions of up to 50 g / km, the obligation is 0 euros, regardless of the type of fuel used for propulsion. For a motor vehicle with a CO₂ emission greater than 50 g / km, the obligation shall be set as the sum of the minimum obligation for the class to which it belongs and the mark-up for each g / km of CO₂ emission exceeding the lower limit of the class according to the type of fuel, which it uses to drive. For motor vehicles that do not use exclusively a petrol or diesel engine, or a combination of a petrol or diesel engine with another type of drive, the obligation referred to in the first paragraph of this Article shall be determined taking into account the scale applicable to petrol-powered motor vehicles. For motor vehicles without CO₂ emissions, the obligation for petrol or other propulsion vehicles other than diesel shall be set at 1.5 times the minimum obligation without premium for the highest class for petrol-powered motor vehicles and for motor vehicles with diesel powered by 1.5 times the minimum obligation without premium for the highest class for diesel motor vehicles.

2. **Converter to determine the amount of CO₂ emitted** For motor vehicles, which have only the CO₂ emission data per European driving cycle (NEDC), the CO₂ emission level shall be determined by multiplying the data by the converter:

	Converter
Petrol and other fuels (except diesel)	1,22
Diesel (also a combination of diesel and other fuels)	1,20

The CO₂ emission data calculated on the basis of the converter shall be rounded to the nearest value without decimal places.

3. **Tax liability according to EURO emission standard and type of fuel:** The obligation in euro according to the EURO emission standard and the type of fuel used to drive the motor vehicle is:

EURO emission standard	Liability for petrol (in euros)	Obligation for diesel (in euros)
EURO 0, 1, 2, 3,	500	1000
EURO 4	400	800
EURO 5, 5a, 5b	150	225
EURO 6, 6a, 6b	75	112
EURO 6c	50	75
EURO 6d	30	45
Higher than EURO 6d	10	15

If the motor vehicle does not use exclusively a petrol or diesel engine or a combination of a petrol or diesel engine with another type of drive, the obligation referred to in the previous paragraph shall be determined taking into account the scale applicable to petrol-powered motor vehicles.

The obligation in euro according to the EURO emission standard applicable to the propulsion of motor vehicles other than caravans shall be:

EURO emission standard	Obligation (in euros)
EURO 0, 1, 2, 3	150
EURO 4	100
EURO 5, 5a, 5b	30
EURO 6, 6a, 6b	15
Over from EURO 6b	5

For motor vehicles without EURO emission standard data, the euro obligation for the EURO 0 emission standard is taken into account.

The tax on motor vehicles of tariff codes 8703 and 8711, the engine power of which does not exceed 4 kW nor does it exceed a maximum speed of 25 km / h, is determined according to the engine power.

The tax on motor vehicles of tariff codes 8703 and 8711, the engine power of which does not exceed 4 kW nor does it exceed a maximum speed of 25 km / h, is EUR 0.

Calculation of motor vehicle tax for caravans, tricycles and quadricycles, with exceptions

4. **Tax on motor homes, tricycles and quadricycles of heading 8703 and motor vehicles of heading 8711, except:** exclusively electric vehicles (headings 8703 80 and 8711 60), other non-CO₂ motor vehicles, motor vehicles - whose engine power does not exceed 4 kW or exceeds a maximum speed of 25 km / h, is defined as the sum of the obligations with regard to engine power and the obligations with regard to the EURO emission standard and the type of fuel used to drive the motor vehicle.

5. **Tax liability according to engine power:** The obligation in euro in relation to the engine power of a motor vehicle for motor vehicles is (excluding motor vehicles of heading 8703 80) EUR 40 for each kW of engine power. The obligation in euro in respect of the engine power of the motor vehicle for other motor vehicles, other than caravans and the exceptions listed above,

Engine power (kW)	Surcharge for each kW (above the lower limit)	Minimum obligation (in euros)
over 0 to 20	1	0
over 20 to 40	2	20
over 40 to 60	5	60
over 60	7	160

shall be:

The tax is determined as the sum of the minimum liability for the class in which it is classified and the mark-up for each kW of engine power exceeding the lower limit of the class.

6. **Tax liability for used motor vehicles:** For used motor vehicles, the calculated tax is paid in the prescribed percentage, determined according to the age of the motor vehicle. The determination of the percentage depends on the period from the first registration of the motor vehicle in another Member State or a third country until the occurrence of the obligation to calculate the motor vehicle tax in the Republic of Slovenia.

Period of use or registration of a motor vehicle in another Member State or in a third country	Percentage of motor vehicle tax
Up to 1 year	91 %
Over 1 year	83 %
Over 2 years	76 %
Over 3 years	70 %
Over 4 years	64 %
Over 5 years	58 %
Over 6 years	53 %
Over 7 years	48 %
Over 8 years	43 %
Over 9 years	38 %
Over 10 years	33 %

If the date of first registration cannot be unambiguously established or registration is not required under the regulations of the country from which the vehicle is imported or exported, the date of first registration of the motor vehicle shall be deemed to be the date of issue of the manufacturer's certificate of conformity. When assessing MVT in cases where an exemption is granted for a motor vehicle and the motor vehicle is sold, disposed of free of charge or otherwise in the Republic of Slovenia before the statutory time expires or the conditions for exemption are no longer met and taking into account the prescribed percentage of tax motor vehicle, the period of use of these motor vehicles shall be considered the period from the date of the first registration of the motor vehicle in the Republic of Slovenia, in another Member State or in a third country until the occurrence of the obligation to clear.

2.2.5. Tax period

The taxable person has to pay the tax assessed no later than on the last day of the month following the month during which the tax liability was incurred.

2.3. Road usage fee (Circulation tax)

2.3.1. Taxable event

All users of public roads have to pay the annual fee for using the public roads in advance, once a year, unless they fulfil the conditions for exemption.

In case of temporary registration the payment is proportional and is equivalent to one twelfth of the annual payment for each month in which the car is registered.

2.3.2. Taxable person

This fee should be paid on an annual basis by all users of the public roads.

Exempted from paying circulation tax are vehicles exclusively using electricity for power, tractors and tractor trailers, motorcycles, three-wheeled cycles with engine capacity up to 50 ccm and light four-wheeled cycles, light trailers with maximum permissible weight up to 750 kg, fire-fighting vehicles, ambulances, police vehicles, motor vehicles registered to the Slovenian Army, Civil Protection, Mountain Rescue Service, Ecological Laboratory with mobile unit, motor vehicles and trailers registered for diplomatic and consular missions, vehicles owned by certain international organizations, and vehicles used for the transport of disabled persons.

There are allowances for the vehicles with lower unwanted emissions (depending on EURO standards).

2.3.3. Payment due

The fee is based on the type of vehicle and engine size.

- Motorcycles and tricycles with engine above 50cc:

Engine size	Annual fee per day
up to 125cc	0.035616 EUR
from 125cc to 500cc	0.057534 EUR
from 500cc to 1000cc	0.079452 EUR
above 1000cc	0.090411EUR

- For motor vehicles, combined vehicles for transport of people and goods, and caravans:

Engine size	Annual fee per day
up to 1350cc	0.169863 EUR
from 1350cc to 1800cc	0.263014 EUR
from 1800cc to 2500cc	0.419178 EUR
from 2500cc to 3000cc	0.772603 EUR
from 3000cc to 4000cc	1.238356 EUR
above 4000cc	1.547945 EUR

- Buses (categories M2 and M3) pay 0.008658 EUR based on the number of the seats.
- Motor vehicles (categories N1, N2 and N3), apart from towing vehicles, pay the fee based on weight of the vehicle:

Weight	Annual fee per day
up to 4t	0.279288 EUR/vehicle
above 4t	0.062630 EUR/t

- Motor vehicles – towing vehicles (categories N2 and N3) – pay a fee based on the net power of the engine:

Net power	Annual fee per day
up to 190kW	0.014713 EUR/kW,
above 190kW	2.792795 EUR/vehicle

- Trailers (categories O2, O3, and O4), except semi-trailers, pay the fee based on weight of the vehicle:

Weight	Annual fee per day
up to 2t	0.104713 EUR/vehicle
above 2t	0.052357 EUR/t

The road usage fee is not payable for semi-trailers (categories O2, O3 and O4) since their usage is included in the payment for motor vehicles (towing vehicles).

- Motor vehicles with an upgrade “special purpose vehicle” and one of the additional features of an upgrade (e.g., pump, elevator, broadcasting) or those with the additional label “working vehicle” by categories pay fees as follows:
 - N1: 0.150685 EUR
 - N2: 0.201370 EUR
 - N3: 0.452055 EUR

These fees also apply to motor vehicles with the upgrade: “BD – trailer towing vehicle”.

- Trailers with an upgrade “special purpose vehicle” and one of the additional features of an upgrade (e.g., pump, kitchen, broadcasting) or those with the additional label “working vehicle” by categories:
 - O2: 0.108494 EUR
 - O3: 0.210959 EUR
 - O4: 0.301370 EUR
- Vehicles for funeral services (M1 – motor vehicle with an upgrade “SD – funeral vehicle”) and driving school vehicles with the additional label: “Driving school”:
 - M1 and N1: 0.164384 EUR
 - M2 and N2: 0.230137 EUR
 - M3 and N3: 0.328768 EUR

The emission characteristics for motor vehicles

- For light motor vehicles (category N1), heavy motor vehicles and buses (categories N2, N3, M2 and M3), when the engine is compliant with requirements higher than Euro 4, the annual payment of road usage compensation is decreased, as follows:
 - Euro 5: by 25%,
 - Euro 6 or stricter demands: by 35%.

- For light motor vehicles, heavy motor vehicles and buses, when motor is compliant with requirements lower than Euro 4, the annual payment of road usage compensation is increased, as follows:
 - Euro 3: by 10%
 - Euro 2: by 20%
 - Euro 1; by 30% and
 - Euro 0 or lower requirements: by 40%.

N1 category motor vehicles are considered to be compliant with the Euro 2 requirements if the first registration was before January 1, 2001, with the Euro 1 requirements if the first registration was before October 1, 1997 and with the Euro 0 requirements or lower if the first registration was before October 1, 1994.

Other motor vehicles and buses (categories N2, N3, M2 and M3) are considered to be compliant with the Euro 2 requirements if the first registration was before October 1, 2001, with Euro 1 if the first registration was before October 1, 1996 and with Euro 0 or lower if the first registration was before October 1, 1993.

The suspension system

For freight vehicles and buses the annual payment of the road usage fee (circulation tax) is decreased by 15% if they are equipped with an air suspension system or any other suspension equal to an air suspension system.

2.3.4. Tax period

The payment is due on an annual basis (for the first time or registration).

From 12 May 2018, natural persons who acquire means of transport in other Member States are no longer required to submit the "Acquisition of IMV" form to the tax authority. Motor vehicle manufacturers and persons who acquire motor vehicles in another EU Member State as a result of their activity from 12 May 2018 are not required to submit an environmental tax statement. Income taxes – taxable persons

Expenses associated with the use of company cars for business purposes such as fuel, repair and maintenance costs, insurance premiums, statutory depreciation (20% per year), etc. qualify as tax deductible expenses for corporate income tax purposes.

All expenses must be duly supported by the relevant documentation, i.e., invoices and contracts.

3. VAT

3.1. General

Slovenia has a standard VAT rate of 22%, which is charged and paid on any supply of goods, services and import of goods. However, certain goods and services are exempt or subject to a reduced VAT rate of 9.5%.

VAT of 22% is charged on the sale of a new vehicle. In case of intra-community acquisition, VAT should be paid by the acquirer regardless of whether he is identified for VAT purposes or not.

When a natural person acquires a means of transport in Slovenia, they have no obligation to report such acquisition for the purposes of value added tax (VAT) and motor vehicle tax (MVT).

A new means of transport is deemed to be a motor vehicle that is completely new and has come directly from the manufacturer or a motor vehicle the supply of which takes place within six months of the date of first entry into service or a motor vehicle that has travelled for no more than 6,000 kilometres. Motorized land vehicles are deemed to be put into use for the first time when:

- the vehicle is first registered for road use in one of the member states, or
- the vehicle was made available to the customer, if it was transported while unregistered for road use from the manufacturer's member state to another member state, or
- the manufacturer or its concessionaire used the vehicle for demonstration purposes, if the vehicle was transported while unregistered for road use from the manufacturer's member state to another member state, or
- the invoice referring to the first supply was issued, if the financial authority is unable to establish the applicability of any of the above circumstances.

The sale of second-hand motor vehicles is subject to a special VAT scheme for second-hand goods.

3.2. Deduction

Input VAT cannot be deducted if it relates to:

- private cars and motorcycles, or
- fuels, lubricants, spare parts and services closely linked thereto.

Even if private cars and motorcycles are used only for business purposes the input VAT is not deductible.

Private cars are vehicles that are primarily used for the transport of passengers, including vehicles used for the transport of both passengers and goods, and racing cars (Combined Nomenclature 8703).

VAT may only be deducted on the following types of vehicles:

- vehicles used for transport of passengers and goods,
- vehicles used for leasing, renting and re-sale,
- vehicles used in driving schools for the provision of the driver's training programme in accordance with the regulations in force,
- combined vehicles for carrying out an activity of a public line and special line transport,
- special vehicles adapted exclusively for the transport of deceased people.

If a vehicle is not used exclusively for carrying out an activity of a public and special line transport, a taxable person can claim a VAT deduction only in proportion to the vehicle's level of use for carrying out of this activity.

4. Company car in personal tax returns – benefit in-kind

If a company car is used by an employee for private purposes, such use is considered to be a fringe benefit (benefit in-kind). Associated expenses qualify as tax-deductible expenses for corporate income tax purposes to the extent that the fringe benefits are being taxed for personal income tax purposes.

5. Income taxes – driver's personal taxation

There are no personal income tax implications if an individual uses a company car solely for business purposes. If the individual also uses the company car for private purposes, such use is considered as a fringe benefit for that person (normally the employee). Therefore, personal income tax and social security contributions have to be paid.

The amount of the fringe benefit is calculated based on the purchase price and age of the car. The rule is that 1.5% of the total purchase price should be included in the individual's taxable base on a monthly basis. The purchase price is reduced by 15% in the second year and in subsequent years up to and including the fourth year. The purchase price is then reduced by 10% per year from the fifth year until the eighth year. From the ninth year onwards the fringe benefit shall be calculated from the 10% of the actual purchase price.

If the individual uses the company car for private purposes for less than 500 km per month, the purchase price is reduced by 50% for the calculation of the taxable amount. Monthly proof of trips completed for business and private purposes has to be kept in order to avail of this decreased purchase price. If the company also reimburses the individual for fuel costs for private usage of the company car, the taxable base increases by 25%. No special proof of trips completed is needed in that case.

If the employer provides the employee with a personal electric motor vehicle for private purposes, the fringe benefit is equal to zero. The fringe benefit from the use of a company car for private purposes is calculated on a monthly basis and is included in the individual's annual personal income tax return and taxed in accordance with the prescribed tax brackets and progressive tax rates.

5.1. Business kilometers

If the individual uses his/her private car for business travel, he/she is entitled to reimbursement of costs, which is made in the form of a mileage payment of 0.37 EUR per kilometer.

5.2. Commuter traffic

If the individual is not able to use public transportation in his/her daily commute to work, then he/she is entitled to reimbursement of costs incurred when using his/her private car. Reimbursement of costs is limited to a mileage payment of 0.18 EUR for each full kilometer of the distance between his/her habitual residence and the place of work.

In both cases, such reimbursement of costs is not included in the individual's tax base for personal income tax purposes. The costs are also deductible for direct tax purposes for the company, if these costs correspond to the amounts prescribed by the government regulations (0.37 EUR per km for business trips and 0.18 EUR per km for commuting to work).

6. Future developments

With the aim to meet the standards stated in the Kyoto protocol, Slovenia has adopted policies for reducing CO₂ and other greenhouse gases. One of the most important instruments was the environmental government reform (the so-called "Green tax reform") which included an interconnected and balanced system of progressive reduction of fiscal burdens and duties related to work and capital transactions on one side, and an increase in fiscal burdens (taxes, duties, excise duties) connected to the usage and exploitation of natural goods on the other side. It is expected that the government will continue to strive towards the above described long-term sustainability if amending car taxation legislation.

7. Slovene vignette tolling system

The Slovene vignette tolling system is designed for vehicles with a maximum weight of 3,500 kg, regardless of the maximum weight of any trailer. For the use of toll roads the purchase of a vignette is obligatory.

Type of vignette	Price
Yearly vignette for two-track vehicles up to maximum weight of 3,500 kg with a height above the front axle 1.30 m or more	220.00 EUR
Monthly vignette for two-track vehicles up to maximum weight of 3,500 kg with a height above the front axle 1.30 m or more	60.00 EUR
Weekly vignette for two-track vehicles up to maximum weight of 3,500 kg with a height above the front axle 1.30 m or more	30.00 EUR

Yearly vignette for (two-track) vehicles up to maximum weight of 3,500 kg with a height above the front axle up to 1.30 m	110.00 EUR
Monthly vignette for (two-track) vehicles up to maximum weight of 3,500 kg with a height above the front axle up to 1.30 m	30.00 EUR
Weekly vignette for (two-track) vehicles up to maximum weight of 3,500 kg with a height above the front axle up to 1.30 m	15.00 EUR
Yearly vignette for (one-track) motorcycles	55.00 EUR
Half-year vignette for (one-track) motorcycles	30.00 EUR
Weekly vignette for (one-track) motorcycles	7.50 EUR

The yearly vignette for the current year is valid from December 1, of the previous year until January 31, of the next year (in total 14 months).

The half-year vignette is valid for six months following the day of its purchase or, if there is no such date in the sixth month, until the end of the last day of the sixth month.

The monthly vignette is valid from the date of purchase until the end of the day with the same number one month after purchase, or, if there is no such day in the following month, until the end of the last day of that month.

The weekly vignette is valid for seven consecutive days from the date specified by the user upon purchase.

8. *Electric vehicles*

The tax on motor vehicles powered solely by electricity (headings 8703 80 and 8711 60) and other motor vehicles of headings 8703 and 8711 which use CO₂-free fuels for propulsion is determined according to the engine power.

For motor vehicles powered solely by electricity (headings 8703 80 and 8711 60) and other motor vehicles of headings 8703 and 8711 which use CO₂-free fuels, the tax is EUR 0.

9. *Motor Vehicles Tax and the implementation of WLTP – Worldwide Harmonized Light Vehicle Test Procedure*

In accordance with EU Commission Regulation 2017/1151 a new regulatory test procedure for the measurement of CO₂ emissions and fuel consumption for light vehicles was introduced (WLTP).

The new regulatory test procedure WLTP replaces the New European Driving Cycle (NEDC). The WLTP test procedure determines the CO₂ emission and fuel consumption values that will be more representative of the actual situation, as it was found that data on fuel consumption and CO₂ emissions of vehicles tested in accordance with the NEDC are no longer relevant and do not reflect real emissions.

In addition to more realistic data on fuel consumption and CO₂ emissions, the WLTP test process also creates a global vehicle-testing framework leading to better international compliance of test requirements.

The WLTP test procedure was introduced gradually from 1 September 2017 for new types of vehicles, and from 1 September 2018 for all new vehicles. From 1 September 2019, when the end-of-series vehicles that are approved and measured in accordance with the NEDC test procedure will be suspended, all new cars placed on the EU market will be tested in accordance with the new WLTP test procedure.

10. Legal background

- Value-added Tax Act and Regulation on Implementation of VAT Act
- Personal Income Tax Act
- Corporate Income Tax Act
- Motor Vehicles Tax Act and relevant regulation
- Regulation on environmental duties
- Regulation on the payment for usage of public roads
- Slovenian accounting standards
- International accounting standards
- Road Transport Safety Act
- Decree on the Dealings and Amount of Annual Fee on the Use of Motor Vehicles
- European Commission – Taxation and customs union
- Slovenia's Report on Demonstrable Progress under the Kyoto Protocol

South Africa



Frank Mosupa

Automotive Tax Leader

p: +27 83 255 4276

e: frank.mosupa@pwc.com

Stevie Coetzee

Director Corporate International Tax

p: +27 82 446 9224

e: Stevie.coetzee@pwc.com

Juan Swanepoel

Director VAT

p: +27 83 604 1028

e: juan.swanepoel@pwc.com

Herman Fourie

Director Customs & Exercise

p: +27 82 775 5571

e: herman.fourie@pwc.com

Asif Joosub

Partner Carbon Tax

p: +27 83 488 4546

e: asif.joosub@pwc.com

South Africa

1. Importation of vehicles

1.1. Customs duties

Upon importation of vehicles into South Africa (“SA”), the general rate of customs duty is 25%. With regards to vehicles originating from the EU, the customs duty is 18%, with the exception of the following:

- Special purpose vehicles (0% to 25%).
- Vehicles up to 20 years old (0% - 36%); and
- Vehicles older than 20 years (0% - 20%)

In addition to the customs duty, ad valorem excise duty of a minimum of 0.75% and a maximum of 25% will also be applicable. The ad valorem excise duty rate is calculated with a formula which is based on the value of the vehicle on a sliding scale, i.e., the higher the value, the higher the duty rate applicable.

New vehicle models, whether locally manufactured or imported, must conform to the compulsory specifications for vehicles of the relevant class, and in particular the standards affecting Safety Critical Characteristics of the vehicle and its components. In order to prove the conformity of a vehicle or vehicle model, the SA Bureau of Standards (“SABS”) subjects it to the process of homologation. Homologation must be completed successfully before a vehicle or vehicle model is allocated a National Traffic Information Systems (“NaTIS”) number, which permits the importer to offer the vehicle or vehicle model for sale. No vehicle may be sold or registered and licensed unless a NaTIS number has been allocated.

Environmental Levies

Tyre Levy

An environmental tyre levy of R2.30/kg net is applicable to specifically mentioned tyres imported and/or produced locally.

Imports

Any rate of environmental levy on tyres specified in the Customs and Excise Act shall apply to:

- New, used or retreaded tyres, imported into SA;
- Tyres fitted to or presented with imported vehicles or chassis;
- Tyres fitted to or presented with imported road wheels fitted with tyres and wheel rims fitted with tyres as specified in the SA Tariffs; and
- Tyres imported for use in the manufacture / assembly of vehicles in SA.

Emission of Vehicles (CO₂) levies

The rate of environmental levy on carbon dioxide emissions of vehicles specified in the Customs and Excise Act is between R120 or R160 per g/km CO₂ emissions exceeding 95g/km or 175 g/km respectively when manufactured locally or imported.

1.2. Import Value Added Tax (“VAT”)

VAT is payable when goods are imported into SA, unless an exception is applicable.

As a general rule, VAT at 15% is payable on value to be placed on the imported goods. The value is determined by the customs value of the vehicles, plus any duty levied in respect of the importation of such goods, plus 10% of the said value.

The VAT paid to the South African Revenue Services (“SARS”) Customs on a “motor car” (as defined in the VAT Act) imported by a vendor is generally not deductible as input tax. However, VAT may be deducted as input tax where the vendor imports such motor car exclusively for the purpose of making taxable supplies of such vehicles in the ordinary course of an enterprise, which continuously and regularly supplies motor cars and or vehicles, provided that the necessary documentary proof is obtained and retained.

The VAT payable on the importation of a motor car by a vendor may only be deducted during the tax period when the said motor car is released under the Customs and Excise Act.

For purposes of deducting the VAT paid on the importation of the motor cars, the vendor making the deduction must be in possession of the following documentation:

- A tax invoice;
- An “EDI Customs Status 1 Release Message”;
- A valid bill of entry or other document prescribed by the Customs and Excise Act (e.g. form SAD 500 and/or any additional SAD document that might be required); and
- The receipt number for the payment of such tax, that is the receipt issued on eFiling

2. Vehicle Registration

2.1. When does a car need to be registered?

A vehicle needs to be registered within 21 days of ownership. Where a used vehicle is acquired, the same rule applies.

2.2. Who can register a car?

A vehicle must be registered in the name of the title holder or the owner who resides in SA.

2.3. Is a foreign owner allowed to register a vehicle in the country?

No, a foreign owner is permitted to use the vehicle in the country using foreign number plates temporarily.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Yes, a non-resident visiting SA is permitted to use a vehicle with a foreign number plate provided it is not permanent.

3. Vehicle Taxation

3.1. What are the different vehicle taxes?

Imported vehicles are subject to ordinary import duties, specific excise duties (i.e. ad valorem excise duty), CO₂ levies and levy on tyres when such vehicle is cleared for home consumption.

Road taxes are not levied on vehicles imported, however, each province determines its own registration and license fees which are increased, from time to time, by proclamation in the respective provincial gazettes. Annual license fees are assessed on a vehicle’s tare with separate scales for vehicle types.

3.2. Registration tax

3.2.1 Taxable event

New passenger vehicles are taxed based on their certified CO₂ emissions. Any new passenger vehicle with a CO₂ rating above 95g/km will be subject to a tax of R120 (plus VAT) for every g/km over that value. In the case of double cab vehicles with a rating above R175g/km will be subject to a tax of R160.

3.2.2 Taxable person

Tax is due by the person who has registered the vehicle in his name, i.e. title holder or owner.

3.2.3 Tax due

Carbon emission tax is based on every g/km over the value of that vehicle. Only vehicles for the transport of goods (referred to as a “double cab”) with a CO₂ rating above 160g/km and 175g / km respectively will be subject to the tax.

3.2.4 Tax period

Every time a vehicle is registered by a title holder or owner of that vehicle, tax becomes payable in that tax period.

4. Corporate Income tax

4.1. Taxpayers that trade in vehicles

Taxpayers that usually trade in vehicles will be subject to income tax on the profits generated at the prevailing corporate tax rate of 28%. We set out below certain key corporate tax aspects which are relevant in practice in respect of taxpayers who trade in vehicles:

4.1.1 Income in advance

Where vehicles are sold inclusive of a motor/service plan, the motor/service plan income is generally treated as deferred for accounting purposes but treated as upfront taxable income from an income tax perspective. In this regard an allowance for future service expenditure to be incurred on the vehicle can be claimed against the income taxed in advance in terms of section 24C of the Income Tax Act. The section 24C allowance would need to meet the findings of local case law and SARS practice to qualify for a deduction over the period of the motor/service plan.

4.1.2 Trading stock

Change in use

Where vehicles that were originally classified as trading stock are transferred to capital/fixed assets, the taxpayer is deemed to have disposed of the trading stock at market value and such amount shall be treated as expenditure incurred in respect of the acquisition by of such asset.

Stock obsolescence provision

A stock obsolescence provision is deductible if the taxpayer can prove that the market value of the stock has decreased as a result of damage, deterioration, change of fashion, decrease in the market value etc. In addition, the requirements of local case law and SARS practice would need to be considered.

4.2. Taxpayers that do not trade in vehicles

Taxpayers that use a vehicle in the production of his taxable income can claim the vehicle-related expenses for income tax purposes. Such expenses include fuel costs, insurance, repair and maintenance, licenses, etc.

Taxpayers can also claim wear and tear on the purchase price of the vehicle, generally calculated at a rate of 20% per annum. Further, where the vehicles are sold, the taxpayer may be subject to recoupments to the extent that wear and tear was previously claimed. Any gain may also be subject to capital gains tax where the proceeds upon sale exceed the original purchase price of the vehicle.

4.3. Leased vehicles used in trade

Taxpayers who lease vehicles leased and used such vehicle in their trade need to consider the following adjustments in calculating their taxable income for income tax purposes, depending on the underlying nature of the lease:

4.3.1 Finance lease

Where the vehicle is leased in terms of a finance lease agreement for income tax purposes, the depreciation and interest would be added back to taxable income and actual rental/lease payments may be claimed as a deduction in the income tax computation.

4.3.2 Installment Sale

Where the vehicle is leased in terms of an installment sale agreement for income tax purposes, no adjustment is ordinarily required to taxable income. This is because the income tax and accounting treatment should be aligned.

5. VAT

5.1. Output tax

As a general rule, VAT is calculated at the standard rate of 15% on the supply of any vehicle by a vendor.

Notwithstanding the zero-rated and exempt supplies provisions of the VAT Act, the exception of a vendor levying a standard rate of 15% on a sale of a vehicle is in the instance where input tax deduction was not allowed due to the vehicle being defined as a “motor car”, as discussed in point 5.2. The subsequent sale of such motor car by the respective vendor is not regarded as a supply in the course of furtherance of the vendor’s enterprise. Therefore, output tax is not required to be levied on said supply by the respective vendor.

5.2. Input tax

An input tax deduction may not be made by a vendor if a vehicle, defined as a “motor car”, is acquired, even if it is used in the course of making taxable supplies. Examples of vehicles that fall within the definition of motor car include, i.e. a station wagon, minibus, double cab light delivery vehicle and any kind of vehicle normally used on public roads, which has three or more wheels and is constructed wholly or mainly for carrying passengers.

Exceptions to the definition of motor car include for example:

- a vehicle capable of accommodating one person or more than 16 persons;
- vehicles of an unladen mass of 3,500 kilograms or more;
- caravans and ambulances;
- a vehicle constructed for a special purpose other than carriage of persons (e.g. a crane);
- game viewing vehicles constructed or permanently converted for the carriage of seven or more passengers; and
- vehicles constructed or converted into hearses for transport of deceased persons and used exclusively for that purpose.

In addition to the above, the definition of a motor car does not apply to the following:

- A motor car acquired exclusively for purpose of making a taxable supply of that motor car in the ordinary course of an which continuously and regularly supplies motor cars;
- A motor car acquired for demonstration purposes or for temporary use prior to a taxable supply by such vendor; and
- A motor car acquired for the purpose of awarding that motor car as a prize or the supply of that motor car is in the ordinary course of an enterprise which continuously supplies motor cars as prizes to clients or customers.

In the last-mentioned instances, input tax may be deducted on the acquisition of any vehicle, provided that it is used for making taxable supplies of that vehicle and the necessary documentary proof is obtained and retained.

It should be noted that input tax may not be deducted if the motor car is acquired for private use or for making exempt supplies.

Second-hand goods

In order not to disadvantage the second-hand goods market or to distort market prices, the VAT Act allows vendors to, under certain circumstances, deduct input tax on second-hand goods acquired from non-vendors, or from vendors who acquired the goods otherwise than for the furtherance of its enterprise or who was denied an input tax deduction on the said acquisition. This is known as notional or a deemed input tax deduction.

The notional input tax deduction is calculated by multiplying the tax fraction (currently 15/115) of the lesser of the consideration paid or the open market value. Where the open market value is less than the consideration paid, the open market value will be used to calculate the notional input tax deduction. Refer to Binding General Ruling No 12 for further guidance on the SARS website (www.sars.gov.za).

Motor dealers

It is important to note that a motor dealer cannot deduct notional input tax on any second-hand motor vehicle purchased from a non-resident of SA. In addition, motor dealers may also not deduct input tax on the acquisition of second-hand vehicles from diplomats or consular or diplomatic missions if relief was granted to the owner on the acquisition of that vehicle in the form of a refund of VAT.

Documentation

In order to support the deduction of input tax, the appropriate documentation must be held by the vendor, which are:

- Standard-rated supplies (sale of a motor car): A valid tax invoice, debit note or in certain prescribed circumstances, such other alternative documentation containing such information as is acceptable to the Commissioner;
- Non-taxable supply of second-hand goods or goods repossessed or surrendered under an Instalment Credit Agreement: Records must be maintained by the vendor deducting the input tax as per form VAT264 and section 20(8); and
- Importation of goods: A bill of entry or other prescribed Customs documents which may be required in the circumstances, as well as the relevant proof of payment of the VAT in respect of the importation made to Customs.

A vendor may, under circumstances prescribed by the Commissioner, make a deduction based on alternative documentary proof acceptable to the Commissioner under section 16(2)(g). In order to qualify for such a deduction, the following two requirements must be met:

- The circumstances as prescribed by the Commissioner must apply;
- The vendor must be in possession of documentary proof containing the information which is acceptable to the Commissioner at the time that a return in respect of the deduction is furnished; and In order to obtain this relief, the taxpayer is also required to approach the Commissioner for a VAT ruling.

Where VAT is incurred for purposes of making both taxable and non-taxable supplies (i.e. mixed supplies), the input tax must be apportioned using an apportionment method.

5.3. Instalment credit agreement

Instalment credit agreement is defined to include, inter alia, a supply of a vehicle under the instalment sale agreement or a finance lease agreement. An instalment credit agreement is a supply of goods for VAT purposes.

Suppliers of vehicles under an instalment credit agreement must account for the full amount of output tax, irrespective of the accounting basis on which they are registered at the time such vehicle is delivered or the time any payment of consideration is received by the supplier in respect of that supply, whichever time is earlier.

Similarly, the recipient will be able to deduct the full input tax if the vehicles were acquired for making taxable supplies, unless the acquisition is specifically denied.

The consideration in money is deemed to be the cash value of the supply. It is important to note that the cash value does not include the cost of providing credit (that is interest, finance charges, etc.)

5.4. Leasing

A lease agreement, where the customer must exercise a purchase option in order to legally acquire the vehicle/asset, is considered to be a service rendered for VAT purposes.

It follows that the lessor should levy VAT on the respective rental payments received or due, whichever one is earlier.

Similarly, a lessee is entitled to deduct full input tax on lease payments of vehicles for the purposes of making taxable supply, unless the services acquired are specifically denied, as discussed in paragraph 4.2.

VAT is claimable when a payment is made as per the terms set out by the lease agreement, provided that the necessary documentary proof is retained.

6. Carbon Tax

6.1. General

Alongside the Environmental Levy on Carbon Dioxide (CO₂) emissions of motor vehicles, the SA government introduced a carbon tax, which became effective on June 1, 2019. Carbon Tax is currently levied at a tax rate of R134/tCO₂e. Carbon tax must be levied in respect of the sum of the scope 1 Greenhouse Gas (“GHG”) emissions of a taxpayer in respect of a tax period expressed as the CO₂e of those GHG emissions resulting from fuel combustion, industrial processes and fugitive emissions.

6.2. Impact on the automotive sector

The so-called Phase 1 of carbon tax will run from June 1, 2019 to December 31, 2022 and is referred to as the transitional phase to afford taxpayers with the time and flexibility to make the necessary changes required to become lower carbon intensive. Any adjustments to the Carbon Tax Act beyond the first phase will depend on the GHG emissions efficiency achieved and the SA economy. National Treasury has expressed that Phase 1 is aimed to ensure emitters are given time to transition their operations to cleaner technologies through “investment in energy efficiency, renewables and other low carbon measures”. Environmental groups have welcomed the tax but have remarked that the rate and tax-free allowances are too low to have any significant impact.

It is important to highlight that SA’s “just transition” to an inclusive green economy is governed by an intricate web of environmental and fiscal laws. In finance, stranded assets can be defined as “assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities.” The rise of the global impetus to fight climate change has considerably heightened the risk of stranded assets, particularly in the fossil fuel and other carbon-intensive industries. SA faces the risk of being left behind by the global trend, which may prove disastrous, especially for export industries.

The global economy is increasingly shifting away from carbon-intensive activities and jurisdictions. An increasing number of financial institutions are phasing out funding and their exposure to fossil fuels, as more and more jurisdictions globally are aiming to reduce the role of fossil fuels in their economies. Global environmental reform policies in the European Union and the United States of America are exploring the introduction of border carbon taxes, which aim to tax imports from less climate-virtuous countries. SA arises as extremely vulnerable to such trends, a vulnerability which is not diminished but rather enhanced by the limited size of the local economy.

A recent study by TIPS, highlighted how SA exports are consequently much more carbon intensive than other countries, “SA is an outlier at the global level. SA manufacturing exports have a carbon content of about 2,250 tCO₂e per US\$ million, while most countries sit between 300 and 1,100 tCO₂e per US\$ million.”

Some of SA’s leading exports are set to be displaced by the transition to a low-carbon economy. Automotive related exports including passenger vehicles, trucks and catalytic converters will be deeply affected by the shift to e-mobility. It is imperative that the automotive industry utilizes Phase 1 of Carbon Tax to assess the impact environmental taxes will have on the industry globally and to determine what can be done to limit the risk and impact of carbon tax on their business.

7. Company vehicles

7.1. VAT due on private use of company vehicles

The provision of a vehicle to an employee is regarded as a fringe benefit which is a deemed supply for VAT purposes. VAT at the standard rate of 15% must be accounted for on such supply. The consideration on which the VAT is to be calculated is determined in terms of VAT Regulation 2835.

7.2. Company vehicle in personal tax returns – benefit in kind

The right of use of a vehicle is a fringe benefit and is taxed as follows:

- The determined value of the vehicle on which the fringe benefit is based is the retail market value of the vehicle as determined by the Minister of Finance by regulation.
- All vehicles are taxed on a fringe benefit of 3.5% per month of the determined value. Where the vehicle is subject to a maintenance plan, the monthly fringe benefit is 3.25% of the determined value.
- On assessment of the employee's annual tax return, the fringe benefit can be reduced if accurate records of distances travelled for business purposes have been kept and are provided to SARS.

This is done as follows on a car-by-car basis:

- Calculate the ratio of business use over total use (in kilometers);
- Multiply this by the annual fringe benefit; and
- Deduct this business use from the total fringe benefit to arrive at the value of the private use.

8. Income taxes – drivers' personal taxation

There are two types of travel allowance, i.e.

- an allowance or advance in respect of transport expenses and
- an allowance or advance to be used by the recipient for paying expenses in respect of a vehicle used by the recipient for business purposes (the so-called travel allowance).

The most common type of travel allowance is one which is given to an employee who uses his own vehicle for business purposes.

On assessment of the employee's annual tax return, the amount which is deemed to be part of the recipient's taxable income is so much of any allowance or advance that is paid to an employee in respect of a travel allowance that is not actually expended on business travel.

The application therefore requires a determination of business travel expenditure. There are two ways in which this can be done:

- Using actual figures. To do this a taxpayer has to keep a detailed record of all of his business expenditure; or
- Using actual business kilometers and a deemed cost per kilometer.

In each case a logbook would have to be kept and all business travel would have to be recorded.

The deemed cost is calculated with reference to a table published annually by the authorities and consists of a fixed cost element, fuel cost and maintenance cost.

The three costs referred to above vary depending on the value of the vehicle. Please refer table below:

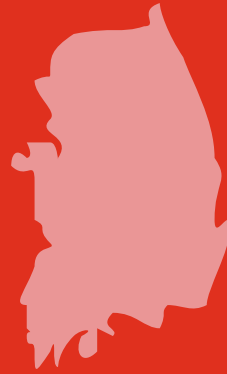
Where the value of the vehicle—	Fixed Cost	Fuel Cost	Maintenance Cost
	R	c/km	c/km
does not exceed R95 000	31 332	105.8	37.4
exceeds R95 000 but does not exceed R190 000	55 894	118.1	46.8
exceeds R190 000 but does not exceed R285 000	80 539	128.3	51.6
exceeds R285 000 but does not exceed R380 000	102 211	138.0	56.4
exceeds R380 000 but does not exceed R475 000	123 955	147.7	66.2
exceeds R475 000 but does not exceed R570 000	146 753	169.4	77.8
exceeds R570 000 but does not exceed R665 000	169 552	175.1	96.6
exceeds R665 000	169 552	175.1	96.6

Where actual costs are calculated by the taxpayer, the determined value of the vehicle is limited to 665,000 ZAR. The wear and tear is also limited to this value and must be determined over a seven-year period. Furthermore, any finance charges must be limited as if the vehicle had a cash cost of a maximum of 665,000 ZAR.

9. Legal background

- VAT Act – Value Added Act 89, of 1991
- Customs and Excise Act - Customs and Excise Act 91 of 1964
- Income Tax Act – Income Tax Act 58 of 1962
- Carbon Tax Act – Carbon Tax Act 15, of 2019

South Korea



Hyung-suk Nam
Tax Partner

p: +82 270 903 82
e: hyungsuk@nam@pwc.com

Se-Yong Choi
Senior Manager Tax

p: +82 237 813 425
e: se-yong.choi@pwc.com

South Korea

1. Importation of cars

1.1. Customs duties

When automobiles are imported into Korea, generally 8% of the WTO conventional tariff (MFN) is applied.

In cases where origin criteria under applicable Free Trade Agreements are met, the relevant preferential duty rate can be applied as shown below.

FTA	Duty rate
<i>Chile</i>	0%
<i>Singapore</i>	0%
<i>EFTA</i>	0%
<i>ASEAN</i>	0%
<i>India</i>	0%
<i>EU</i>	0%
<i>US</i>	0%
<i>Peru</i>	0%
<i>Turkey</i>	0%
<i>AUS</i>	0%
<i>Canada</i>	0%
<i>New Zealand</i>	0%
<i>Vietnam</i>	0%
<i>Colombia</i>	0%

(*1) Indonesia, Thailand, the Philippines are excepted

(*2) Please note that duty rates are based on automobiles with spark-ignition internal combustion engine of more than 2,000cc but not exceeding 3,000cc (HS:8703.23-9010). Applicable duty rate can be different based on the specific HS code.

In accordance with the Korea Customs Law, customs duty can be exempted for specific vehicles, such as cars for use by the disabled or cars used by foreign ambassadors or cars (except automobiles under the classification code of: 8703) which are donated to the government bodies for official use purpose.

For used automobiles, customs duty is determined by taking into consideration the depreciated value of the goods.

Please be aware each car is individually declared at the time of importation for information tracking purposes.

1.2. Import VAT

When automobiles are imported into Korea, Value-Added Tax (“VAT”) is assessed and the calculation formula for the VAT is as follows.

$$\text{VAT} = \text{VAT base} \times 10\% \text{ (VAT rate)}$$

$$\text{VAT base} = \text{Customs Value} + \text{Customs Duty} + \text{Excise Tax Applied at the Time of Importation}$$

For vehicles subject to customs duty exemption such as cars for use by disabled or by foreign ambassadors or government bodies, the VAT is also exempted.

1.3. Individual Consumption Tax

In general, customs duties and VAT are imposed on imported automobiles; however, individual consumption tax is also applied to the following goods as an exception.

Item	Tax rate(*1)
Automobiles with engine displacement of more than 2,000cc and cars for camping	5%
Automobiles with engine displacement of not more than 2,000cc (excluding those with engine displacement of not more than 1,000cc as prescribed by the Presidential Decree) and the two-wheeled automobiles	5%
Electric Vehicle	5%

(*1) temporary tax deduction (from January 1, 2021 to December 31, 2021): 5% → 3.5%

The calculation formula of Individual Consumption Tax assessed on imported cars is as follows.

$$\text{Individual Consumption Tax} = \text{Individual Consumption Tax base (*2)} \times \text{Tax Rate}$$

$$\text{Individual Consumption Tax base (*2)} = \text{Customs Value} + \text{Customs Duty}$$

2. Car registration

2.1. When does a car need to be registered?

Under the Article 5 of Car Management Law, a vehicle should be registered when it is put into free circulation on the public roads, whether it is a new or second-hand vehicle.

2.2. Who can register a car?

A vehicle needs to be registered under the name of its owner, whose permanent address is in Korea. However, a vehicle can also be registered under the name of the principal user if the owner agrees.

2.3. Is it allowed for a foreign owner to register his vehicle in your country?

A vehicle may also be registered under the name of a foreign owner. However, in this case, the foreign owner is required to submit the copy of his Certificate of Alien Registration when registering his vehicle.

2.4. Can a vehicle with a foreign number plate be used on public roads?

No. In principle, it is not allowed to use a vehicle on the public road with foreign number plates. A foreigner who wants to drive his car on the public road in Korea must register his car and obtain a number plate suitable to its purposes (i.e., number plates for business, non-business and diplomacy purposes).

However, as an exception, a foreigner may use his foreign license plate for temporary purposes during his short visit to Korea under certain circumstances, provided that he meets certain conditions and obtained the approval from related government authority.

3. Car taxation

3.1. What are the different car taxes?

After the registration of a vehicle, the following taxes are assessed on the vehicle for its use on the public roads in Korea:

- Individual consumption tax
- Education tax
- VAT (Included in the purchasing price)
- Acquisition tax
- Transportation, energy, environment tax
- Motor fuel tax

3.2. Registration tax

3.2.1. Taxable event

In relation to the registration of a vehicle, the following events are taxable in Korea:

- New registration
- Registration for Modification
- Registration of Transfer
- Registration for Cancellation
- Registration for Seizure
- Registration of the settlement of mortgage
- Registration of rectification
- Registration of public announcement

3.2.2. Taxable person

In principle, a person who has registered the vehicle under his name is obligated to file and pay the taxes.

3.2.3. Tax due

(As of October 1, 2021)

€1=₩1,372.28

	Applicable Taxes (*2)	Tax Rates
Purchase	Individual consumption tax	<ul style="list-style-type: none"> • Below 1,000cc: exempted • Over 1,000cc: 5% of ex-factory price (*) temporary tax deduction (from Jan 1, 2021 to Dec 31, 2021): 5% → 3.5%
	Education Tax	<ul style="list-style-type: none"> • 30% of individual consumption tax
	VAT	<ul style="list-style-type: none"> • 10% of retail price
	Acquisition tax (*1)	(a) Private automobiles :7% of retail price (4% for a compact car) (b) Two-wheeled vehicles: 2% of retail price

			(c) Others 1. private: 5% of retail price (4% for a compact car) 2. business purposes: 4% of retail price (d) Other than (a), (b), (c): 2%
Possession	Property tax		<ul style="list-style-type: none"> • business purposes <ul style="list-style-type: none"> - Below 1,000cc: ₩18(€0.013)/cc - 1,001~1,600cc: ₩18(€0.013)/cc - 1,601~2,000cc: ₩19(€0.014)/cc - 2,001~2,500cc: ₩19(€0.014)/cc - over 2,500cc: ₩24(€0.017)/cc • private <ul style="list-style-type: none"> - Below 1,000cc: ₩80(€0.058)/cc - 1,001~1,600cc: ₩140(€0.102)/cc - over 1,600 cc: ₩200(€0.146)/cc
	Local Education tax		30% of property tax
Use	Fuel excise tax (Transportation, Energy, Environment tax)	Gasoline	₩529(€0.385)/ℓ
		Diesel	₩375(€0.273)/ℓ
	Individual consumption tax	Gasoline	₩475(€0.346)/ℓ
		Diesel	₩340(€0.248)/ℓ
	Education tax		15% of fuel excise tax
	Motor fuel tax		26.0% of fuel excise tax
VAT		10% of fuel retail price	

Note: (*1) Former registration tax was included into acquisition tax

(*2) Compact cars below 1,000cc are exempt from individual consumption tax, education tax, and acquisition tax.

3.2.4. Tax period

Tax is assessed every time taxable registration occurs.

4. Income taxes – taxable persons

4.1. Level of deduction of car related expenses

In Korea, the tax deduction/exemption is granted to taxpayers if they meet certain conditions.

1. If a person purchases a hybrid car, a tax deduction is granted for individual consumption tax, education tax, and acquisition tax

Taxes	Deductions
Individual consumption tax	Maximum of ₩1,000,000(€728.71) (until Dec 31, 2021).

	<p>Maximum of ₩3,000,000(€2,186.14) for an electric car (until Dec 31, 2022).</p> <p>Maximum of ₩4,000,000(€2,914.85) for a Fuel Cell Electric Vehicle (until Dec 31, 2022)</p>
Education tax	<p>Maximum of ₩ 300,000(€218.61)</p> <p>Maximum of ₩900,000(€655.84) for an electric car</p> <p>Maximum of ₩1,200,000(€874.46) for Fuel Cell Electric Vehicle)</p>
Acquisition tax	<p>Maximum of ₩400,000(€291.49) (from Jan 1, 2021 to Dec 31, 2021).</p> <p>Maximum of ₩1,400,000(€1,020.2) for an electric car, Fuel Cell Electric Vehicle (until Dec 31, 2021).</p>

- An owner of a compact car below 1,000cc (smaller than width 1.6m, length 3.6m) may enjoy the following benefits.
 - Exemption from acquisition tax (until Dec 31, 2021):
Maximum of ₩500,000(€364.36)
 - Rebate of individual consumption tax and transportation, energy, environment tax. (until Dec 31, 2021).

Payment time	Deduction rate(*1)
<i>January</i>	9.15%
<i>March</i>	7.5%
<i>June</i>	5%
<i>September</i>	2.5%

- If a taxpayer pays Property tax in a lump sum, a tax deduction is granted, depending on the month in which the payment is made.

(*1) According to the Article 125 of the Enforcement Decree of the Local Tax Act, the deduction rate will be gradually lowered from 2023 to 2025.

5. VAT//Sales tax

5.1. General-rate/rules

The standard VAT rate is 10% and is imposed on the supply of goods or services. The seller collects VAT from the purchaser at the time of sales as output VAT and deducts any input VAT paid on the purchases from the amount and remits the remainder/balance to the government.

5.2. Exemption/deduction

In certain cases, VAT may be exempted on the supply of goods or services.

The following is the list of VAT exempted cases that could be found in the auto industry.

1. Delivery of vehicles to be used for public transportation
2. Acquisition of vehicles to be used for public transportation
3. Services related with public transportation

However, VAT exemption is not granted to express bus, chartered-bus, taxi, and special-vehicle.

5.3. Hire purchase: Supply of goods?

For VAT purposes, in case of a hire-purchase, the tax basis shall be the whole price that the purchaser should pay in order to acquire the goods. The amount of interest should be included in the tax basis for the hire-purchase.

In case of a long-term hire-purchase (i.e., the payments for a vehicle are made in installment payments in the period exceeding 1 year), tax invoices should be issued in accordance with the payment schedule of the purchase agreement and VAT should be collected accordingly.

In case of a short-term hire-purchase, a tax invoice may be issued when the vehicle is delivered and VAT to be collected accordingly.

5.4. Leasing: Supply of services?

Under VAT law, lease services, whether operational or financial leases, are classified as “financing and insurance services”, which are VAT exempt.

6. Company car

6.1. VAT/sales tax due on private use of company car

If a company uses a compact car for “non-business purposes” and the VAT was exempt when acquiring the car, the input VAT related to such purchase/lease will not be deductible. In this case, “non-business purposes” means that the compact car is not directly used for the taxable business of the taxpayer, such as logistics or leasing companies.

6.2. Individual income tax for the use of company car

If an employee uses a company car for his personal purposes, the costs incurred related to the car shall be regarded as additional remuneration to the employee and individual income tax will be imposed on such income.

6.3. Business-use Vehicle Expenses of company car

Companies are obliged to enroll in an auto insurance policy which should limit the scope of covered drivers to employees only (‘auto insurance exclusively for employees’) and keep mileage log. Companies should substantiate the expenses for business vehicles by appropriate records or sufficient evidence to claim the deduction.

7. Income taxes – Drivers’ personal taxation

Under the Individual Income Tax Law, the personal costs for an individual’s use of vehicles (i.e. gas price, toll money, etc.) are not deductible from his individual income.

8. Selling a car

8.1. Taxable persons

VAT is charged on a businessperson who independently supplies the goods or services on a regular basis. In this case, whether such person is an individual or corporate and whether such person is registered as a taxpayer or not are independent.

Under the Special Tax Treatment Control Law, if a businessperson (i.e., a car dealer) buys a second-hand vehicle from a VAT exempt individual or simplified VAT payer and re-supplies the used car to another person, the person may deduct input VAT computed as 10/110 of purchase price of the vehicle.

8.2. Private persons

In principle, VAT is charged on a businessperson and an individual may be viewed as a businessperson if he independently supplies the vehicles on a regular basis. Car sales by a non-business person would not be subject to VAT.

For the application of fair taxation, governors are pushing a bill for standardized business use vehicles' expense recognition in order to limit private usage.

9. Further Development

The government is considering lowering taxes on oil to ease consumer burden and cope actively with international oil price rises. As international crude oil prices have been on the sharp rise, inflationary pressure will likely continue in near future. It is under discussion that taxes on gasoline, diesel and liquefied petroleum gas will be cut by 20 percent temporarily, which is the highest tax cut in history. A possible tax cut is expected to contribute to price stability and boost consumption which is suppressed due to the COVID-19 pandemic.

10. Legal background

- Korean Car Management Law
- Korean Corporate Income Tax Law
- Korean Individual Income Tax Law
- Korean Local tax Law
- Korean Special Tax Treatment Control Law
- Korean Value Added Tax Law
- IAS 17 Lease

Spain



Miguel Ángel González Sánchez
Automotive Tax Leader

p: +34 915 684 301

e: miguel.a.gonzalez@pwc.com

Alfonso Viejo

Salaried Partner Indirect Taxes

p: +34 915 684 846

e: alfonso.viejo@pwc.com

Elena Romero Hernández

Senior Manager Indirect Taxes

p: +34 915 684 743

e: elena.romero.hernandez@pwc.com

Spain

1. Car registration

1.1. When does a car need to be registered?

Vehicles must be registered in Spain when they are put into circulation within the Spanish territory, irrespective of the fact that they are new or second-hand vehicles.

Failure to comply with this obligation would imply the vehicle's immobilisation until the situation is duly regularised.

In addition, should the vehicle be transferred to another owner and it is intended to be used on the Spanish public roads, a new registration for the vehicle needs to be requested.

The registration form as well as the documentation that must be enclosed along with such registration form may be downloaded from the Spanish General Traffic Directorate's website (www.dgt.es).

A special authorization in order to use a car within the Spanish territory while the car registration is being dealt with may be requested ("green plate"), as long as the matriculation process delay is due to external circumstances beyond the interested party's control.

1.2. Who can register a car?

The registration must be carried out in the name of the owner. In case of lease agreements, the vehicle is to be registered either by the lessee or by the owner thereof, depending on the nature of the agreement (i.e., including a call option). In any case, in order to enable a (legal) person to register its car in Spain and to receive Spanish licence plates, it must have, in principle, an address (be established) in Spain. Documentation making evidence of the car owner's identity and Spanish address is needed when registering a car.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, on the condition that the foreigner is resident in Spain (i.e., having a Spanish address) or is not residing in Spain but has an establishment in such country. Also, it is necessary to obtain a Spanish identification number for individual foreigners (NIE) or a Tax Identification Number (Spanish NIF) for non-resident entities.

1.4. Can a vehicle with a foreign number plate be used on public roads?

A car with foreign licence plates can be temporarily used on the Spanish public roads (6 months).

In addition, non-residents can apply for tourist plates to Traffic Authorities in order to use a vehicle not registered in Spain within the Spanish territory for a long period of time.

2. Car taxation

2.1. What are the different car taxes?

Following the registration of a car and its use on public roads in Spain several car taxes become due, namely:

- Registration tax
- Annual circulation tax

2.2. Registration tax

2.2.1. Taxable event

This excise duty (Impuesto especial sobre determinados medios de transporte) is payable when a new or second-hand car is registered for the first time within Spain for use by individuals or entities resident in Spain or in possession of an establishment in Spain.

Additionally, when a vehicle is used in Spain by a Spanish resident or established and a registration has not been applied for within 30 days (or 60 days under specific conditions) following the date of starting using the vehicle, registration tax also becomes due.

Certain vehicles are not subject to this excise duty (cars exclusively destined for the transport of goods or passengers or those used just for industrial, commercial, agricultural, clinical or scientific purposes, cars for disabled people, cars destined for defence/safety purposes, ambulances, certain types of vans/minibuses, cars under the tourist plate regime).

In some cases (e.g., cars destined for defence/safety purposes and ambulances), previous authorization from the Spanish Tax Authorities is required. For the rest, a declaration by the taxpayer that such a vehicle is not subject to matriculation tax needs to be filed before the Spanish Tax Authorities.

Moreover, certain vehicles are exempt from this excise duty (taxis, cars for driver's teaching, hire cars, diplomatic posts and international organisations, vehicles registered in another EU Member State rented to a supplier of another EU Member State as well, by individuals or entities resident in Spain, for a period not exceeding the term of three months, etc.) although prior authorization from the Spanish Tax Administration is normally required.

The recognition of non-liability, exemption or reduction of the tax base of registration tax requires that the taxpayer submits the request for these prior recognitions through Form 05.

In this sense, as from March 2021, *Order HAC/171/2021, of 25 February, approving Form 05, "Special Tax on Certain Means of Transport. Request for non-application, exemption and reduction of the taxable base", and determining the place, form, deadline and procedure for its presentation* has entered into force, that approves a new Form 05 which incorporates its telematic submission (submissions on printed paper are only allowed for private individuals).

In addition, the abovementioned Order incorporates into Form 05 the case of exemption regulated in Article 80.1 of Organic Law 6/2001, of 21 December, on Universities, for means of transport registered in the name of universities in the framework of their research, teaching or study activities, creating a new exemption code, the code "UNI".

2.2.2. Taxable person

In principle, due by the person who has registered the vehicle in his name.

Also, the person using the vehicle in the case of 30 days use with no registration applied for shall be liable for the tax.

2.2.3. Tax due

The tax on registration of the car is based on CO₂ emission of each vehicle (according to Law 34/2007 dated on November 15, regulating air quality and atmosphere protection) and depends on each Autonomous Region (however, general tax rates are established for the event that a certain Autonomous Region has not established such tax rates).

The taxable base concerning new means of transport shall match with the VAT taxable base (or equivalent tax) and in the absence of VAT taxable base it shall be calculated according to the total amount paid by the car's acquirer, determined according to article 78 of the Spanish VAT Law's rules.

For used cars, the taxable base shall be the market value of the car at the moment the tax is due. In case of used cars previously registered abroad, the market value will be reduced (if it is included in the price) by the residual amount of the indirect taxes in the case that the means of transport would have been considered as "first registered" in Spain if it were new.

In order to determine the market value, taxpayers will be able to use the prices approved by the Ministry of Economy in force at the tax point.

The tax rates range from 0% to 14.75%, although in the Canary Islands they range from 0% to 13.75%. Emission shall be stated within a certificate issued by the car manufacturer/importer or the MOT (Technical Inspection Card or Roadworthiness Test) or any other official document issued in relation with the relevant car. Cars that produce less than 144 grams of carbon dioxide (CO₂) per km will be taxed at 0%, while those that emit more than 240 grams per km will be taxed 14.75%. There are three intermediate bands of 4.75% and 9.75% tax for cars of 144-192 grams per km and 192-240 grams, and of 12% for cars that don't fit in the rest of categories provided by the applicable Law²⁹.

No taxation on registration of cars is due in Ceuta and Melilla although special rules are foreseen in certain cases, when the car is firstly matriculated in said territories but subsequently moved to Spain or the Canary Islands. Special rules are also foreseen in case the car is firstly matriculated within the Canary Islands and subsequently moved to Spain.

Resale companies can recover part of the registration excise duty (in proportion to the car's market value at the delivery moment) when they deliver cars outside Spain provided that:

- The cars will not come back to Spain (delivery outside the Spanish territory shall be definitive).
- Such delivery should be done within four years as from the car's first definitive matriculation.
- A certificate of the car's de-registration shall be needed in order to prove the delivery's definitive character.
- The delivery of the car outside the Spanish territory shall be done as a consequence of a firm sale.

The recovery of the registration excise duty may be applied on quarterly basis through the form 568 to be filed within the 20 first following days since the end of the relevant quarter.

2.2.4. Tax period

This tax becomes due at the time the car is registered for the first time within Spain or the day following the 30 days period in the case of use with no registration applied for.

2.3. Annual circulation tax

2.3.1. Taxable event

An annual circulation tax (Impuesto sobre vehículos de tracción mecánica) becomes due on vehicles registered in Spain and suitable for circulating within public roads. The tax is payable to the town hall where the car is registered.

However, official vehicles of the Public Administrations or diplomatic and international organisations, ambulances, cars for disabled people, vehicles for the transport of passengers and agricultural vehicles are exempt from this tax. Other exemptions may apply as a consequence of international treaties.

2.3.2. Taxable person

The annual circulation tax is, in principle, due by the person mentioned on the registration form of the vehicle.

2.3.3. Tax due

The tax rate is based on engine power for cars expressed in fiscal horsepower and calculated on the basis of the cubic capacity of the engine.

Power and class of vehicle.	Cuota - Euros
<i>A. Private cars:</i>	
Less than eight fiscal horsepowers	12,62

²⁹ The CO₂ emission limits were increased by 20% with effect from July, 11, 2021 to mitigate the effect of the new, more stringent emission tests on vehicles. The increased limits will be in force until 31 December 2021, unless a further extension of the new limits is politically approved. These limit increases are foreseen in Law 11/2021 of 9 July on measures to prevent and combat tax fraud.

Power and class of vehicle.	Cuota - Euros
From 8 to 11.99 fiscal horsepowers.	34,08
From 12 to 15.99 fiscal horsepowers.	71,94
From 16 to 19.99 fiscal horsepowers.	89,61
From 20 fiscal horsepowers and over.	112,00
<i>B. Buses:</i>	
Less than 21 seats	83,30
From 21 to 50 seats.	118,64
More than 50 seats.	148,30
<i>C. Trucks:</i>	
Less than 1.000 kilograms of payload.	42,28
From 1,000 to 2,999 kilograms of payload.	83,30
From more than 2,999 to 9,999 kilograms of payload.	118,64
More than 9.999 kilograms of payload.	148,30
<i>D. Tractors:</i>	
Less than 16 fiscal horsepowers.	17,67
From 16 to 25 fiscal horsepowers.	27,77
More than 25 fiscal horsepowers.	83,30

<i>E. Trailers and semi trailers pulled by motor vehicles.</i>	
Less than 1,000 and more than 750 kilograms of payload.	17,67
From 1,000 to 2,999 kilograms of payload.	27,77
More than 2,999 kilograms of payload.	83,30
<i>F. Vehicles:</i>	
Motorbikes.	4,42
Motorcycles up to 125 cubic centimetres.	4,42
Motorcycles from more than 125 to 250 cubic centimetres.	7,57
Motorcycles from more than 250 to 500 cubic centimetres.	15,15
Motorcycles from more than 500 to 1.000 cubic centimetres.	30,29
Motorcycles from more than 1.000 cubic centimetres.	60,58

In this respect, the Ministry of Finance establishes the basic tariffs (except for the Basque country) although the town halls have the power to add a multiplying coefficient (not higher than 2) and establish different allowances (e.g., benefits depending on the car's fuel or engines due to ecological reasons).

2.3.4. Tax period

The tax is an annual tax. However, in case of registration of the car or removal of the car, the tax period is from January 1 to the date of this fact and the tax due (settled on an annual basis) is proportionally reduced.

3. Income taxes – taxable persons

For direct tax purposes, the costs related to vehicles (including non-recoverable taxes) are fully deductible either as depreciation or as operating expenses (such as maintenance) if the vehicles are used for business purposes and the relevant documentary evidence duly supports the related expenses.

In principle, the manner of acquiring a vehicle by a company is not relevant for determining the level of deductibility for direct tax purposes.

4. VAT

4.1. General

Spanish VAT at the standard rate of 21% is due on the import, supply or acquisition of cars.

The reduced VAT rate of 4% is due on cars for disabled people and special taxis for the transport of disabled people (in this case, prior recognition by the Spanish Tax Authorities is necessary).

In addition, diplomatic and international organisations are exempt from Spanish VAT on the acquisition of their cars although prior acknowledgement is required.

4.2. Deduction

In general, VAT paid on the import or acquisition of a car would be deductible if the cars are bought exclusively for business use.

Should the car be used partially for professional activities and partially for private purposes, there is a presumption giving the right to deduct 50% of the VAT paid on the purchase, import, lease, and repair, including the purchase of spare parts and petrol. If a different apportionment is obtained and it can be proved, initial deduction will have to be regularised.

However, vehicles for the transport of goods or passengers, for commercial or sales agents, used by its manufacturers for testing, trials, demonstration or sales promotion purposes or used for vigilance services purposes, cars for drivers' teaching, among others, will be presumed to be used 100% for business purposes.

4.3. Hire purchase

For VAT purposes a hire purchase in Spain is a supply of goods.

Interest paid is deemed an exempt financial service and must not be included in the taxable amount for the hire purchase when separately shown on the invoice.

Regarding the taxable event, VAT due must be paid when the car is put at the disposal of the hirer/purchaser.

4.4. Leasing

A lease agreement will be treated as a supply of services if there is no purchase option or commitment to exercise the purchase option. VAT is due on every lease quota.

Interest paid is deemed an exempt financial service and must not be included in the taxable amount for the lease agreement when separately shown on the invoice.

If, during the lease agreement, the purchase option is exercised, the transaction qualifies as a supply of goods at that point, (up to then, it is a supply of services) the taxable base being the residual value of the goods.

Likewise, in those cases where there is an original commitment to exercise the purchase option, the transaction qualifies as a supply of goods as from the beginning, the VAT being due at the time the good is put at the lessee disposal.

5. Company car

5.1. VAT due on private use of company cars

The private use of a car by an employee could qualify (depending on the way this is articulated) as a taxable supply of services, and the employer would then need to charge VAT onto the employee proportionate to the 50% of such private use, with the employer then having 100% right of deduction. Please note that this criterion is only applicable for VAT purposes.

As previously mentioned, should the car be used partially for professional activities and partially for private purposes there is a presumption giving the right to deduct 50% of the VAT paid, although if a different apportionment is obtained and it can be proved, then the initial deduction will have to be regularised (except vehicles for the transport of goods or passengers, for commercial or sales agents, used by its manufacturers for testing, trials, demonstration or sales promotion purposes or used for vigilance services purposes, cars for drivers' teaching, among others, that is presumed to be used 100% for business purposes).

5.2. Company car in personal tax returns – benefit in kind

Private use of a company car by employees is deemed as a benefit in kind for Spanish personal income tax purposes. The private use should be settled on a case-by-case basis based on a reasonable criterion.

The company will have to make a payment on account to the Treasury on the fringe benefits paid to employees, at the employees' general withholding rate, being the valuation rules the following:

- Supply of the car to the employee (payment in kind), which becomes the owner of the car: acquisition cost for the entity, including the taxes (VAT, tax on registration, customs duty)
- In case of use of the car by any title (but the employee does not acquire the car's ownership):
 - Cars owned by the company: 20% per year of the acquisition cost
 - Cars not owned by the company (leasing): 20% per year on the market price of the car if it were new
- Use and subsequent supply of the car to the employee:
 - Use: to be valued according to the above
 - Subsequent supply: the market price of the used car at the moment of first supply

5.3. Income taxes – drivers' personal taxation

5.4. Private car in the personal tax return

5.4.1. Private use

The vehicle costs made in respect of the private use of a vehicle are not deductible in the employee's personal tax declaration.

5.4.2. Commuter traffic

Use of company cars by employees for commuting purposes is considered as private use and thus a benefit in kind, subject to withholding tax (payment on account). In this sense, the rules above are fully applicable.

5.4.3. Business kilometers

In case of use of employees' own cars for business journeys, reimbursements by the employer not exceeding 0.19 EUR per kilometre is tax free and not subject to withholding tax. Amounts exceeding 0.19 EUR per kilometre are subject to withholding tax.

6. Special territorial schemes

6.1. Canary Islands

Importation of cars into the Canary Islands coming from outside the EU is currently subject to customs duty at 10%.

Supplies of cars are subject to IGIC 13.5% or 9.5% (depending on the power), 7% (vehicles intended for specific uses and/or depending on certain technical specifications) or 3% (cars and taxis for disabled people).

Imports and supplies of hybrid electric vehicles that do not exceed 110 grams of CO₂ per kilometre on their emissions, and electric vehicles, except sport or recreational vehicles and those driven on rails installed on the road, are subject to IGIC and shall be applicable a tax rate of 0%. Hiring of electrical vehicles will also be taxed at tax rate 0%.

Input IGIC incurred on purchasing the cars will be only recoverable in case of cars used exclusively for the purpose of the purchaser's business activity (or in case of specific vehicles such as those for the transport of goods or passengers, for driver's teaching, etc.).

No presumption analogous to that existing in the VAT Law has been implemented for IGIC purposes up to date.

6.2. Ceuta and Melilla

Importation of cars within these cities will be subject to IPSI (tax on importation, services and production), as general rule, at 10%. Regarding electric cars, the imports will be subject to IPSI at 5%.

For these purposes, in order to determine the taxable base of the IPSI on importation the same rules as for the calculation of the taxable base of the VAT on importation will be applicable.

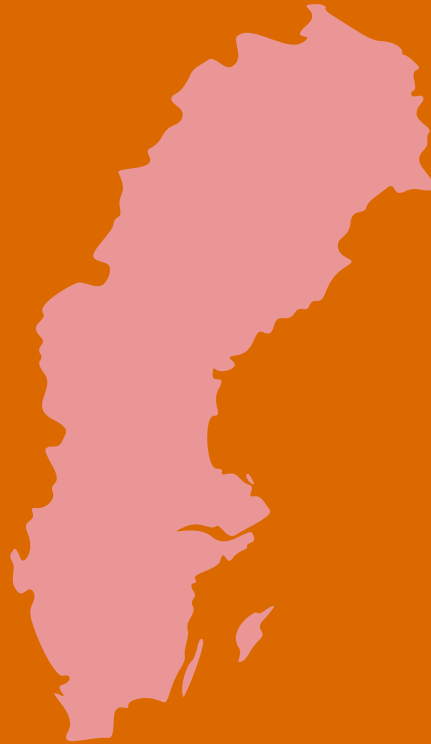
7. Electric vehicles

Measures in this respect depend on each autonomous region. Royal Decree 266/2021, of 13 April, approves the direct granting of aid to the autonomous communities and the cities of Ceuta and Melilla for the implementation of incentive programmes mobility (MOVES III) within the framework of the European Recovery, Transformation and Resilience Plan (ERTP).

8. *Legal background*

- General Regulations of Vehicles (Royal Decree 2822/1998)
- Law on Traffic, Circulation of Motor Vehicles and Road Safety (Royal Decree 6/2015)
- Corporate Income Tax Act (RDL 27/2014)
- Personal Income Tax Act (Law 35/2006 and RD 439/2007)
- VAT Law 37/1992
- IGIC Law 20/1991
- Law 34/2007 regulating air quality and atmosphere protection
- Law 3/2010 regulating the tax rate of IGIC applicable to electric and hybrid vehicles
- Law 17/2019 regulating the zero tax rate applicable to the delivery, import, lease and execution of works in relation to vehicles in the scope of the General Indirect Canary Islands Tax (IGIC)
- Law 11/2021 of 9 July on measures to prevent and combat tax fraud
- Excise Duties Law 38/1992
- The production, services and imports tax ordinance in the city of Ceuta
- The production, services and imports tax ordinance in the city of Melilla (Decree n.63 of 02/10/2019)
- Royal Decree 2/2004, of March 5, approving the revised text of the Law Regulating Local Treasuries.

Sweden



Sofia Negrin

Automotive Tax Leader

p: +46 10 213 14 36

e: sofia.negrin@pwc.com

Ulf Hedström

Managing Director

p: +46 10 213 14 24

e: ulf.hedstroem@pwc.com

Sweden

1. Car registration

1.1. When does a car need to be registered?

A vehicle should be registered before it is used in Sweden. The registration is handled by the Swedish Transport Agency. Additional information regarding the registration of cars can be found on the Swedish Transport Agency's website: www.transportstyrelsen.se.

There are certain exceptions from the obligation to register a vehicle in Sweden. Exceptions are for example made for foreign-registered vehicles, vehicles owned by individuals with foreign domicile and vehicles that are only intended to be used temporarily in Sweden.

1.2. Who can register a car?

A vehicle should be registered by the owner. If a vehicle's legal owner changes, a notification must be made to the Swedish Transport Agency.

1.3. Is a foreign owner allowed to register a vehicle in the country?

To register a car in Sweden the owner of the car must have a Swedish personal identity (ID) number. A person without such a number can apply for a "coordination" number. Furthermore, a Swedish address needs to be stated on such an application. More information regarding coordination numbers can be found on the Swedish Tax Agency's website.

1.4. Can a vehicle with a foreign number plate be used on public roads?

Swedish residents have to apply for a temporary number plate to use an imported foreign-registered car on a Swedish public road. The car may only be used on Swedish public roads with the foreign number plate for seven days.

Non-residents can use a vehicle with foreign number plates on public roads in Sweden for a maximum duration of 12 months.

2. Car taxation

2.1. What are the different car taxes?

The main car tax applicable in Sweden is the vehicle tax.

2.2. Vehicle tax

2.2.1. Taxable event

Upon registration in Sweden a vehicle becomes subject to the vehicle tax. Vehicles subject to this tax are cars, campers, lorries, buses, motorcycles, tractors, motorised machinery, trailers and heavy off-road vehicles.

Some exemptions exist for vehicles older than 30 years, emergency and rescue vehicles, temporarily registered vehicles etc.

A vehicle's registration may at any time be changed by the owner to "avställd". This means that the vehicle may not be driven on roads and that the owner only has to pay the annual registration fee of SEK 65. If the owner has paid vehicle tax in advance, a proportional part of the vehicle tax will be refunded.

2.2.2. Taxable person

The taxable person is the person who is registered as the owner of a vehicle at the beginning of a tax collection month. If the vehicle is sold the first day of the tax collection month, the vendor is considered as the owner at the beginning of that tax collection month.

2.2.3. Tax period

The tax is to be paid annually in advance. The month in which the vehicle tax is due depends on the final figure in the registration number of the vehicle. If the tax exceeds SEK 3,600, the payment is divided into three payment periods over one year.

11.1.1 Tax due

It is possible to identify the yearly vehicle tax (årsskatt) for a vehicle that is registered at the Swedish Transport Agency by searching the license plate number on this site: <https://fu-regnr.transportstyrelsen.se/extweb> and then choose “Skatt och avgifter”.

An annual registration fee of SEK 65 is charged for all vehicles that are registered at the Swedish Transport Agency.

The vehicle tax for cars, campers, light lorries and light buses is based either on the vehicle’s weight or the vehicle’s carbon dioxide emissions. Older vehicles (2005 or older) are generally taxed by weight, while newer vehicles (2006 or later) are generally taxed by carbon dioxide emissions.

The carbon dioxide emission-based vehicle tax consists of a fixed primary amount (currently 360 SEK per year) and an amount calculated on the vehicle’s carbon dioxide emissions (carbon dioxide component). For mixed driving, the carbon dioxide component is based on the emitted carbon dioxide per kilometer which exceeds 111 grams and is dependent on whether or not the vehicle can run on alternative fuels.

For cars that run on diesel, have a vehicle model year of 2018 or earlier and become taxable in Sweden before July 1, 2018, the fixed primary amount and the carbon dioxide component is multiplied with a fuel factor. For cars that run on diesel and have a vehicle model year of 2018 or later and become taxable in Sweden on July 1, 2018 or later, a fuel supplement is added to the fixed primary amount and the carbon dioxide component instead of the fuel factor.

In addition to the fuel factor/fuel supplement, an environmental supplement of SEK 500 is charged for cars that were taxable in Sweden for the first time in 2007 or earlier and SEK 250 for cars that were taxable in Sweden for the first time in 2008 or later.

Cars that fulfil certain environmentally friendly criteria and which have been registered for the first time after July 1, 2009 but before June 30, 2018 are exempt from vehicle tax during the first five years the vehicle is in use. The five-year tax exemption was extended on January 1, 2013 to include campers, light trucks and light buses.

Since July 1, 2018, a new system called bonus-malus has been introduced to replace the five-year tax exemption. The new system covers cars, campers, light buses and light trucks that are registered for the first time July 1, 2018 or later. The “bonus” part means that a car owner may receive a bonus of up to SEK 60,000 for purchasing a vehicle that is considered environmentally friendly. In order to receive the bonus, the owner has to file a form with the Swedish Transport Agency within six months of the purchase. The “malus” part applies to vehicles that have high emissions and means that an elevated vehicle tax will be charged the first three years.

To calculate the preliminary bonus, follow this link:

<https://www.transportstyrelsen.se/sv/vagtrafik/Fordon/bonus-malus/bonus/berakna-din-preliminara-bonus/>

To calculate the elevated vehicle tax, follow this link:

<https://www.transportstyrelsen.se/sv/vagtrafik/Fordon/bonus-malus/malus2/malus-2020/>

3. VAT

3.1. Deduction of input VAT on costs related to cars

3.1.1. Operating costs

If the car is an asset or has been leased for use in the company, the company can deduct input VAT on all operating costs. It is sufficient that the car is used partly in the company’s taxable business and the company may therefore deduct input VAT on operating costs even when the car is mainly used privately. Examples of operating costs are fuel, service, repairs and inspection of the car.

3.1.2. Purchase

In Sweden, there are certain regulations when it comes to deduction of input VAT on purchases of cars. If the car has a registered total weight of more than 3,500 kg or weighs 3,500 kg or less but has separate bodywork (e.g., a pickup), the input VAT is fully deductible. If the car weighs less than 3,500 kg and does not have separate bodywork, the input VAT may not be deducted.

An exception to the above is when the car is purchased to be used for resale or car leasing purposes, or to be used for taxi business, means of transport for deceased people or education towards driving license. If the car is to be used in such business, the company is allowed to deduct all input VAT regardless of the specifications of the car.

3.1.3. Leasing

If a company has leased a car, the company must assess whether the lease agreement means that the company has rented or purchased the car. An agreement on financial leasing may involve the sale of a passenger car instead of rental. The basic rule is that if the lessor does not transfer the ownership (financial rights and obligations) to the lessee, it is a rental agreement. If the lessee has signed an agreement that says that it must buy the car, or find another buyer for the car, when the lease expires, it is a sales agreement. If a car is purchased on instalment and the debt plus interest is paid over a few years, it is considered as a purchase according to the Swedish VAT Act.

If a company has purchased a car, the regulations described in 3.1.2 apply. If the company has rented a car, it is allowed to deduct 50 % of the input VAT. A condition for deduction when hiring a passenger car is that the car is driven more than 1,000 km per year in a VAT liable business. If the car is leased to be used for taxi business, means of transport for deceased people or education towards driving license, the VAT is fully deductible.

3.2. Sale of cars - should VAT be charged?

Output VAT should be charged only if the seller was entitled to deduct input VAT when the seller bought the car. It does not matter whether the seller made the deduction or not. This means that VAT should be charged on sale of cars that have been used for resale or car leasing purposes, or for taxi business, means of transport for deceased people or education towards driving license.

3.3. VAT due on private use of company cars

When a company car is used privately, the rules of withdrawal taxation can be applicable. If the rules are applicable, the company should account for VAT as they must handle the private use of the company car in the same way as a transaction to a consumer.

The above rules of withdrawal taxation only apply if full deductions of input VAT were made when the car was purchased, or if full deductions are made on lease payments. Hence, withdrawal taxation will only occur if a car is acquired for resale or car leasing purposes, or to be used for taxi business, means of transport for deceased people or education towards driving license.

4. Corporate tax

All costs relating to purchased or leased cars are fully tax-deductible for Swedish registered companies. This applies even if an employee uses a company car privately. Nevertheless, the employee will in such a case be taxed for the benefit of using the car privately.

The purchase price of the car is tax-deductible for the acquiring company by the use of depreciations over a five-year period using a straight-line method allowing for 20 % depreciation per annum. A declining balance method which allows for a maximum depreciation rate of 30 % per annum is also available. Any of these methods can be chosen, for all equipment and machinery as a group, and the method can be changed from year to year. The operating expenses related to the car are tax-deductible on payment.

There are no specific rules in the Swedish Income Tax Act for leasing transactions. Instead, any potential tax issue that may arise in a leasing transaction is analysed based on the “ordinary” set of rules given in chapter 18 of the Income Tax Act regarding depreciation for tax purposes.

In 1998 the Supreme Administrative Court tried several cases regarding leasing agreements. In summary: The Court concluded that the actual purpose of the agreements was different from the actual wording and that the lessor could not be considered as the real owner for tax purposes and was therefore not entitled to tax depreciation on the assets. The court decisions caused uncertainty in respect of leasing transactions as it was not clear whether the interpretation should have a broad applicability, making most leasing agreements possible to attack from a tax point of view, or whether the interpretation should have a narrow applicability, applying a case-by-case method.

In the most recent official document issued regarding this specific question in October 2004 by the Swedish Tax Agency as well as in the Swedish Tax Agency's guidelines for 2018, the tax agency's view is given. According to the Swedish Tax Agency it is not possible to let the accounting regulation for financial leasing be decisive for the taxation. It is the Swedish Tax Agency's opinion that it is the legal owner of the assets that is entitled to the special tax depreciation, that is normally the lessor (and not the lessee). However, a different assessment of the true meaning of the leasing agreement might come into question, resulting in the lessor not being considered the owner of the assets for income tax purposes and hence not entitled to the tax depreciation of the assets.

New interest deduction limitation rules entered into effect on January 1, 2019. The new interest deduction limitation rules include specific tax rules for financial leasing, including a specific tax definition of financial leasing and how to calculate the interest component in such leasing agreements (as this interest is covered by the interest deduction limitation rules). The remaining part of the leasing cost is still wholly tax-deductible and cannot be considered to be amortization that should have an effect on the deductible base. Hence it is important to identify which leasing contracts constitute financial leasing and which are operational leasing. Financial leasing is defined as when "financial risk and advantages exclusively or as good as exclusively are transferred to the lessee".

There is an exemption for company groups with total financial leasing costs below 1 MSEK. If this is the case, the group does not have to calculate the interest component in the group's leasing agreements.

5. Income taxes – Drivers' personal taxation

The fact that the employee is using the company car privately will not affect the deductibility of the costs related to the car for the employer (i.e., the company owning or leasing the car in question).

However, the employee will be taxed for the benefit of using the car privately, meaning that the employer will be liable to pay social security charges (normally 31.42 %) on the benefit. Moreover, from February 1, 2019 the employer is obliged to report the benefit on the employee's monthly statement of earnings and withhold and remit the income tax attributable to the car benefit.

5.1. Private car in the personal tax return

An employee who uses a company car for private purposes is taxed for the benefit of having a company car. In principle, a benefit arises as soon as a person has the possibility of using a company car for private use.

The taxable benefit of having a company car is calculated according to a standardised valuation. The benefit value is calculated slightly differently depending on the age of the car. The value of any extra equipment is added to the new car price. New car prices are determined annually by the Swedish Tax Agency. The benefit value of having the car is reduced to 75 % if the employee benefitting from it drives at least 30,000 km annually in duty. If the employee is paying the employer from his net salary or is paying for other running costs other than fuel, the benefit value is reduced. The benefit value may also be reduced if the vehicle could be considered a "work tool". A vehicle is a "work tool" if it is fitted or adjusted for purposes other than personal transport, e.g., installation or distribution vehicles. To enjoy an adjustment of the benefit value the employer must apply for the adjustment with the Swedish Tax Agency.

The benefit value can be adjusted if there are extraordinary reasons. This requires an application from the employer with the Swedish Tax Agency. If the employee thinks that the benefit value should be changed the employee can state this in their tax return.

Only if the private use is slight, i.e., not more than 10 occasions and/or 1,000 km of driving annually (i.e., if either of these limits are breached the employee will be taxed), can the employee avoid taxation.

If the employer reimburses the employee for his commuter costs this is regarded as a taxable benefit for the employee which must be declared in the employee's income tax return. However, under certain circumstances, the employee is entitled to a travel deduction. In case the commuter costs exceed SEK 11,000 for income year 2019, the excess amount can be declared as a travel deduction. Note that the calculation of the commuter costs is done in accordance with a specific schedule provided by the Swedish Tax Agency.

To calculate the deductible commuter costs, follow this link:

<https://www.skatteverket.se/privat/skatter/bilochtrafik/avdragforresortilochfranarbetet/beraknadittreseavdrag/beraknadittreseavdrag.4.515a6be615c637b9aa410f71.html#!/start>

If the employee pays for the fuel, the employer may reimburse the employee with SEK 0.65 per kilometre if the company car runs on diesel fuel and SEK 0.95 per kilometre if the company car runs on other fuels (e.g., petrol) without triggering any adverse tax consequences for the employee, provided that it is a business trip.

From January 1, 2018 congestion tax and infrastructure charges relating to private driving of a company car which are paid by the employer are considered as a taxable benefit for the employee. The benefit of congestion tax and infrastructure charges should be calculated separately from the car benefit. No benefit will arise if the employee pays the amount of the taxable benefit to the employer by way of cash or net pay deduction.

5.2. Environmentally friendly cars

Swedish taxpayers can enjoy a tax adjustment of the benefit value when having an environmentally friendly company car. The main rule is that the "new car price", on which the benefit value is calculated, is adjusted to what the value would be if the car were an "ordinary" car of the same model but without the environmentally friendly technique.

Each year the Swedish Tax Agency publishes yearly guidelines specifying which "ordinary" car the environmentally friendly company car should be compared to.

For company cars that run on electricity, or on gas other than propane, the benefit value can be reduced with up to 40 %. The adjustment may never exceed SEK 10,000. These regulations are in force until the end of income year 2020.

The adjusted benefit value could be applied by the employer without any application or approval from the Swedish Tax Agency.

6. Congestion tax in Stockholm and Gothenburg

A congestion tax is imposed on all vehicles, both Swedish and foreign registered, driving into and out of the Stockholm and Gothenburg inner-city zones.

Vehicles are automatically registered at "control points" during the times when the tax is charged. The tax amount depends on what day and time the vehicle passes the control point. The accumulated passages made by any vehicle during one calendar month are aggregated into what is called a "tax decision". The congestion tax is paid retroactively and there is no possibility to pay at the control points. The tax must be paid after invoicing from the Swedish Transport Agency. It is the owner of the vehicle who is responsible for paying the tax.

7. *Low emission zones*

Sweden has three types of low emission zones. The restrictions that come with low emission zone type 1 only applies to heavy vehicles. The restrictions that come with low emission zones type 2 and 3 will apply for cars as well as heavier vehicles. Low emission zone type 2 requires that a car meets the emission standards for Euro V or VI in order to be allowed to drive in the zone. Low emission zone type 3 only allows vehicles that run on electricity, fuel cells or gas. Vehicles that are gas-fuelled must also meet the emission standards for Euro VI.

It is up to each municipality in Sweden to decide that an area in the municipality should be classified as a low emission zone.

8. *Legal background*

- Swedish income tax legislation
- Swedish VAT legislation
- Swedish road and traffic regulations

Switzerland



Juerg Niederbacher
Automotive Tax Leader

p: +41 58 792 4293
e: juerg.niederbacher@pwc.ch

Michaela Merz
Partner Tax

p: +41 58 792 4429
e: michaela.merz@pwc.ch

Switzerland

1. Car registration

1.1. When does a car need to be registered?

In order to be used on public roads, a valid registration plate is required. Cars have to be registered with the cantonal road traffic licensing department in order to obtain a number plate (<http://www.strassenverkehrsamt.ch>). In general, the registration has to be done in the canton in which the driver/holder is domiciled. Please note that in case of the use of a foreign company car by an employee with residence in Switzerland some of the cantonal road traffic licensing departments require a Swiss registration. In such a case individual requests are recommended.

The cost of registration depends on the canton where the car is registered. The cost should not exceed CHF 150 including cost for the number plate. The number plate belongs to the economic owner of the car and not to the car itself. Therefore, when buying or leasing a new car, the existing number plates will be used and only the vehicle registration document will be changed.

Example: Registration cost in Canton of Zurich

	CHF 40	Number plates
CHF 30		Cost of registration
+	CHF 38	Vehicle registration document
=	CHF 108	

1.2. Who can register a car?

The economic owner of the car can be an individual, a company or a partnership, and need not necessarily be the legal owner of the car.

The economic owner either buys or leases the car. The car registration can take place after the buying or leasing. The person who acts as economic owner of the car is obliged to register it. In case of leased cars, the car has to be registered by the lessee.

1.3. Is a foreign owner allowed to register a vehicle in the country?

A vehicle owned by a person or entity not resident in Switzerland can also be registered, but only if the economic owner is resident in Switzerland and only in the name of the economic owner.

1.4. Can a vehicle with a foreign number plate be used on public roads?

This depends on the following:

- The use of a vehicle with a foreign number plate by a person with residence outside of Switzerland is in general possible and no registration is needed, at least for the use for some days / weeks per year (excluding the case of the transportation of person, dropped on and dropped off, in Switzerland). It is necessary that the vehicle is not based for more than one year in Switzerland (without an interruption of more than three related months). Furthermore, the holder of the vehicle is not allowed to stay in Switzerland for more than one year (without an interruption of more than three related months) and to use the vehicle for more than one year in Switzerland.
- The vehicle does not need to be registered within the first 12 months of residency in Switzerland, provided that the license plates are still valid and sufficient motor insurance coverage exists (exception see point 1.1). Foreign driving licenses will still be valid during the first 12 months in Switzerland.
- In case of a weekly commuter with a domicile outside of Switzerland, a Swiss registration is not necessary, in case that the vehicle is used at an average of two sequent days per month.

- In case of a weekly commuter with a domicile in Switzerland, some of the cantonal road traffic licensing departments require a Swiss registration. A pre-discussion of the case with the department is recommended.

When an individual moves to Switzerland, the vehicle can under certain conditions be imported free of charge (no VAT, customs duties and car tax) or may be used for up to two years without being customs cleared for free circulation (after 12 months, special Swiss number plates will be required).

2. Car taxation

2.1. What are the different car taxes?

The following car taxes exist:

- Registration tax (cantonal, outlined above)
- Annual circulation tax (cantonal)
- Car tax (federal)
- CO₂ duties (federal)

2.2. Annual circulation tax (cantonal)

2.2.1. Taxable event

When the number plate is purchased the car will automatically be registered by the cantonal road traffic licensing department.

2.2.2. Taxable person

The person who acts as the economic owner of the car.

2.2.3. Tax due

The tax due depends on the canton of registration (where the economic owner is resident). There are special conditions in some cantons for large fleets of cars (e.g., rental cars). In some cantons, there are also discounts for certain environmentally friendly cars.

In the Canton of Zurich, the annual circulation tax is composed of the sum of the taxes based on engine capacity and total kerb weight.

Example: Annual car taxes in Canton of Zurich

Engine capacity in cc	Tax due in CHF	Engine capacity in cc	Tax due in CHF
Up to 1200	69	5001 – 5500	1108
1201 – 1400	88	5501 – 6000	1258
1401 – 1600	108	6001 – 7000	1558
1601 – 1800	128	7001 – 8000	1858
1801 – 2000	148	8001 – 9000	2158
2001 – 2500	208	9001 – 10000	2458
2501 – 3000	358	10001 – 11000	2758
3001 – 3500	508	11001 – 12000	3058
3501 – 4000	658	13000 – 14000	3358
4001 – 4500	808	14001 – 15000	3658
4501 – 5000	958		
Kerb weight in kg	Tax due in CHF	Kerb weight in kg	Tax due in CHF

Engine capacity in cc	Tax due in CHF	Engine capacity in cc	Tax due in CHF
Up to 1200	50	2801 – 3000	670
1201 – 1400	70	3001 – 3200	790
1401 – 1600	100	3201 – 3500	930
1601 – 1800	130	3501 – 4000	1190
1801 – 2000	160	4001 – 4500	1450
2001 – 2200	190	4501 – 5000	1710
2201 – 2400	310	5001 – 5500	1970
2401 – 2600	430	5501 – 6000	2230
2601 – 2800	550		

All cars with energy efficiency category A and B and a CO₂ output of no more than 130g/km get a discount for the first 4 years after initial registration. For category A the discount is 80%, for category B it is 50%.

2.2.4. Tax period

The period of the tax year: January 1 – December 31. Cars that are registered in Switzerland are subject to the annual circulation tax.

2.3. Car tax (customs duties)

General rule

From a Swiss customs perspective car generally have to be customs cleared, in case they are used for journeys in Switzerland

- by a person with residence in Switzerland or
- by a person with residence outside of Switzerland for the use of business trips (e.g. visiting client) for a Swiss resident employer or
- for passenger transports or the transport of goods within Switzerland.

In case that a car is not customs cleared in Switzerland, an importation or a double customs clearance is necessary.

Simplification - no effective Swiss customs clearance - under the customs procedure form 15.30

Students or employees of a Swiss resident company with residence outside of Switzerland have the possibility to use a foreign custom cleared car in Switzerland, without an effective Swiss customs clearance. To this end, form 15.30 is necessary. With this form, which is available at the customs administrations at the border (CHF 25), the private use in Switzerland is possible for a period of two years. Afterwards the period can be extended. The use of the foreign customs cleared car under the form 15.30 is not allowed for Swiss resident persons; otherwise, the car has effectively to be Swiss customs cleared.

Swiss resident employees of an employer with residence abroad can also use the form 15.30 to use a foreign custom cleared company car in Switzerland. Please note that in such a case the use is only allowed for direct commute travel.

Attention regarding the cross-border use of company cars

Please note that the private use of a Swiss customs cleared company car by an EU resident employee is in general not allowed in the EU any more since May 1, 2015 unless the car is customs cleared in the EU. Still allowed are the use for the direct (private) commute home to work and the use for business related trips (if foreseen in the working contract).

2.3.1. Taxable person

In principle the car tax is due by the importer (who is subject to customs duty) or due by a Swiss producer of a car.

2.3.2. Tax due

Car tax is 4% of the value of the car, import VAT is 7.7%. Customs duties are based on weight, applicable rates vary (CHF 12 to CHF 15 per 100 kg), unless preferential treatment applies (e.g., EU origin).

No car tax is due for fully electric vehicles.

2.3.3. Tax period

One-time due.

2.4. CO₂ duties

CO₂ duties apply, if newly registered cars have average CO₂ emissions exceeding the calculated target value of 95g CO₂ per kilometre, whereas heavier cars are currently allowed to have a higher emission.

For example, for a privately imported car (petrol engine) in 2021 this duty would mean the following:

- CO₂ emission: 170g CO₂/km
- Kerb weight: 1,649kg
- CO₂-duty: CHF 4,797.25

For individual calculations, a duty calculator has been published on the following website:

<https://www.bfe.admin.ch/bfe/de/home/effizienz/mobilitaet/co2-emissionsvorschriften-fuer-neue-personen-und-lieferwagen/personenwagen-pw/berechnungstool-fuer-kleinimporteure-pw.html> For wholesale importers importing more than 50 cars per year, the target value is calculated based on the average CO₂ emission of all imported vehicles. For private individuals and importers importing less than 50 cars per year, the CO₂ emissions are calculated for each vehicle separately.

3. Income taxes – taxable persons

Costs related to company cars are deductible to the extent that they are commercially justified. Therefore, the car must at least partially be used for business purposes.

The costs in connection with company cars arise either as depreciation of the asset or as an operating expense, depending on whether the car is purchased or leased. This differentiation does not have any influence on the deductibility of the cost for direct tax purposes.

If the car has to be reported as an asset in the balance sheet of the company (see section 5), the purchase price needs to be depreciated in line with usual business practices. The declining-balance method and the straight-line method are both permitted. There are official tax guidelines on maximum accepted depreciation. According to the guidelines, the annual depreciation rate for company cars using the straight-line method is 20% of the purchase price or 40% of the book value of the car if the declining-balance method is used.

If the company maintains a luxury car that is not essential for performing the business, or if the car is obviously unsuitable for performing the business, any additional costs in relation to the costs of a medium-range car are not commercially justified and therefore not deductible for direct tax purposes.

Regarding the private use of company cars, the treatment for tax purposes is dependent on the relationship between the user of the car and the company.

If the car is used by a company employee, the value of the private use must be re-qualified as wage costs. This private use will be subject to Swiss social security contributions and the drivers' personal income tax, as explained further on.

In case of private use of the company car by the individual who is the owner of the company or any related persons, or by partners of a partnership, the value of the private use may increase the taxable profit of the company. The amount of the private use qualifies as a hidden profit distribution.

4. VAT

4.1. General

Swiss VAT at the standard rate of 7.7% is, in principle, due on most supplies of goods and/or services. For taxable persons with a right to deduct VAT, the input VAT incurred for their purchases in respect of their economic activity can, in principle, be fully deducted.

4.2. Deduction

The Swiss VAT Act designates a reduced right to deduct input tax (partial exemption), if the taxpayer uses goods for purposes giving rise to input VAT deduction rights and for other purposes not giving rise to such rights. Basically, the partial deduction of input VAT is being calculated in relation to the extent of the non-business related or VAT-exempt use of the goods concerned.

Since the implementation of the new Swiss VAT Act in 2010 no threshold for company cars has been defined or published. On certain luxury cars, no input VAT deduction may be granted, if the purchase and maintenance of the luxury car is not proven to be (at least partially) for business purposes.

However, there is no general limitation of input VAT recovery for cars or any car related costs.

4.3. Leasing: Supply of goods/services?

The lease of movable property is considered a supply of goods for Swiss VAT purposes.

5. Company car

5.1. VAT due on private use of company cars

In relation to company cars, a deemed supply exists if the cars are also used for the private use of its personnel. Please note that the use of the car for commuting from and to work is regarded as private use.

For company cars (motor cars only) the following lump-sum method for calculation can be applied, on condition that these company cars are used predominantly (i.e., over 50 %) for business operations. The taxpayer may always use an effective method of calculation. In practice, this is deemed to be too complex; therefore, usually the lump-sum method for calculation is applied if possible.

If there was a possibility of full or partial deduction of input VAT when buying the company car, the amount on which VAT for private use has to be paid is 0.8% of the purchase price (excluding VAT), but at least CHF 150 per month. The private use of company cars is subject to VAT at a rate of 7.7%. If the company car is leased, the purchase price has to be replaced by the value of the company car stated in the leasing contract.

Please find below an example of how to calculate the VAT on the private use of the company car:

Amount	VAT due
Calculation example: Purchase price = CHF 32,000 (excl. 7.7% VAT)	
0.8% per month= CHF 256 (including 7.7% VAT) (or at least CHF 150 per month)	CHF 18.30
per quarter= CHF 768 (including 7.7% VAT)	CHF 54.90
per year = CHF 3072 (including 7.7% VAT)	CHF 219.65

Please note that if this standardized method for calculation is being used, it must be used for all company cars and it is not permissible to change the calculation method during the entire financial year. The declaration of the deemed supply may be made in the VAT return for the fourth quarter of the year for the whole year.

If the user of the company car has to pay contributions for the cost of the private use of the car and these contributions are equal to or higher than the taxable private use as calculated on the lump sum basis described above, the amount of the actual contributions will be taxable for VAT instead of the calculated amount.

Regarding the cross-border use of company cars, see point 2.3. In certain cases, the VAT on the private use in the domicile country of the employee may be due (e.g. Germany, Austria).

5.2. Company car in personal tax returns – benefit in kind

The company car or lease car that the employer places at the disposal of the employee constitutes a taxable benefit in kind in the hands of the employee, if the employee can use the car for private purposes.

The taxable benefit per month amounts to 0.8% of the actual purchase price of the company car or lease car (excluding VAT) or at minimum CHF 150.

Generally speaking, a contribution paid by the employee to the employer for private usage is deducted from the taxable benefit in kind.

The private usage of the company car or lease car is also considered a benefit in the hands of the employee for Swiss social security purposes. The taxable benefit is also used as the assessment basis for Swiss social security contributions. Please note that both the employee and employer are liable to pay Swiss social security contributions on the benefit in kind.

Insofar an employer has negotiated a more favourable method of assessing the benefit in kind by way of an approved expense manual, this more favourable method is used. An agreed expense manual can be viewed as a tax ruling negotiated with the tax authorities. In the expense manual, the negotiated value of a wide range of employee benefits are included.

The taxable benefit in kind of the company car or lease car must be reported on the employee's Swiss salary certificate statement.

6. Income taxes – drivers' personal taxation

The taxable benefit in kind that is reported on the Swiss salary certificate is reported in the individual income tax return. The taxable benefit in kind is taxed as employment income at the normal progressive income tax rates.

Normally, an employee may claim a tax deduction for commuting expenses in his Swiss individual income tax return.

However, as from 2016 the travel expense deduction (journeys between home and the workplace) has been limited to CHF 3,000 per year in the direct federal tax calculation.

The cantons are free to follow the federal tax solution for travel costs or to determine its own allowable deduction per year. Some cantons are planning to introduce a ceiling, others have not yet decided to introduce a ceiling for travel expenses. The canton of Zurich has limited this travel expense as per 2018 to CHF 5'000 per year.

For employees who are provided with a company car, a benefit in kind for the usage of the car for commuting between home and work may be added as taxable compensation. This is in addition to the monthly benefit of 0.8% (or at minimum CHF 150) for providing a company car. The calculation of the benefit for the usage of the car for commuting follows the calculation of the travel expenses for commuting. Once the amount for commuting exceeds an amount of the limit, the exceeding amount qualifies as a taxable benefit for federal or cantonal tax purposes.

In the event that an employee has the use of a company car or lease car, and he may use this car to commute to work, a tax deduction for commuting expenses cannot be claimed.

If an employee does not have the use of a company car or lease car, but the employee needs to use his privately-owned car for business purposes, then he can be reimbursed by his employer for the business mileage.

The reimbursement is free of tax provided the reimbursement is covered by an agreed expenses manual. Generally speaking, the tax authorities will agree on a reimbursement of CHF 0.70 per business kilometer. The exact amount that the tax authorities will accept as a tax-free reimbursement per business kilometer depends on several factors.

If the employer does not reimburse the employee for the business mileage, then the employee can claim the business mileage as a tax-deductible business expense in his Swiss individual income tax return. The tax-deductible business expense is CHF 0.70 per business kilometer. The amount per business kilometer is deemed to include all expenditures associated with using the privately-owned car for business purposes (depreciation, fuel, insurances, maintenance, etc.).

Kindly note that an employee is always entitled to claim a tax-deductible general business expense equaling 3% of the employment income in his Swiss individual income tax return, whereby the minimum deduction amounts to CHF 2,000 and the maximum deduction is CHF 4,000. Any claimed business mileage is firstly absorbed by the general business expense deduction. Therefore, an employee entitled to claim the maximum general business expense deduction of CHF 4,000 will only start to benefit from claiming business mileage as tax-deductible business expenses, if the total business mileage claimed in the Swiss individual tax return exceeds 5,714 kilometers.

7. *Electric vehicles*

Electric vehicles benefit from a reduction or even a waiver of the road circulation tax in some cantons and from no car tax on a federal level (see 2.3.2).

8. *Future developments*

Apart from the introduced duties on CO₂ emissions exceeding certain thresholds, there may be further amendments of the annual circulation tax to promote environmentally friendly cars at a cantonal level.

There are also plans to abolish customs duties on industrial goods, which would also affect the import of cars.

9. *Legal background*

- Direct tax legislation (cantonal and federal)
- Circulation Tax Act of the Canton of Zurich
- Swiss VAT legislation

Thailand



Peerapat Poshyanonda

Automotive Leader

p: +66 2 844 1220

e: peerapat.poshyanonda@pwc.com

Paul Sumner

Tax Partner

p: +66 2 844 1305

e: paul.sumner@pwc.com

Wiphawee Rungwanitcha

Senior Manager

p: +66 2 844 1248

e: wiphawee.rungwanitcha@pwc.com

Thailand

1. Importation of cars

1.1. Customs duties

In general, the importation of cars (defined as vehicles for carrying passengers) is subject to an 80% import duty rate. However, in the case of the importation of large vehicles for carrying ten or more passengers, the duty rate is 40%.

Under the ASEAN Trade in Goods Agreement (ATIGA), the import duty rates of the said products are 0%, provided that the products satisfy all requirements and origin criteria (e.g., rules of origin, consignment and other compliance issues). Moreover, it is also noted that the “reciprocity” condition is applied under the ATIGA (the duty rate under the ATIGA preferential schedule of the identical product of the exporting country should not exceed 20%).

Aside from the ATIGA privilege, the importation of cars could also enjoy preferential duties under various other free trade agreements (FTAs) to which Thailand is a member, including the ASEAN-Australia-New Zealand FTA, ASEAN-China, ASEAN-Japan, ASEAN-Korea, ASEAN-India, ASEAN-Hong Kong, Thailand-Australia, Thailand-New Zealand, Thailand-India, Thailand-Peru, Thailand Chile and Thailand-Japan (depending on each particular HS code). Certain FTAs under the negotiations include Regional Comprehensive Economic Partnership (RCEP), Thailand-Pakistan FTA, Thailand-Turkey FTA, Thailand-EU FTA (it is expected to resume the negotiation in 2022) and Thailand-EFTA. The importation of auto parts is generally subject to a 10% to 30% import duty rate, which could be reduced to 0% to 10% for certain products under certain conditions.

Irrespective of the high compliance cost and complexity, a Free Zone (FZ) privilege has also been utilized by several manufacturers who establish their vehicle assembly in FZs. The FZ privilege offers duty exemption for the withdrawal of the goods (vehicle or vehicle parts) manufactured/assembled in the FZ to the Thai domestic market, provided that the goods could qualify at least 40% local content and that the goods shall pass the ‘**essential production processes**’ in the FZ (beyond minimal operations) as specified by the Office of Industrial Economics (OIE), Ministry of Industry. Based on the Customs FZ rules which take effect on November 10, 2017, there will be certain limitations in terms of the usage of raw materials for production and more discretion will be given to Thai Customs to determine whether certain local raw materials can be used as qualifying local content for the required 40% threshold.

The OIE announced rules regarding essential production processes in the FZ below:

- For the production capacity of a single model or combination of various model that does not exceed 2,000 vehicles per year
 - Internal Combustion Engine (ICE) passenger car pick up and van, it shall pass manufacturing processes of auto body, painting, assembling process and quality control.
 - Plug-in hybrid electric vehicle (PHEV) and battery-electric vehicles (BEV), it shall pass assembling processes, quality control and manufacturing processes of either traction motor or battery management system.
- For the production capacity of a single model or combination of various model that exceed 2,000 vehicles per year
 - Internal Combustion Engine (ICE) passenger car, pick up and van
 - For a single or combination of various models less than 2,000 vehicles, it shall pass manufacturing processes of auto body, painting, assembling process and quality control.

- For a single or combination of various models exceeding 2,000 vehicles, it shall pass at least assembling and quality control processes.
- Plug-in hybrid electric vehicle (PHEV) and battery-electric vehicles (BEV)
 - For a single or combination of various models less than 2,000 vehicles, it shall pass assembling processes, quality control and manufacturing processes of either traction motor or battery management system.
 - For a single or combination of various models exceeding 2,000 vehicles, it shall pass at least assembling and quality control processes.
- For the new manufacturer, it shall have assembling and quality control processes for manufacturing from the first date of operation in a free zone area until the 5th year of operation. From the 6th year, it shall have the following essential production process similar to the mentioned processes in the previous bullet.
- More criteria are specified, depending on the type of vehicles (e.g., truck, motorcycle, etc.), and yearly production capacity of each model would apply.

To be eligible for the FZ privilege, all requirements under the OIE Notifications as well as requirements under relevant Customs Notifications must be fulfilled.

In addition to the high compliance cost and complexity incurred from using the FZ privilege, there are **time limitations (two years period)** for the storage of cars and other goods in the FZ. The two years period could be extended, subject to Customs' approval. A failure to comply with this Government Order will lead to the goods being exported, or they could lose their FZ duty privileges and duty, and taxes will be collected.

In May 2018, more control has been put in place for imports of Completely Built Unit (CBU) under the tariff codes 87.02 and 87.03 (including those CBUs which are firstly retained in bonded warehouse or FZ, and later removed from bonded warehouse/FZ to domestic market. Imported CBUs must be processed through the red line customs clearance, and detailed information must be declared to Customs such as brand name, model, product year, cylinder capacity, horse power, type of fuel and energy, numbers of chassis and engine, and importers must submit a certificate of vehicle specifications for each CBU to Customs. Also, new cars of the tariff code 87.02, 87.03, and 87.04 are considered as high-risk products, whereby a transfer of these cars from one FZ/bonded warehouse to another FZ/bonded warehouse is allowed only one time, and the necessity for the transfer must be provided to Customs for their approval. In addition, the importation of cars is subject to **excise tax** as well as **interior tax** (10% of the excise tax payable). Currently, the excise tax is imposed under the Excise Tax Act 2017 ("Act"). The excise tax based for motor vehicles is a **suggested retail price** which will be considered from production cost, management cost, and standard profit (not be lower than the selling price to end customers in normal market circumstances.) The manufacturers and/or importers are required to inform their suggested retail prices, including the cost structures of their products, to the Excise Department.

The **ceiling** ad valorem excise tax rates in the Act are 80% for passenger cars and passenger cars with no more than 10 seats, while pick-up trucks with a total weight of no more than 4,000 kg. are subject to 40% tax rate. The applicable excise tax rates for automobile vary depending on the emission rate of carbon dioxide and exhaust to the atmospheric particulate matter (PM) 2.5. Below is the summary table of excise tax rates for automobiles.

Type	Applicable ad valorem excise tax rate
Passenger car and bus with less than 10 occupied persons and cylinder capacity less than 3,000cc	25 to 35

Passenger car and bus with less than 10 occupied persons and cylinder capacity more than or equal to 3,000cc	40
Pick-up passenger vehicle (PPV)	20 to 40
Double cap vehicle	6 to 40
Passenger car (that is made from a pick-up truck or chassis with the windshield of a pick-up truck or modified from a pick-up truck)	2.5 to 40
Passenger car or public transport vehicle with seating not exceeding 10 seats used as an ambulance of a government agency, hospital or charitable organization	0
Hybrid electric vehicle with seating not exceeding 10 seats	8 to 40
Electric powered vehicle with seating not exceeding 10 seats	8
Fuel cell powered vehicle with seating not exceeding 10 seats	8
Economy car meeting international standards	10 to 14
Passenger car or public transport vehicle with seating not exceeding 10 seats using alternative energy with cylindrical volume not exceeding 3,000cc; using not less than 85% ethanol mix with gasoline available generally petrol stations	20 to 40
Passenger car or public transport vehicle with seating not exceeding 10 seats using alternative energy with cylindrical volume not exceeding 3,000cc; being capable of operating on natural gas	20 to 40
Motorcycle	0 to 20

The excise tax exemption is provided for manufactured or imported **prototype** motorcycles and automobiles used for **research, development or testing purposes**. A request for the exemption must be submitted to the Excise Department before removal of the prototype from the manufacturing place or before imports. The manufacturers and importers must comply with the criteria, procedure and conditions provided in the Excise Notification.

1.2. Import VAT

The importation of cars into Thailand is a taxable event and import VAT is due upon the payment of import duty or furnishing security or surety for the import duty, except where the goods are free of or exempt from import duty. Liability is deemed to arise on the date of issuing of a customs entry under the law governing customs.

The present rate of VAT is 7% based on CIF price plus import duty, excise tax and interior tax plus the special surcharge under the law governing the promotion of investment (where applicable) and any other taxes and fees listed by a Royal Decree.

2. Car registration

2.1. When does a car need to be registered?

A vehicle must be registered prior to being used in Thailand.

The following are examples of items that need to be notified to the registrar after vehicles have been registered:

- Change of color of vehicle
- Change of owner of vehicle

2.2. Who can register a car?

A vehicle must be registered in the name of the owner, except that in the case of a vehicle being sold under a hire-purchase agreement, the name of the lessee (person with right of possession of the hire-purchased vehicle) will also be included in the car registration as the person possessing the vehicle.

2.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, but the foreign owner must have a work permit or a certificate of residence in Thailand.

2.4. Can a vehicle with a foreign number plate be used on public roads?

A vehicle driven on public roads in Thailand cannot use foreign number plates except for a foreign-owned vehicle which has been authorised to enter the country temporarily at a border checkpoint or by the Department of Land Transportation.

3. Car taxation

3.1. What are the different car taxes?

There are various types of car taxes, as follows:

- Car tax levied based on the cylinder capacity of the vehicle, e.g., private cars with no more than seven seats (if a company is the owner of the vehicle and it is not being sold under a hire-purchase agreement to an individual, the car tax will be double the normal rate).
- Car tax levied based on the weight of the vehicle, e.g., private cars with more than seven seats, and vehicles for providing services.
- Car tax levied on each vehicle, e.g., tractors for agricultural work, motorcycles, etc.
- Car tax levied at half of the stipulated rate for vehicles using natural gas, and energy-saving parts according to the regulations.

3.2. Registration tax

3.2.1. Taxable event

The car registration tax is payable when the car is first registered and annually thereafter.

3.2.2. Taxable person

The owner of the vehicle, or the person who has right of possession under a hire-purchase agreement, is liable to pay the car registration tax.

3.2.3. Tax due

The car registration tax may be paid at any time within three months prior to the expiration date.

3.2.4. Tax period

The car registration tax is valid for one year.

4. Income taxes – corporate taxable entities

4.1. Hire purchase: supply of goods

4.1.1. Lessee

Vehicles acquired by means of hire-purchase are regarded as fixed assets for both accounting and tax purposes. However, the vehicle values to be used to calculate depreciation are different for each.

For tax purposes, the vehicles must be recorded at the total hire purchase price (cash price plus finance costs). Hence, the total payments to be made under the hire purchase contract should be regarded as the cost of the assets subject to depreciation according to the rules and rates contained in the Revenue Code. Moreover, the depreciation deducted in each accounting period cannot exceed the amount of the hire-purchase or instalment price payable in that accounting period.

4.1.2. Lessor

The hire purchase business is regarded as the sale and purchase of an asset. The lessor has to recognise the entire profit from sale of the asset (the difference between the cash selling price and the cost of the asset) as revenue of the accounting period in which the hire purchase takes place, and treat interest on the hire purchase (the difference between the entire amount payable under the agreement and the cash price) as revenue of each period according to the generally accepted accounting method.

4.2. Leasing: supply of services

The tax law does not differentiate between an operating lease and a finance lease. A leasing contract is treated as an operating lease for tax purposes regardless of the treatment for accounting purposes.

4.2.1. Lessee

In the case of a passenger car or a bus with seats for no more than ten passengers, lease rentals paid are deductible for corporate tax purposes subject to a maximum of THB 36,000 per car per month, or THB 1,200 per car per day, inclusive of VAT. However, this restriction does not apply in the case of vehicles used in the car rental business provided that they are not used in any other business, either partially or wholly. In such a case, the full amount of the rent is deductible and the VAT amount is creditable against output VAT in the monthly VAT return (section 5.2 below refers).

Car-related expenses, such as fuel, are tax deductible for the lessee provided that there is evidence that the car is used for the purpose of the business. Repair costs are also deductible provided that the lessee is required to absorb these costs under the lease agreement.

4.2.2. Lessor

Since the title to the leased car belongs to the lessor, the lessor is entitled to depreciate the full amount of the cost over its useful life, provided that the vehicle is used in the car rental business and not in any other business, either partially or wholly. The maximum annual rate of depreciation permitted is 20%.

When, under a finance lease, the lessee exercises the right to buy the leased car, the remaining net book value of the car can be offset against the income from the sale in the accounting period in which the sale takes place. Any gain or loss on the sale would be included in the corporate tax return.

5. VAT

5.2. General

VAT is levied on the supply of goods or provision of services in Thailand by VAT registered operators, as well as on the importation of goods by importers. The current rate of VAT is 7%. An exception is made to the importation of prototype cars or motorcycles for the purpose of research, development or testing which are approved to be exempted from excise tax under the excise tax law.

The 0% VAT rate applies to the export of goods from Thailand, as well as to services performed in the country but used abroad.

5.3. Deduction

For VAT-registered operators, the input VAT directly incurred in their businesses is, in principle, entirely creditable against their output VAT.

However, for the purchase, hire purchase, lease or acceptance of transfer of a passenger car or a bus with seats for no more than ten passengers, and from the purchase of goods or the receipt of services relating to these vehicles, the entire amount of input VAT cannot be credited against output VAT in the monthly VAT return.

Exceptions to the above rule apply in the case of

- Businesses selling passenger cars or buses with seats for no more than ten passengers.
- Car rental businesses.
- Companies providing insurance for passenger cars or buses with seats for no more than ten passengers.

Input VAT that is not eligible to be credited can be treated as a tax-deductible expense in the corporate income tax return.

5.4. Hire purchase: Supply of goods

For VAT purposes, hire purchase is a supply of goods whereby the VAT liability arises each time the instalment payment becomes due under the contract. However, if any of the following acts occurs earlier, the liability would be deemed to arise upon its occurrence:

- Receipt of payment for the price of the goods
- Issuance of a tax invoice

The lessor must charge VAT to the lessee on the amount of the instalment payment on each due date. The lessor has to pay VAT as of each due date even if the lessee is in default unless the contract has been terminated.

5.5. Leasing: Supply of services

A lease agreement, whether operating or finance, whereby the lessee must exercise a purchase option (if any) in order to legally acquire the vehicle, is considered to be a service for VAT purposes. The liability to pay VAT will arise when the lease payment is made. However, if any of the following acts occurs earlier, the liability is deemed to arise upon its occurrence:

- Issuance of a tax invoice
- Use of the service, whether by the supplier or by any other person

The lessor must charge the lessee VAT on the amount of the rental.

On the expiry of the finance lease period, if the lessee exercises the right to purchase the leased vehicle, the VAT liability will arise immediately (or on the date on which the lessee has agreed to purchase the leased vehicle), since the leased vehicle is already in the lessee's possession.

6. Company car

6.2. VAT due on private use of company cars

The private use of a company car by an employee would be deemed to be a rental of the car by the company to the employee. Hence it would be treated as a provision of service for VAT purposes.

Consideration for the service would be imputed based on the market price in order to compute the amount of VAT payable thereon. However, the consideration could be lower than the market price if there are justifiable grounds, such as welfare given to employees in general and announced as a company policy.

If the company car is used only for business by an employee, no VAT would be charged.

6.3. Company car in personal tax returns – benefit in kind

The private use of a company car by an employee would be treated as a taxable benefit in kind. Similar to VAT, the market price of the deemed service would be included in the employee's personal income tax

return. However, where there are justifiable grounds, the consideration might be lower than the market price.

The use of a company car by an employee solely for business purposes is not treated as a benefit in kind subject to personal income tax. In this case, supporting evidence regarding the use of the company car for business purposes should be available for substantiation.

6.4. Deductibility

The cost of a company car that is used for both business and private purposes is tax deductible in the form of depreciation. The maximum annual rate of depreciation permitted is 20%. In respect of a company car which is classified as a car or a bus with seats for no more than ten passengers, and which is not entirely used in the car rental business, the depreciation can be computed only on that part of the cost that does not exceed THB 1 million. However, depreciation of prototype cars used for the purpose of research, development or testing which are approved to be exempted from excise tax is not subject to the maximum of THB 1 million. Upon sale of the car, only the net book value arising from the part of the cost subject to tax depreciation may be deducted against the sale proceeds to determine the taxable gain or loss on sale.

7. Income taxes – driver’s personal taxation

The cost of a private car is not allowed as a deduction in the personal income tax return.

Where an individual is carrying on a trade, business or profession, the rules for deductibility of expenses are the same as for companies (actual costs/expenses proved according to the tax law) unless the taxpayer is unable to provide suitable evidence of expenses, in which case standard deductions specific to the type of business may be applied.

7.2. Private use

The costs incurred in respect of the private use of a vehicle are not deductible in the employee’s personal tax declaration.

7.3. Fuel cost

In the case where the actual cost incurred for fuel is reimbursed to an employee using his private car for the business of a company, it would not be a taxable benefit of the employee.

However, if the fuel cost is paid in the form of a fixed allowance, regardless of the actual amount spent, or is paid in excess of the rate stipulated by the government, it would be treated as a taxable benefit of the employee.

Currently, the fuel cost rate stipulated by the government is THB 4 per kilometre for a car and THB 2 per kilometre for a motorcycle.

8. Selling a car

8.2. Taxable persons

A VAT registered operator, either individual or corporate, is required to charge VAT when selling cars that have been used either in a business or privately by an employee.

The 0% VAT would apply in the case of an export sale.

The VAT paid on the purchase of a car by a VAT-registered operator cannot be recovered if the car is classified as a car or a bus with seats for no more than ten passengers.

8.3. Private individuals

A private individual who does not sell cars in a commercial or professional business is not required to charge VAT upon the sale of the car.

The VAT paid on the purchase of a car by a private person cannot be recovered.

9. *Future developments*

On January 1 2020, Thailand's Control on Weapons of Mass Destruction (TCWMD) Act which was announced in the National Gazette on April 30, became effective. However, there haven't been any sub-regulation announced following the TCWMD. Due to the COVID-19 pandemic and economic downturn, the government may not implement the licensing controlling measure. The Ministry of Commerce (MOC) announced a catch-all control (CAC) regulation on 26 October 2021 which will be effective on 26 December 2021. According to the regulation, the Department of Foreign Trade (DFT) can start to investigate and implement Catch-all Control (CAC) to stop any red-flag transactions. The investigation starts when there is any reasonable ground and sufficient evidence (including exporter's and end-user's name and address, DUI code and product specification, and logistics route information).

Automotive industry is one of the industries which is most likely to be impacted.

In addition, there is a plan to increase the excise tax rate on automobiles in 2025. It is expected that the announcement on the changes will be made in 2022 or later. In addition, the Excise Department initiates the policy to collect carbon tax based on the carbon emission released from industries to promote environment protection.

Turkey



Ulas Ceylanli

***PwC Turkey, Tax Partner,
Industrial Manufacturing and
Automotive Leader***

p: +90 212 326 62 48

e: ulas.ceylanli@pwc.com

Burcu Esin Can

PwC Turkey, Tax Director

p: +90 212 326 650 86

e: esin.can@pwc.com

Turkey

1. Car registration

1.1. When does a car need to be registered?

For a car to be put into the free circulation, it must be registered by a notarial office. In accordance with the related legislation, the registration procedures of the cars should be completed within three months following the issuing of the invoice

1.2. Who can register a car?

The car should be registered in the name of the owner of the car. The owner can be a real or legal person. For the registration of the car in the name of the legal persons, the official document of the company in Turkish trade registry should be submitted, together with the list of authorized signatures of the company.

The registration process can be followed up via the commissionaires, upon the submission of the related power of attorney.

1.3. Is a foreign owner allowed to register a vehicle in the country?

Yes, it is possible for foreigners to register the cars in their own name. In that manner, the foreigners working in Turkey with a work permit and a residence permit can register the cars on their own name within the status of 'visiting vehicles'. The foreigners also do not pay the below-mentioned local purchase taxes, on condition that they provide bank guarantee letters for the amount of the taxes.

The cars owned by the foreigners in that context have specific licence plates, including the letters 'MA' and 'MZ'. They cannot be used other than the 1st degree relatives of the foreigners. In addition, these cars cannot be sold to Turkish citizens but only to other foreigners in Turkey.

1.4. Can a vehicle with a foreign number plate be used on public roads?

The free importation of second-hand foreign cars in Turkey is not allowed. However, the visitors for touristic purposes may use their own cars under certain conditions and for a limited time period.

2. Car taxation

2.1. What are the different car taxes?

In Turkey, there are mainly two types of taxes for cars. The first type includes the indirect taxes paid during the purchase of the cars. These taxes are a special consumption tax and the value added tax. The second type is some sort of a circulation tax known as motor vehicle tax and paid annually by the owner of the car.

2.2. Taxes on purchase of the car – Special consumption tax

Special consumption tax is an indirect tax due for the list of the goods stated in its particular Law. The passenger cars are also in this list and subject to special consumption tax.

2.2.1. Taxable event

For the passenger cars, the special consumption tax is accrued during the sale of the car to the end-user, before the registration. The special consumption tax is accrued and paid only in the first registration of the passenger cars. Hence, the change in the owner of the car due to sale or for other reasons does not trigger additional special consumption tax liability.

2.2.2. Taxable person

The payment liability of the special consumption tax lies with the seller of the passenger car to the end user. On the other hand, as an indirect tax, special consumption tax is charged by the seller to the customer within the invoice.

Passenger cars sold to handicapped people are exempted from special consumption tax with some conditions.

2.2.3. Tax due

The amount of the special consumption tax depends on the type, engine power and sales price of the vehicles ("sales price" definition in this section refers to the special consumption tax base which may differ from the sales price in some conditions).

It is calculated by applying the pre-determined rates on the sales price of the cars. The effective special consumption tax rates of 2021 are as follows:

Vehicles	Tax Rate (%)
Tow trucks for partial trailers	4
Motor vehicles (for human transportation)	
Bus	1
Midi bus	4
Mini bus	9
Passenger cars	
Engine capacity less than 1600 cc	
<i>Sales price up to 92.000 TRY</i>	<i>45</i>
<i>Sales price between 92.001 TRY – 150.000 TRY</i>	<i>50</i>
<i>Sales price more than 150.001 TRY</i>	<i>80</i>
Engine capacity between 1600 cc to 2000 cc	
<i>Sales price up to 170.000 TRY</i>	<i>130</i>
<i>Sales price more than 170.001 TRY</i>	<i>150</i>
Engine capacity 2000 cc and more	220
Hybrid vehicles	
Vehicles with an electric motor power exceeding 50 kw and engine capacity less than 1.800 cm ³	
<i>Sales price up to 114.000 TRY</i>	<i>45</i>
<i>Sales price between 114.001 TRY and 170.000 TRY</i>	<i>50</i>
<i>Sales price more than 170.001 TRY</i>	<i>80</i>
Vehicles with an electric motor power exceeding 100 kw and engine capacity less than 2.500 cm ³	
<i>Sales price up to 170.000 TRY</i>	<i>130</i>
<i>Sales price more than 171.001 TRY</i>	<i>150</i>

Vehicles	Tax Rate (%)
Electric passenger cars	
<i>Less than 85kW</i>	<i>10</i>
<i>Between 85kW – 120kW</i>	<i>25</i>
<i>120kW and more</i>	<i>60</i>
Light commercial vehicles	
<i>Less than 2000 cc (not heavier than 850 kg)</i>	<i>15</i>
<i>Between 2000 cc and 2800 cc (heavier than 850 kg)</i>	<i>15</i>
<i>Electric light commercial vehicles</i>	<i>10</i>
Commercial vehicles for transportation of goods	
<i>Less than 3000 cc</i>	<i>10</i>
<i>Between 3000 cc to 4000 cc</i>	<i>52</i>
<i>4000 cc and more</i>	<i>75</i>
Electric commercial vehicles for transportation of goods	
<i>Less than 85kW</i>	<i>10</i>
<i>Between 85kW – 120kW</i>	<i>52</i>
<i>120kW and more</i>	<i>75</i>
Motorcycles	
<i>Less than 250 cc</i>	<i>8</i>
<i>250 cc and more</i>	<i>37</i>
Electric motorcycles	
<i>Less than 20kW</i>	<i>3</i>
<i>20kW and more</i>	<i>37</i>
Others	
<i>Golf cars and similar vehicles</i>	<i>6,7</i>
<i>Motor caravan</i>	<i>45</i>
<i>ATV – UTV</i>	<i>25</i>

2.2.4. Tax period

The special consumption tax is paid to the related tax office by the seller during the sale of the car to the end-users, before the official registration.

2.3. Taxes on purchase of the car – Value Added Tax

2.3.1. Taxable event

The value added tax is accrued upon the sale of a passenger car.

2.3.2. Taxable person

The payment liability of the VAT for the sale of passenger cars lies with the seller. As a special consumption tax, the VAT is charged to the end-user within the invoice.

2.3.3. Tax due

The VAT rate is 18% for the first-hand sales and 1% for the second-hand sales of the passenger cars. The tax base is the total of the price of the car and the related special consumption tax. For the companies which involve the sale of vehicles as commercial activity, there are specific VAT treatments based on the purchase of the vehicles. Please see section 4.1 for detailed explanation.

2.3.4. Tax period

The VAT for the sale of the car is filed to the tax office on the 26th day of the month following the sale of the car. As per the recent changes made on the VAT declaration and payment process, the VAT payment should be performed by the 26th day of the following month as well.

2.4. Taxes on purchase of the car – numeric example

As a summary of the above-stated explanations, the tax burden on the purchase of a passenger car will be calculated as follows:

A - *The type of the car:* Engine with 1.800 cc

B - *The sales price:* 200,000 TRY

C - *The special consumption tax (B * 150%):* 300,000 TRY

D - *The value added tax [(B + C) * 18%]:* 90,000 TRY

E - *Total tax burden (C + D):* 390,000TRY

F - *The total sales price (E + B):* 590,000 TRY

G - *The ratio of the tax burden on price (E / B):* 195%

2.5. Annual circulation tax – Motor Vehicle Tax

2.5.1. Taxable event

Motor Vehicle Tax, which is an annual circulation tax in Turkey, is levied due to the fact that a vehicle is registered in Turkey.

2.5.2. Taxable person

The annual circulation tax is due for the real or legal persons for whom the car is registered.

2.5.3. Tax due

The motor vehicle tax calculation methodology was changed on December 5, 2017 due to change in Motor Vehicle Tax Law. The previous taxation criteria is still valid for the vehicles registered prior to December 31, 2017. The new practice is valid for the vehicles registered starting from January 1, 2018. Please see the motor vehicle tax duty of vehicles depending on the registration date below:

2.5.4. The Motor Vehicle Tax for the vehicles registered starting from January 1, 2018

By changing the basis of taxation of passenger cars, station wagons, off-road vehicles and similar vehicles, the “tax value” of the vehicle is added as a new taxation criteria (the definition of tax value means the VAT base of the motor vehicle). Before the change, the age of the vehicle and engine capacity were used as taxation criteria. With this change, the value of the vehicle is added as the third criteria for the taxation. The motor vehicle tax will be paid in 2021 for the vehicles registered starting from January 1, 2018 are as follows:

Engine Capacity (cm ³)	Tax Value (TRY)	Line Number	Age of vehicles and tax payable per year (TRY)				
			1 to 3 year	4 to 6 year	7 to 11 year	12 to 15 year	16 year and more
1- Passenger car, station wagon, off-road vehicles and similar vehicles							
Up to 1.300 cm ³	Up to 56.500	1	1,051	733	410	309	109
	Between 56.500 - 99.000	2	1,550	806	406	341	120
	More than 99.000	3	1,261	879	492	372	130
1.301 cm ³ to 1.600 cm ³	Up to 56.500	4	1,830	1,372	796	563	216
	Between 56.500 - 99.000	5	2,014	1,510	876	617	236
	More than 99.000	6	2,197	1,647	954	674	258
1.601 cm ³ to 1.800 cm ³	Up to 141.600	7	3,556	2,781	1,635	998	387
	More than 141.600	8	3,881	3,032	1,786	1,090	422
1.801 cm ³ to 2.000 cm ³	Up to 141.600	9	5,603	4,315	2,536	1,510	594
	More than 141.600	10	6,113	4,709	2,767	1,647	648
2.001 cm ³ to 2.500 cm ³	Up to 176,800	11	8,405	6,102	3,812	2,277	901
	More than 176,800	12	9,170	6,656	4,158	2,485	983
2.501 cm ³ to 3.000 cm ³	Up to 353,900	13	11,719	10,196	6,369	3,426	1,256
	More than 353,900	14	12,786	11,122	6,949	3,738	1,371
3.001 cm ³ to 3.500 cm ³	Up to 353,900	15	17,848	16,060	9,674	4,829	1,769
	More than 353,900	16	19,472	17,519	10,553	5,267	1,932
3.501 cm ³ to 4.000 cm ³	Up to 566,400	17	28,063	24,233	14,271	6,369	2,536
	More than 566,400	18	30,616	26,435	15,571	6,949	2,767
4.001 cm ³ or more	Up to 672.600	19	45,932	34,443	20,399	9,168	3,556
	More than 672.600	20	50,107	37,575	22,254	10,001	3,881

2.5.5. The Motor Vehicle Tax for the vehicles registered prior to December 31, 2017

For the vehicles registered prior to December 31, 2017, the motor vehicle tax amounts will be applicable for 2021 are as follows:

Engine Capacity (cm ³)	Age of vehicles and tax payable per year (TRY)				
	1-3 year	4-6 year	7-11 year	12-15 year	16 year and more
Passenger car, station wagon, off-road vehicles and similar vehicles					
Not over 1.300 cm ³	1.051	733	410	309	109
1.301 cm ³ to 1.600 cm ³	1.830	1.372	796	563	216
1.601 cm ³ to 1.800 cm ³	3.234	2.526	1.488	906	351

1.801 cm ³ to 2.000 cm ³	5.095	3.923	2.306	1.372	541
2.001 cm ³ to 2.500 cm ³	7.640	5.547	3.466	2.070	819
2.501 cm ³ to 3.000 cm ³	10.655	9.268	5.790	3.113	1.143
3.001 cm ³ to 3.500 cm ³	16.226	14.600	8.794	4.389	1.610
3.501 cm ³ to 4.000 cm ³	25.513	22.030	12.974	5.790	2.306
4.001 cm ³ or more	41.756	31.312	18.544	8.333	3.234

Above motor vehicle taxes are levied for fuel powered vehicles. The taxes for electric cars is separately listed on Motor Vehicle Tax Law and electric vehicles are subject to tax for 25% of same type of fuel powered vehicle depending on their electricity power (kwh). Latest Motor Vehicle Tax amounts will be applicable for electric vehicles registered starting from January 1, 2018 are as follows:

Power (kwh)	Tax Value (TRY)	Line Number	Age of vehicles				
			1 to 3 year	4 to 6 year	7 to 11 year	12 to 15 year	16 year and more
Up to 70kW	Up to 56.500	1	262	183	102	77	27
	Between 56.500 - 99.000	2	288	201	112	85	30
	More than 99.000	3	315	219	123	93	32
70kW to 85kW	Up to 56.500	4	457	343	199	140	54
	Between 56.500 - 99.000	5	503	377	219	154	59
	More than 99.000	6	549	411	238	168	64
85kW to 105kW	Up to 141.600	7	889	695	408	249	96
	More than 141.600	8	970	758	446	272	105
105kW to 120kW	Up to 141.600	9	140	107	634	377	148
	More than 141.600	10	152	117	691	411	162
120kW to 150kW	Up to 176,800	11	210	152	953	569	225
	More than 176,800	12	229	166	103	621	245

			176,800					
150kW to 180kW	Up to 353,900	13		292	254	159	856	314
	More than 353,900	14		319	278	173	934	342
180kW to 210kW	Up to 353,900	15		446	401	241	120	442
	More than 353,900	16		486	437	263	131	483
210kW to 240kW	Up to 566,400	17		701	605	356	159	634
	More than 566,400	18		765	660	389	173	691
240kW or more	Up to 672.600	19		114	861	509	229	889
	More than 672.600	20		125	939	556	250	970

2.5.6. Tax period

Motor Vehicle Tax is assessed on an annual basis. It is paid in two instalments, one in January and the other in July.

3. Direct taxation – level of deduction

3.1.1. Restriction on company car related expenses

In accordance with the Income Tax Law several limitations are applied for the tax deductibility of car related expenses for use in business activity. Expenditure limits applicable for 2021 can be summarized as below:

- Rent limitation: Monthly rent up to TRY 6,000 can be considered as tax deductible expense. If the rent is above the cap, the exceeding portion has to be considered as non-tax-deductible expense
- Depreciation limitation: The maximum car value that can be used to calculate the tax-deductible depreciation expense (irrespective of the actual amount incurred for acquisition) is TRY 170,000 for purchases in 2021 (TRY 320,000 if acquisition taxes such as special consumption tax and value added tax are capitalized to the cost of the car).
- Car related expense limitation: %70 of car related expenses such as maintenance, repair, fuel, insurance, parking etc. are tax deductible expenses while 30% of those expenses are non-deductible-tax.
- Tax deduction limitation: Another limitation for purchased cars is TRY 150,000 cap on the deduction for the special consumption tax and value added tax paid upon purchase. Please see detailed explanations in section 4.2.
- Motor vehicle tax: 100% of motor vehicles taxes paid for the passenger cars are considered as non-tax-deductible expenses.

Above limitations are applicable only for expenditures related to passenger cars, there is no expenditure restriction for commercial vehicles.

Limitations related to passenger cars are not applicable for the taxpayers which operate these passenger cars for profit making purposes as commercial activity.

3.1.2. Depreciation of passenger cars

The general depreciation rate applied for the passenger cars is 20% (5 years). As indicated above, the maximum passenger car value that can be used for calculating the tax-deductible depreciation expense is 170,000 TRY (320,000 TRY if acquisition taxes such as special consumption tax and value added tax are capitalized to the cost of the car) for purchases in 2021. Exceeding amounts have to be considered as non-tax deductible expenses during the calculation of corporate income tax or income tax base.

3.1.3. Other topics on tax deductibility

When company cars are used for private purposes rather than business activities, car related expenses should be considered as benefit in kind and subject to salary income taxation.

On the other hand, the Ministry of Treasury and Finance does not have any lump-sum, pre-defined limits for the determination of the business use or the private use of the cars and leaves the separation to the discretion of the companies. Since the separation of usage purposes of company cars are not defined by the Ministry of Treasury and Finance, the above stated expenditure restrictions became valid in 2020.

4. VAT

4.1. General

Deliveries of goods and services are subject to VAT at rates varying from 1% to 18%. The general rate is 18%.

The sale of new passenger cars is subject to 18% VAT.

The VAT rate for the operational or financial leasing of the passenger cars is also 18%.

The second hand sale of the passenger cars and that of the vehicles which are designed specifically for the passenger transportation is subject to VAT at the rate of 1%. The second hand sale of commercial vehicles are subject to VAT at the rate of 18%.

For the taxpayers that involve with buy-sell of second hand vehicles for commercial purposes, special VAT treatments are applied depending on the VAT status of sellers. If the vehicle is bought from a non-taxpayer seller, VAT is calculated only over the profit of the seller at the rate of 18%. If the vehicle is bought from a taxpayer seller; VAT base is sales price, VAT rate is applied as same tax rate applied during purchase of vehicle.

4.2. Deduction

4.2.1. VAT deduction on purchasing of passenger cars

In accordance with the VAT Law, the VAT paid for the purchase of passenger cars is not deductible in the scope of VAT deduction. On the other hand, the VAT of passenger cars that are purchased by the leasing companies to be leased, or by other companies which will operate the cars for profit-making purposes, can be considered as deductible VAT.

VAT payments made for purchasing of passenger cars can be considered as an expense or can be considered as the cost of a passenger car and subject to depreciation.

Additionally, the companies may only deduct the VAT and SCT total of 150,000 TRY related to the acquisition values of passenger cars. Exceeding amounts should be considered as non-tax deductible expenses.

4.2.2. VAT deduction on car-related expenses

Together with the restriction on company car related expenses stated on Section 3, there are specific VAT deductions on car-related expenses limited to passenger cars.

- VAT payments for rental vehicles exceeding TRY 6,000 cap can not be considered as deductible VAT. The VAT payments up to TRY 6,000 cap can be considered as deductible VAT.
- VAT payments correspondences to 30% of car related expenses (fuel, maintenance etc.) cannot be considered as deductible VAT. VAT payment related to 70% of car related expenses can be considered as deductible VAT.

On the other hand, the expenses for the cars that are used for private purposes either by the employees or by the senior management of the company should be considered as benefits provided by the company and the VAT included expenses should be treated as taxable benefit in kind. Hence, such VAT cannot be recorded as deductible VAT.

5. Company cars

5.1. Corporate tax deductibility

Please see section 3 for detailed comments regarding the deductible expenses when determining the corporate tax base.

5.2. VAT deductibility

Please see section 4 for detailed comments regarding the VAT deductibility of company car expenses.

6. Income taxation – drivers' personal taxation

6.1. Private use

In accordance with the Income Tax Law, all kinds of benefits either in form of cash or benefit in kind should be considered as salary and be subjected to income taxation.

Within the same logic, regarding the allocation of the car for both business and private uses, the private use should be distinguished and should be subject to income taxation.

6.2. Private car in the personal tax return

Regarding the deductibility of the private car related expenses in the personal tax return; a separation should be made between the employees and the other taxpayers of the income tax (taxpayers of commercial profit or profit from independent professional services).

Please note that the limitations explained in sections 3 and 4 are also applicable for real persons who are obliged to file income tax return due to the professional independent services. In cases of the income tax return of the individuals that have profit from independent professional services, the expenses of the passenger cars that are used for business purposes can be deducted from the income tax base with the same limitations explained in previous sections.

Regarding the employees, the expenses related to their private cars cannot be considered as deduction in any manner, for the income tax purposes.

7. Electric vehicles

Please refer to section 2.2 for the special consumption tax rates relating to electric and hybrid vehicles.

8. Future developments

Turkey's national car which will produce electric cars in SUV C-segment aims for serial production in the fourth quarter of 2022. With the extension of the electric vehicle market, construction of a charging network is also planned to be extended. In the coming years, a total of 4.000 charging stations including fast chargers are to be built.

9. *Legal background*

- Income Tax Law (act no: 193)
- Corporate Tax Law (act no: 5520)
- Tax Procedural Law (act no: 213)
- VAT Law (act no: 3065)
- Motor Vehicle Tax Law (act no: 197)
- Special Consumption Tax Law (act no: 4760)

Ukraine



Alexey Katasonov

Partner Tax

P: +380 44 354 04 04

e: alexey.katasonov@pwc.com

Maksym Dudnyk

Director Tax

p: +380 44 354 04 04

e: maksym.dudnyk@pwc.com

Vita Miroshnychenko

Senior Manager Tax

P: +380 44 354 04 04

e: vita.miroshnychenko@pwc.com

Ukraine

1. *Importation of cars*

When importing cars into Ukraine, legal entities and individuals must submit a preliminary customs declaration to the customs authorities, import a car within 30-days period from the date of its issuing and pay import duty, excise duty and VAT. These taxes are payable prior or at the moment of customs clearance of the cars.

1.1. *Customs duties*

The cars imported into Ukraine are subject to import duty according to the rates established by the Ukrainian Customs Tariff (0%–10% depending on the type and the country of origin of the vehicle).

Imported cars may be exempted from import duty if they originate in countries which have ratified free-trade agreements with Ukraine (CIS countries (except the Russian Federation), Georgia, Macedonia, Montenegro and Canada). Certain cars originating in the EFTA countries may be imported with application of reduced import duty (depends on the tariff code). Also, Ukraine reduced import duties for the EU originating cars under the EU-Ukraine Association Agreement. The Agreement provides for further full duty elimination by gradual reduction of rates within the 7-10 years depending on the tariff code of a car.

In order to apply for duty exemption or reduced duty rates, the imported cars should fulfil the preferential rules of origin:

- for CIS countries (except the Russian Federation) - the value of non-originating components should not exceed 50% of the total value of the cars, and some specific technological operations must be performed in the manufacturing country.
- for Macedonia, the EFTA countries and the EU - the value of non-originating components should not exceed 40% of the car's price; for Canada and Montenegro - 50%.

Transit delivery of cars through the territory of Ukraine will require a guarantee covering a potential customs debt (using Carnet TIR procedure - available in case of import by legal entity; placing cash deposits in the amount equals to customs duty, excise duty and VAT on the bank account of the customs authority - usually used in case of import by a private person; or providing a financial guarantee from an approved guarantor). An individual-non-resident of Ukraine is not required to submit any guarantee for transit delivery by car with foreign registration. Transit time is up to 10 days (or 5 days if the transit is within control of the one customs office).

1.2. *Import ban for cars from Russia*

The cars originating in Russia are prohibited for import into Ukraine from 1 January, 2020 till 31 December, 2021. However, the embargo period, most likely, will be extended.

1.3. *Import VAT*

Import VAT on cars is applied at a rate of 20% and payable both by legal entities and individuals. The tax base for import VAT is the contract value, but not lower than the customs value of the imported cars, plus an amount of customs duty and excise duty.

The following vehicle imports into Ukraine are exempt from VAT:

- imported vehicles to be used by disabled individuals or diplomatic personnel;
- imported vehicles to be used in antiterrorism operation, which is taking place in certain areas of the east region of Ukraine (specific types of vehicles);
- vehicles imported as humanitarian aid (specific types of vehicles) or international technical assistance;
- till 31 December 2022 vehicles with electric engines (one or two) only (both new and that were in use).

VAT paid for imported cars by legal entities (registered as VAT payers in Ukraine) is generally recoverable unless the cars are used in non-taxable transactions or out of the company's business activity. There is no procedure in place in Ukraine that allows for deferring a payment of import VAT, or for offsetting pending import VAT with accumulated VAT receivables.

1.4. Import excise duty

The import of cars into Ukraine is subject to excise duty at specific rates depending on the engine capacity, engine type (petrol/diesel), and the age of the imported car:

- for petrol cars: EUR 50–100 for engine capacity in cubic centimetre/1000 (multiplied by number of years from car manufacture),
- for diesel cars: EUR 75–100 for engine capacity in cubic centimetre/1000 (multiplied by number of years from car manufacture),
- for cars with electric engine: EUR 1 per a kilowatt-hour of engine capacity (despite of the age),
- for cars with hybrid engines: EUR 75 per car (despite the age).

The import of cars into Ukraine to be used by disabled individuals or diplomatic personnel, as well as import of specific vehicles (e.g., ambulances) purchased for public funds, are exempt from excise duty.

1.5. Certification procedure

Cars imported in Ukraine are subject to compliance certification of conformity according to Ukraine's national technical regulations. Import of new cars should be accompanied with a certificate of conformity confirming compliance with ecological standards no less than EUR 5 (from 1 January 2025 – EUR 6). When cars being in use are imported the customs authorities will require confirmation of compliance with ecological standards no less than EUR 2 (by certificate of conformity or another document). Provision of documents confirming compliance with ecological standards is not required for temporary import of cars, transit or for import of cars owned by expatriated individuals.

2. Car registration

2.1. When does a car need to be registered?

It is illegal to use an unregistered vehicle in Ukraine. According to the Ukrainian legislation, owners of vehicles - legal entities/individuals (or their authorized representatives) are required to register such vehicles within ten days of its acquisition in Ukraine, their customs clearance into Ukraine. This deadline may be extended for owners of vehicles in case of submission of documents confirming a temporary illness of the applicant, a business trip, etc.

Vehicles temporarily imported into Ukraine by individuals for a period up to a month do not require registration. Longer period of stay will require temporary state registration with the Service Centre of the Ministry of Internal Affairs of Ukraine within 10 days after importation without change of car plates and replacement of registration documents.

In order to gain admission for temporary import into Ukraine, the vehicle must be registered with the respective authorities in the foreign country (except vehicles belonging to diplomatic missions).

Diplomatic mission imports a vehicle to Ukraine under the customs regime of temporary import. Vehicles both for personal and official purposes may be imported under the temporary import regime for the term determined by these persons, but not more than for the term of their accreditation. In case, a diplomatic mission decides to sell the vehicle, it has to change the customs regime and pay customs duties under the general regime.

Distributors and dealers performing wholesale and retail of vehicles shall conclude an agreement with the Main Service Centre of the Ministry of Internal Affairs of Ukraine. It will allow them to register new vehicles. Vehicles that are re-equipped with gas cylinders have to be re-registered with the Service Centre of the Ministry of Internal Affairs of Ukraine.

Registration of each vehicle for its use on Ukrainian roads is usually performed during its acquisition by the end consumer.

2.2. Who can register a car?

The registration procedure is conducted after the vehicle's legal owner or entities/individuals that legally use it (or their authorized representatives) submit an application for it.

Both individuals and legal entities can register a vehicle. If there are more than one owner of a vehicle, only one person/entity can be listed as its registered owner, while other vehicle co-owners are expected to provide their written consent for its registration in the name of the aforementioned owner. A vehicle registration owned by an individual entrepreneur is performed according to the same procedure as for the individual.

Vehicles owned by legal entities can be registered at the same address where the representative offices and subsidiaries of such legal entities are registered, provided the vehicles are generally kept at that location. In case of reorganization (e.g., merger, joining, spin-off), vehicles should be re-registered with the new address of the newly created legal entity.

The registration of the vehicle owned by an individual could be conducted at any regional office of the Service Centre of the Ministry of Internal Affairs of Ukraine where the proper request for registration was submitted. It is required though, for the individual's residential address to be provided on the vehicle registration application forms.

Legal aliens residing in Ukraine on a temporary basis are required to register their vehicles at the address that is stipulated in the Temporary Residence Permit or Permanent Residence Permit registered with the relevant immigration authorities. In such a case, a written consent must be obtained from the hosting party.

Only the person who temporarily imported the car for private use in Ukraine can use it and for private purposes only. Such cars cannot be operated as part of a commercial activity, and cannot be dismantled for parts, transferred for use to another person, leased, etc.

Cars imported for free circulation in Ukraine should be registered based on a proper application and customs declaration.

2.3. Is a foreign owner allowed to register a vehicle in the country?

A legal alien who has a Ukrainian permanent residency permit can register a vehicle on the general grounds applicable to Ukrainian residents. As an alternative, a legal alien can apply for temporary registration of a vehicle (as described above). In order to secure such temporary registration, the legal alien must have a registered place of residence in Ukraine (registered with the respective immigration authorities or indicated on the Temporary or Permanent Residence Permit).

If a vehicle is to be registered under the temporary importation rules, certain specific details in regard to the customs regulations must also be taken into account (e.g., the permitted length of registration period, exemption for non-residents regarding payments of customs duties for temporary transportation of a vehicle to Ukraine).

Vehicles, imported in Ukraine with a registration in another state, should be registered for re-export.

There are also limitations on registering certain types of vehicles in Ukraine. For example, it is impossible to register a bus that was converted from another vehicle type built for other purpose, except for those registered before April 1, 2008; a vehicle with a right steering position; a vehicle that is not equipped according to the law or at least one part of the vehicle that has a vehicle identification/registration number (VIN) missing; a vehicle that was purchased with violation of wholesale and retail rules

2.4. Can a vehicle with a foreign number plate be used on public roads?

Generally, the use of vehicles without number plates or with number plates that are not in compliance with state standards (including foreign number plates) is prohibited in Ukraine, subject to the exceptions mentioned below.

The exception constitutes vehicles involved in international carriage. Also, non-residents are allowed to use a vehicle with foreign number plates temporarily after the car is imported into Ukraine. The period of such use shall not exceed a month after the import of the vehicle or, in case of the temporary registration of the vehicle, it shall not exceed the period of temporary import. If the permitted period expires, such vehicles will be treated as unregistered.

3. Car taxation

3.1. What are the different car taxes?

The following taxes and duties have direct and indirect impacts on the automotive industry in Ukraine:

- Corporate profit tax (CPT) – see section 4
- VAT – see sections 5, 6 and 8 (for import VAT, see section 1)
- Excise duty – see section 3.2
- Customs duties – see section 1
- Personal income tax (PIT) – see section 7 and 8
- Mandatory state pension fund contributions – see section 3.3
- Temporary Military tax – see section 9
- Additionally, for details of Ukrainian TP rules refer to Section 3.4.

3.2. Excise duty

Ukrainian car manufacturers are required to levy an excise duty on all vehicles produced in Ukraine.

Sales of passenger cars to disabled individuals and the supply of special types of vehicles (ambulances) are exempt from the excise duty, provided that the payments for them come from the state or municipal budgets.

3.2.1. Taxable event

Excise duty liabilities are recognised at the date of the transfer of the car's ownership to the consumer.

3.2.2. Taxable person

Excise duty is paid directly by car manufacturers upon the initial delivery of the vehicle.

3.2.3. Tax due

Excise duty rates paid upon car manufacture are the same as for import of cars (see section 1.4).

3.2.4. Tax period

The tax period is established as a calendar month.

3.3. Mandatory state pension fund contribution

3.3.1. Taxable event

The contribution shall be paid by individuals and legal entities upon the purchase of passenger cars prior to the first registration of the vehicle in Ukraine.

3.3.2. Taxable person

Payers of contributions to the mandatory state pension fund upon the purchase and the first registration of passenger cars are legal entities, establishments and organisations of all ownership types, and also individuals that acquire the title on passenger cars.

3.3.3. Tax due

The charge rate depends on the amount of the tax base. The tax base is the value of the vehicle. The progressive rates of 3%, 4% or 5% can be applied, depending on the value of the vehicle.

For the year 2021, depending on the value of the vehicle, the following rates apply (based on the minimum subsistence level; the subsistence minimum set on January 1, 2021 is UAH2,270 [about EUR 74]):

- Value up to UAH 374,550 – 3%;
- Value above UAH 374,550, but not more than UAH 658,300 – 4%;
- Value above UAH 658,300 – 5%.

3.4. Transfer pricing

Transfer pricing (TP) rules came into force in Ukraine on September 1, 2013. The last revision of the rules was in 2019 and are mainly based on the Organization for Economic Co-operation and Development (OECD) approach and Base erosion and profit shifting (BEPS) principles. The TP rules define related parties, provide criteria for controlled transactions, describe the methods and information sources for determining the arm's length price for tax purposes in controlled transactions, and introduce mandatory reporting and documentation requirements for substantiating prices applied. Below we mention the most important points of the transfer pricing legislation, applicable for transactions performed in the periods, starting from January 1, 2019.

Controlled transactions.

The TP rules apply only to controlled transactions and only for the purposes of corporate profits tax (CPT). The list of controlled transactions includes:

- 1) Business transactions that may have an impact on taxable profits with related party non-residents of Ukraine.
- 2) Cross-border business transactions on sale and/or purchase of goods and/or services through non-resident commissionaires.
- 3) Business transactions that may have an impact on taxable profits, with residents of jurisdictions determined by the Cabinet of Ministers of Ukraine (CMU) that meet the following criteria:
 - States (territories) where the CPT rate is less than the Ukraine's CPT rate by 5 percentage points.
 - States that do not have international agreements with Ukraine containing provisions on exchange of information.
 - States, where state authorities do not guarantee full and timely exchange of tax and financial information on request of the State Fiscal Service of Ukraine.
- 4) Business transactions with non-residents that do not pay CPT (corporate income tax) and/or which are not tax residents of the state where they are registered as legal entities (the list of such legal organizational forms of non-residents is approved by the Cabinet of Ministers of Ukraine).
- 5) Business transactions between a non-resident and its Ukrainian permanent establishment.

If within a chain of business transactions, mentioned in paragraph 1 - 5, the ownership on the subject matter (results) of the transaction before being transferred from one counterparty to other transfers to a non-related intermediary (or intermediaries), these cross-border transactions between related parties are considered to be controlled if such intermediary performs no significant functions, employs no significant assets, and bears no significant risks in respect of such transactions.

Transactions with the same counterparty are considered as controlled if the total annual value of the transactions with same counterparty (calculated according to accounting rules) exceeds UAH 10 million (net of indirect taxes), provided the total annual income (calculated according to accounting rules) of the taxpayer received as a result of all types of activity exceeds UAH 150 million (net of indirect taxes).

Business transactions between a non-resident and its Ukrainian permanent establishment qualify as controlled transactions when the annual value of such transactions exceeds UAH10 million. For this type of controlled transactions, there is no annual income criterion.

TP documentation and reporting requirements.

All taxpayers conducting the controlled transactions should file a report on controlled transactions (TP notification) by 1 October of the year following the reporting year.

The TP documentation substantiating the arm's length nature of the controlled transactions should be prepared each year.

Taxpayers should submit the TP documentation upon the tax authority's request within 30 calendar days. TP documentation should include the following:

- information about related parties (including the information on the parties with no less than 20% of direct and/or indirect ownership, and parties owned by the taxpayer by 20% and more of direct and/or indirect ownership);
- information about the group including the group's structure, description of its activities, as well as the group's TP policy and information about the entities, to which the taxpayer provides the local management reports;
- description of the management structure of the taxpayer, its organizational structure;
- description of activity and business strategy of the taxpayer (including the information about economic conditions, analysis of the markets where the taxpayer operates, and information about its main competitors);
- information about the taxpayer's participation in business restructurings or transfer of intangible assets during the reporting or preceding year (if any);
- description of the terms for the transactions and copies of the relevant agreements (contracts);
- description of the goods (works, services) subject to the controlled transactions;
- information about the payments that were actually made in respect of the controlled transaction (amounts and currency of payments, date, payment documents);
- factors that influenced the price determination, including business strategies of the parties of the controlled transaction (if any) that significantly impact the prices of goods (works, services);
- functional analysis of the parties to controlled transaction: information about functions performed, assets employed and economic risks assumed;
- an economic analysis including (i) a benchmarking study, (ii) substantiation of selection of the TP method(s), (iii) profitability indicator and sources of information used, (iv) methodology of calculation of the segmented financial result, (v) calculation of the arm's length range of prices/profitability, (vi) description and calculation of comparability adjustments (if any); and
- information about the proportional TP self-adjustment performed by the taxpayer (if any).

The request for provision of the TP documentation can be sent to the taxpayer not earlier than 1 October of the year following the calendar year in which the controlled transaction was performed.

4. Income taxes – taxable persons

4.1. Level of deductions for car-related expenses (CPT)

Ukrainian and foreign entities conducting business in Ukraine through a permanent establishment are required to pay CPT. In 2021 the standard CPT rate is 18%.

Previously the Ukrainian tax authorities used to scrutinize the deductibility of the above-mentioned expenses. In practice, deductibility decisions depended on the ability of a company to provide a proper paper trail substantiating the business purpose of such expenses.

However, aforementioned concept was discontinued in Ukraine: starting from January 1, 2015, The Tax Code of Ukraine (TCU) determines taxable profits annual tax base as Net Profit Before Taxes (NPBT) as per accounting records, either Ukrainian statutory (i.e., local GAAP) or IFRS, adjusted for precisely listed “tax differences”.

In particular, NPBT is increased by the amount of a car depreciation calculated based on the national GAAP and is decreased by the amount of its tax depreciation. Vehicles that are not used in the business activity of a company and capital expenses for their maintenance, repairs and enhancements are not subject to tax depreciation. In addition, TCU prescribes a minimum allowed period for depreciation of fixed assets depending on their type (e.g., 5 years for vehicles).

4.2. Leasing

Deduction of lease expenses will depend on a number of factors.

If the corporate taxpayer reports under the Ukrainian accounting standards, in this case tax implications will differ depending on whether the lease is classified as an operating lease or as a finance lease under the Ukrainian tax legislation.

- *If the lease is classified as operating lease:*

Lessee will treat rental payments on operational lease as expenses.

Lessor respectively will treat such payments as its income.

Refer to para 4.1 above for details of the tax base calculation.

- *If the lease is classified as finance lease:*

Leases may be treated as financial leases if they meet one of the following criteria:

- the leased property is transferred for a period during which at least 75% of its acquisition cost would be depreciated under the tax depreciation rules, and the lessee is obliged to acquire the title to the property during or at the end of the lease period;
- the amount of the lease payments is equal to or exceeds the acquisition cost of the property;
- the book value of the leased property at the end of the leasing agreement does not exceed 25% of the original cost of the property at the beginning of the agreement;
- the leased property is made by request of the lessee and no other person may use it after the end of the leasing agreement because of technological and qualitative features of the leased property.

If a corporate taxpayer reports under the IFRS, the amortisation of the right-of-use asset recognised under the IFRS is fully deductible, provided that the respective assets are used for business purposes (the new rules came into effect on 01 January 2018).

5. VAT

5.1. General

Ukraine operates under the output-input model of VAT. VAT registered persons levy VAT on their sales and credit the VAT paid on their purchases. The difference, if positive, is payable to the state budget; if negative - is refundable.

The standard rate of VAT on the sale of goods and services with a place of supply in Ukraine, as well as the importation of goods, is 20%.

The export of goods is zero-rated. The Tax Code also contains a list of specific transactions which qualify for 0%, 7% and 14% VAT rates or an exemption.

5.2. Deduction

VAT paid on goods and services is generally recoverable, unless such goods/services are further used in non-VAT-able transactions (i.e., in transactions not subject to 20% VAT or zero-rated) and/or non-business activity of the taxpayer.

Non-recoverable VAT incurred upon goods/services used in VAT-exempt supplies or non-business activity could be considered as deductible for CPT purposes.

When goods and services are used in both types of operations, taxable and non-taxable, the input VAT is recoverable on a pro-rata basis.

There are no special rules or limitations regarding the recoverability of input VAT paid in respect of the acquisition of vehicles or any services related to them.

Input VAT should be based on the contractual price.

Input VAT reported in a VAT return should be supported by a valid and properly registered VAT invoice issued by a VAT-registered person (supplier) or a duly executed import customs declaration. The VAT invoice should be properly issued with all mandatory requisites and registered in the Unified Register of Tax Invoices.

5.3. Hire purchase: Supply of goods?

A vehicle's sale in Ukraine under a hire-purchase agreement is considered to be a VAT-able supply of goods in Ukraine. VAT on this transaction should be recognised at a 20% rate based on the transaction price, but not lower than purchase price of purchased goods, usual price (fair market value) of self-produced goods, or balance value of fixed assets. The VAT liabilities should arise at the date when the vehicle title is transferred.

Interest paid under a hire-purchase agreement is subject to VAT at a 20% rate. VAT liabilities in respect of interest should be recognised at the date of its accrual, which is defined by the hire-purchase agreement.

5.4. Leasing: Supply of services?

5.4.1. Operational leasing

Operational car leasing is considered to be a supply of services in Ukraine (i.e., lease payments are subject to VAT, while transaction on transfer of the car is out of scope of VAT), which is subject to 20% VAT if provided by resident lessor. Payments for operational leasing services provided by non-residents should not be subject to Ukrainian VAT. However, the import of vehicles under an operating lease agreement will require the importer to pay all the applicable customs duties, including import VAT, upon the customs clearance of the imported vehicles.

VAT is accounted for at the date when a document certifying the delivery of lease services ("acceptance statement") is issued, or upon the receipt of payment from the customer, whichever comes first. The VAT base is defined as the contractual price of lease services, but not less than the purchase price/usual price of such services.

5.4.2. Financial leasing

The transfer of a car under a financial lease agreement is treated as a taxable sale. VAT liabilities arise at the date of the transfer of the asset to the lessee. The VAT base for a financial lease is defined as the contractual value of transferred goods, but not less than the purchase price of purchased goods, usual price of self-produced goods, or balance value of fixed assets.

The interest charges or commission payments made under a financial lease agreement are not subject to VAT.

6. Company car

6.1. VAT due on private use of company cars

There would be VAT due on the private use of a company car, considering that such use would be treated as free of charge supply of services. The recovery of input VAT related to the acquisition of the respective car may be challenged by the tax authorities based on the grounds that the car is used for non-business purposes depending on wording of employment contract/other relevant documents (e.g., benefit policy).

6.2. Company car in personal tax returns – benefit in-kind

Additional benefits (including the use of a car which belongs to an employer) provided by an employer may be exempt from personal income tax if such provision or compensation of expenses are required for the performance by a taxpayer of his labour functions in accordance with a labour agreement (contract) or are prescribed by the provisions of a collective agreement or in accordance with the law, within the limits set therein.

Otherwise, the employer is required to withhold Personal Income Tax (PIT) at the source from such benefits at the standard tax rate of 18% and Military Tax (MT) at 1.5%. If the benefit is provided in kind, for personal income tax calculation purposes, its value has to be grossed up at the standard tax rates.

7. Income taxes – drivers' personal taxation

Data about a personal car should be indicated in the annual personal income tax return (brand, model, and year of manufacture, engine power rating, and a notice if a car was rented out). The deduction of costs related to a car is not allowed.

8. Selling a car

8.1. Taxable persons

Car sales carried out by a person registered as a VAT payer in Ukraine are subject to 20% VAT based on the contractual price, but not less than the purchase price of purchased goods, usual price (fair market value) of self-produced goods, or balance value of fixed assets.

If the taxpayer acts as a commissioner and sells used cars obtained from a person who is not registered as a VAT payer, the amount of a commission fee will be the VAT base.

If the taxpayer sells used cars that were previously acquired from private persons (not registered for VAT), the taxable amount is defined as the positive difference between the sale price and the acquisition price of such cars.

A car is considered as used if it had been registered previously in Ukraine and its mileage exceeded 6,000 kilometres.

8.2. Selling a car by a private individual

The deduction of costs related to a car is not allowed.

Gross revenue received by a private individual from the sale of movable property is subject to personal income tax at a 5% rate and 1.5% military tax. As an exception, one sale per calendar year of a car, a motorcycle or a scooter will be exempt from such taxation. The above exemption applies to tax non-residents as well.

Starting from 23 May 2020 the third and subsequent sale of a car is subject to 18% income tax and 1.5% military tax.

The tax is based on the price indicated in the sale agreement but cannot be lower than the average market value/evaluation price (at the taxpayer's choice), calculated in accordance with the law.

Income of tax non-resident individuals is subject to tax according to the same rules at 18% PIT tax rate and 1.5% MT tax rate.

Individuals not registered for VAT purposes are not required to levy VAT on car sales. At the same time, they are not entitled to recover input VAT incurred at the time of car acquisition.

9. Temporary Military tax

In 2021 the temporary military tax applies to the same tax base as the personal income tax.

10. Legal background

- Tax Code of Ukraine #2755-VI dated December 2, 2010;
- Customs Code of Ukraine #4495-VI dated March 13, 2012;
- Law #400/97-VR dated June 26, 1997 “On mandatory contributions for pension insurance”;
- Regulation of the Cabinet of Ministers of Ukraine #1740 dated November 3, 1998 “On adoption of the procedure for levying of mandatory contributions for pension insurance for special types of economic operations”;
- Regulation of the Cabinet of Ministers of Ukraine #1147 dated December 30, 2015 “Prohibition on importation goods originating from Russian Federation”;
- Law #3353-XII dated June 30, 1993 “On the Rules of Traffic”
- Regulation #1388 of the Cabinet of Ministers of Ukraine dated September 7, 1998 “On adoption of the procedure of the state registration, release from the registration of cars, buses, self-propelled vehicles, constructed on the basis of vehicles, motorcycles of all types, trademarks and models, trailers, half-trailers, cycle-cars and other vehicles equated to them”;
- UA GAAP #7 “Fixed Assets” and #14 “Lease” adopted by the Ministry of Finance of Ukraine on April 27, 2000 and April 28, 2000 respectively;
- Law # 2739-IV dated July 6, 2005 “About some questions of import at the customs territory of Ukraine and the first official registration of the vehicles”.

United Kingdom



Aidan Coleman
Director

p: +44 (0) 7740 242033
e: aidan.p.coleman@pwc.com

Jack Browning
Senior Manager

p: +44 (0)7753 460470
e: jack.l.browning@pwc.com

United Kingdom

1. Car registration

1.1. When does a car need to be registered?

In the UK, a car needs to be registered in the name of the legal keeper before it can be legally used on the public roads.

1.2. Who can register a car?

The legal keeper, who may or may not be the owner, should register the car. For example, a leased car would be registered in the name of the lessor rather than the lessee.

1.3. Is a foreign owner allowed to register a vehicle in the country?

In order to register the ownership of a vehicle in the UK it is necessary to have a UK registered address; therefore, in principle it is not possible for a non-UK resident to register a vehicle in the UK.

1.4. Can a vehicle with a foreign number plate be used on public roads?

There are international agreements which provide for the temporary use of a vehicle in a foreign country for a limited time, usually 6 months in a 12-month period. A visitor to the UK may use a vehicle displaying foreign plates, provided that all taxes are paid in their country of origin.

2. Car taxation

2.1. What are the different car taxes?

Cars that are registered in the UK are subject to a tax known as Vehicle Excise Duty (VED).

2.2. Vehicle excise duty (VED)

2.2.1. Taxable event

For cars otherwise registered before March 1, 2001, the VED charge is based upon engine size.

Cars first registered between March 1, 2001 and March 31, 2017 are chargeable to VED according to their CO₂ emissions figure and fuel type.

Cars first registered on or after April 1, 2017 are chargeable to VED according to their CO₂ emissions in the first year and a standard flat rate in subsequent years.

2.2.2. Tax due

Cars built more than 40 years ago will be automatically exempt from paying car tax, from January 1, 2017.

For cars registered before March 1, 2001, the VED charge is based upon engine size as per the table below.

Vehicle excise duty bands and rates for private cars and light goods vehicles registered before March 2001 (pre-graduated VED)

Engine size (in cc)	2020-2021	2021-2022
Not over 1,549	£165	£170
Over 1,549	£270	£280

For cars registered on or after March 1, 2001, but before April 1, 2017 the VED charge is based on fuel type and CO2 emissions. VED rates are currently split into 13 bands according to CO2 emissions as shown below.

Vehicle excise duty bands and rates for cars registered between March 2001 and April 2017 (graduated VED)

Band	CO2 Emissions (g/km)	2020/21 standard rate ²	2021/22 standard rate ²
A	Up to 100	£0	£0
B	101-110	£20	£20
C	111-120	£30	£30
D	121-130	£125	£130
E	131-140	£150	£155
F	141-150	£165	£170
G	151-165	£205	£210
H	166-175	£240	£250
I	176-185	£265	£275
J	186-200	£305	£315
K ¹	201-225	£330	£340
L	226-255	£565	£585
M	over 255	£580	£600

¹ Includes cars emitting over 225g/km and first registered between 1 March 2001 and 23 March 2006.

² 12 month single payment rate. Alternative fuel car discounts: 2020/21 £10 all cars, 2021/22 £10 all cars

For cars registered after April 1 2017, the first year rate will be based on official CO2 figures. For subsequent years, a flat standard rate of £155 from April 2021 will apply to all cars except those using alternative fuels for which the standard rate will be £145, or cars releasing 0 grams CO2/km for which the standard rate will be £0.

Vehicle excise duty bands and rates for cars registered on or after April 2017

CO2 emissions (g/km)	2020/21 First year rate*	2021/22 First year rate*	2020/21 Standard rate*	2021/22 Standard rate*
0	£0	£0	£0	£0
1-50	£10	£10	£150	£155
51-75	£25	£25	£150	£155
76-90	£110	£115	£150	£155
91-100	£135	£140	£150	£155
101-110	£155	£160	£150	£155
111-130	£175	£180	£150	£155
131-150	£215	£220	£150	£155
151-170	£540	£555	£150	£155
171-190	£870	£895	£150	£155
191-225	£1,305	£1,345	£150	£155
226-255	£1,850	£1,910	£150	£155
255+	£2,175	£2,245	£150	£155

*For diesel cars first registered after 1 April 2018, the CO2-based first year rate of VED will be one band higher than shown in the table unless the car was approved to the RDE step 2 standard. Alternative fuel car discounts: First year rate £10, Standard rate £10.

Electric vehicles are exempt from the first year and standard rate charges if the electricity comes from an external source or an electric storage battery not connected to any source of power when the vehicle is moving.

An extra charge of £335 from April 2021 a year will apply to cars with a list price over £40,000 in the first 5 'standard rate years'. Electric vehicles are also exempt from this charge in the period April 1, 2021 to March 31, 2026.

2.2.3. Tax discs

From the October 1, 2014 the requirement to display a paper tax disc in vehicles has been abolished.

3. Income taxes – taxable persons

3.1. Deduction

Where a car is purchased outright, the purchaser will be entitled to writing-down allowances by reference to the capital expenditure and the car's CO2 emissions.

3.1.1. Emissions thresholds for capital allowances

For cars purchased from April 1, 2018 onwards the allowances are given on a reducing balance basis as follows:

- Cars emitting above 110g/km of CO2 (50g/km from 1 April 2021): 6% writing down allowance per annum (8% before April 2019) 50g/km).
- Cars emitting between 50g/km and 110g/km of CO2 (0g/km and 50g/km from 1 April 2021), or any second hand car emitting less than 110 g/km (50g/km from 1 April 2021) of CO2: 18% writing down allowance per annum.

For cars purchased between April 1, 2015 and March 31, 2018 the allowances are given on a reducing balance basis as follows:

- Cars emitting above 130g/km of CO₂: 8% per writing down allowance per annum (reducing to 6% per annum from April 2019).
- Cars emitting between 75g/km and 130g/km of CO₂, or any second hand car emitting less than 130 g/km of CO₂: 18% per annum.

A business (other than one whose qualifying activity is the leasing of cars) can claim 100% first-year allowances on expenditure on a car provided that:

- the expenditure on the car is incurred between April 17, 2002 and March 31, 2021; and
- the car is unused and not second-hand and is first registered on or after April 17, 2002; and either
- the car has CO₂ emissions of less than 50g/km driven (75g/km from April 1, 2015 and March 31, 2018 - from 1 April 2021 only Zero Emissions Vehicles will be eligible for the 100% first year allowance); or
- the car is an electric car.

If the purchaser borrows funds to finance the purchase, the interest payable will usually be deductible as a revenue expense.

From November 23, 2016 until March 31, 2023, a 100% first year allowance is also available for expenditure on electric car charging points.

It is worth noting that, as part of the changes announced in the March 2021 UK Government Budget, the newly introduced ‘Super Deduction’ is not available for any expenditure incurred on cars.

Additionally, the annual investment allowance (which would provide a 100% first year allowance) is not available for any expenditure incurred on cars.

3.2. Hire purchase

A writing-down allowance based on the above is given on the full purchase price of the car as soon as it comes into use in the business, despite the fact that payment of the instalments will only begin at that time. Again, the interest element of the instalment payments should be deductible as a revenue expense.

3.3. Operating leases (less than five years)

Under an operating lease there is a restriction on the availability of a tax deduction for the rental payments. For leases entered into from April 1, 2018, cars emitting over 110g/km (130g/km for leases entered into between April 2013 and 31 March 2018) have 15% of all rental payments disallowed. There is no disallowance of rental payments for cars emitting under 110g/km or electrically propelled vehicles.

3.4. Finance leases

3.4.1. Finance lease less than five years

A finance lease is treated in the same way as an operating lease, unless certain detailed provisions apply. A finance lessor buying a car for leasing may only claim the proportion of the writing-down allowances in the year in which the car is purchased which corresponds to the lessor’s period of ownership of the car in that accounting period.

If rental payments are “rear-end loaded”, a finance lessor is taxed on the rentals according to the accounting treatment rather than the contractual entitlement to the payments, so that the tax charge is accelerated, and tax will be payable in respect of payments not yet received.

There may also be restrictions on the lessor’s entitlement to capital allowances where there is a sale and finance leaseback of a car.

3.4.2. Leases over five/seven years in length

It is very unusual for a car lease in the UK to exceed 5 years, but some prestige and specialist vehicles are subject to such leases. For all leases longer than 5 years in length special rules apply to determine the tax treatment and specialist advice should be sought.

4. VAT

4.1. General

The UK standard rate of VAT is 20%. The VAT provisions relating to cars are largely contained within the Value Added Tax (Cars) Order 1992 and the Value Added Tax (Input Tax) Order 1992, as amended.

4.2. Deduction

In order to understand the car rules for VAT in the UK, it is important to ascertain whether the supply is one of goods or services since this determines the time of supply and, in an international context, the place of the supply. The current VAT position, in terms of whether a supply is of goods or services, is set out below.

4.2.1. Goods

Under UK VAT legislation, a supply of goods involves the transfer of possession of a car under an agreement for the sale of goods, or under an agreement that expressly contemplates that the legal title will pass at some time in the future. This includes outright sale, conditional sale and hire purchase.

Following the Court of Justice of the European Union judgment in *Mercedes-Benz Financial Services UK Ltd* (C-164/16), the UK tax authority has clarified its view of the VAT treatment of certain hire purchase arrangements. Under new guidance issued in 2019, vehicles provided under Personal Contract Purchases or similar arrangements should only be treated as supplies of goods where the final option payment is set below the anticipated market value of the vehicle at the date that such payment is due.

VAT on a supply of goods is due on day one on the full value of the goods. For hire purchase and conditional sales, the periodic instalments are then free of VAT. Any separate credit element is generally treated as a VAT-exempt supply.

The place of supply is where the goods are located.

4.2.2. Services

Anything which is not a supply of goods is a supply of services. This includes supplies made by daily rental companies and contract hire companies, as well as supplies under finance leases where it is not expected that the title will pass.

In contrast to supplies of goods, VAT is due at the time of each rental payment.

The VAT treatment of the lessor's disposal of a car that has been leased to customers will depend on factors such as the type of lease under which the car was supplied and whether the customer was able to reclaim the VAT charged on the lease.

The applicable rules for the place of supply of services of hiring out means of transport depend on who receives the supply and for how long the means of transport is hired.

B2B and B2C short-term hiring of means of transport are supplied where the means of transport is put at the disposal of the lessee. Short-term hire of means of transport is hiring for a continuous period not exceeding 30 days (for all means of transport other than vessels).

B2B supplies of long-term hiring of means of transport are subject to the general rule for cross-border supplies of services and supplied where the lessee belongs.

B2C supplies of long-term hiring of means of transport are treated as supplied where the recipient/lessee belongs. Non-UK businesses involved in the hiring of means of transport to non-taxable persons in the UK may be liable to register for VAT in the UK.

4.2.3. Qualifying cars

These are cars where the VAT on the purchase can be recovered in full, provided that:

- The car is intended to be used “exclusively for the purpose of the business”; or
- The car is intended to be used “primarily for a relevant purpose” (e.g., driving school cars, taxis or short-term rental).

Cars used exclusively for the purposes of the business will include new or used cars purchased for resale, stock in trade/demonstrator cars and cars purchased for leasing to other users. VAT is due on the full value of the disposal of such cars.

4.2.4. Non-qualifying cars

These are cars where:

- There was no VAT on their purchase (known as margin scheme cars); or
- VAT was shown on the invoice, but it was blocked because of intended private use (known as input VAT blocked cars).

The disposal of cars in the first category is subject to VAT only on any positive margin (the margin is treated as VAT inclusive). The disposal of cars in the second category is exempt from VAT.

4.2.5. Private use

Where the supply is treated as goods for VAT purposes, no VAT can be recovered on a car that is available for private use (the car then becomes non-qualifying).

Where the supply is of services for VAT purposes, the lessee can recover 50% of the VAT charged, subject to the lessee's normal VAT recovery position. The VAT on repair and maintenance charges can be recovered in full, subject to the lessee's normal VAT recovery rules and the services being treated as separate optional services distinct from the lease of the car itself.

5. Company car

5.1. VAT due on private use of company cars

Generally, there should be no VAT due on the private use of a company car as, instead, the employer suffers an input VAT restriction on its purchase of the vehicle.

If charges are made to the employee for private use of the car, then the employer should account for VAT on these amounts as they will be treated as rental charges.

5.1.1. Fuel

If a business provides fuel, for free or for a charge less than cost, to its employees for non-business use, there are additional rules regarding VAT recovery. If the business recovers all of the input VAT incurred on the fuel, it must account for output VAT on the private use. It can do this by applying a "fuel scale charge"; a calculation based on the car's CO₂ emissions. The fuel scale charges are updated annually and can be found on the UK HM Revenue & Customs website.

Alternatively, the business can opt not to recover the input VAT on the fuel provided for private use; with no requirement to apply the fuel scale charge.

If a business applies a charge, at least equal to the cost of the fuel, for the private use of its vehicles, there should be no need to apply the fuel scale charge and the input VAT should be fully recoverable. Instead, output VAT based on the charge should be accounted for.

With effect from January 1, 2006, new rules were introduced regarding the recovery of VAT on road fuel purchased by employees and subsequently reimbursed by the employer. Businesses can continue to recover the VAT on the reimbursement (either the actual cost or a mileage allowance) provided that they hold a valid VAT invoice to support the claim.

5.2. Company car and private fuel – income taxes

The private use of a company car gives rise to a taxable benefit in the UK. The magnitude of that benefit is based on a graduated scale according to its level of CO₂ emissions in grams per kilometre driven applied to the price of the car. The price of the car is determined by taking the list price and adjusting for the price of certain accessories or contributions made to the cost by the employee. The majority of cars registered after January 1, 1998 have an approved CO₂ rating. There is no reduction to the benefit charge for business mileage or for the age of the car.

For the 2021-2022 and 2022-2023 tax years the rate of the charge is as follows:

CO2 (g/km) emissions	Percentage of car's list price 2021-22	Percentage of car's list price 2022-23
Zero	1%	2%
1 - 50 (EV range 130+ miles)	2 %	2%
1 - 50 (EV 70-129 miles)	5%	5%
1 - 50 (EV 40-69 miles)	8%	8%
1 - 50 (EV 30-39 miles)	12%	12%
1- 50 (EV below 29 miles)	14%	14%
51 - 54	15%	15%
55 - 59	16%	16%
60 - 64	17%	17%

For vehicles with emissions over 65g/km the percentage increases by 1% for each additional 5g of emissions until a cap rate of 37% is reached.

Diesel cars are subject to a 4% surcharge, but the maximum charge is currently limited to 37%.

The UK Government has confirmed that the Benefit in Kind percentages will remain the same as 2022-23 levels for the 2023-24 and 2024-25 tax years.

Cars registered on or after January 1, 1998, and not having an approved CO2 figure, are taxed as follows

Engine size in cc	Percentage of car's list price
0cc -1400	15%
1401cc- 2000	25%
2000+	35%

Diesel cars are subject to a 4% surcharge, but the maximum charge is currently limited to 37%.

Where fuel is provided for private use, company car drivers are taxed on a fixed charge based upon the CO2 emissions for the car. To calculate the benefit charge, a percentage figure is multiplied by a figure set for the year (24,600 GBP for the 2021/22 tax year) and tends to increase annually. The percentage figure is the same as that used for the calculation of the company car benefit.

Additionally, where fuel is only provided to an employee for part of the tax year, proportioning of the benefit is allowed provided the employee is not again provided with the benefit later in the year.

Note that for cars first provided to employees from April 6, 2017 if the employee was offered a cash allowance instead of a car or the employee gave up salary in return for a car, then if that cash value was higher than the benefit in kind charge, the employee will be taxed on that higher value.

6. *Income taxes – drivers’ personal taxation*

An individual who uses their privately owned car for business purposes can from April 6, 2012 be paid tax-free up to 0.45 GBP per mile for the first 10,000 business miles and 0.25 GBP per mile thereafter. These are known as the Mileage Allowance Payments (MAPs). If the individual receives less than these rates, then they can submit a mileage allowance relief claim whereby they will receive tax relief on the difference between the MAPs and the actual amount paid to them for business mileage.

7. *Worldwide Harmonised Light Vehicle Test Procedure (WLTP)*

In the UK, WLTP testing has been required for new car registrations since September 2018.

It is not currently anticipated that there will be a direct impact on vehicle taxation as a consequence of WLTP, i.e., there are not expected to be associated changes to the rates of tax. However, as cars registered from April 2020 will be taxed based on WLTP CO₂ emissions, it is expected that some vehicles may fall under higher taxation bands in the future.

8. *Electric vehicles*

The UK government encourages the use of electric vehicles by a number of other measures.

Electric vehicles are exempt from VED if the electricity comes from an external source or an electric storage battery not connected to any source of power when the vehicle is moving.

Owners can benefit from a 100% first-year allowance for expenditure on Zero Emission Vehicles.

Furthermore, electric vehicles qualify for discounts from the London congestion charge. From December 25, 2025, this exemption will be removed.

There are a number of Clean Air Zones in the UK, with more expected to be implemented in the coming years. If a vehicle exceeds emission standards in Clean Air Zones, a charge may need to be paid. Ultra-low emission vehicles, including electric vehicles, qualify for exemption from the charges.

Various UK Government consultations are in progress in relation to encouraging the use of electric vehicles, reviewing the VED regime and considering investment models for the national network of electric vehicle charge points. As part of this, the UK Government has brought forward the ban on the sale of most new petrol and diesel cars and vans to 2030. In July 2021, the UK Government announced its intention to also ban the sale of all new petrol and diesel trucks by 2040 as part of its “transport decarbonisation plan”, adding to its intention to convert commercial fleets to zero emission vehicles.

The UK tax authority published guidance in May 2021, which sets out its policy that the charging of electric vehicles using charging points in public places is subject to VAT at the standard rate (currently 20%). The reduced rate of VAT (currently 5%) applies to domestic charging of electric vehicles.

9. *Legal background*

- UK VAT Act 1994
- Companies Act 1985
- Capital Allowances Act 2001
- Companies Act 2006

United States of America



Amy Solek

Automotive Tax Leader

p: +1 313 394 6767

e: amy.j.solek@pwc.com

United States of America

In the United States, the taxation and registration of motor vehicles is generally determined by a combination of federal, state and local law. For purposes of this guide, we will analyze the taxes imposed by the state of New York as an example of the types of taxes that leasing, purchasing or operating a motor vehicle trigger at the state or local level. The website for each state provides detailed information regarding its vehicle taxes.

1. *Importation of vehicles*

1.1. *Customs duties*

In the United States, foreign-made vehicles are dutiable upon arrival. There are generally no distinctions made between vehicles imported for personal use or for sale. Currently, duties are set at the following rates:

- Automobiles – 2.5%
- Trucks – 25%
- Motorcycles – either free or 2.4%

These duties are based on the price paid, or payable, for the vehicle. The United States has preferential trade agreements with numerous countries – including Australia, Canada, Mexico, Chile, Singapore, Korea, and various other countries – that generally allow vehicles “manufactured/originating” in these countries to enter the US duty-free.

Duty-free treatment for Canada and Mexico falls under the United States-Mexico-Canada Agreement (USMCA). The requirements under this agreement are quite stringent and vehicles produced prior to 2020 are not likely eligible for duty-free status. Vehicles must meet the USMCA rules of origin for automotive goods, including regional value content, labor value content, steel purchasing, and aluminum purchasing requirements.

US residents importing vehicles into the United States in conjunction with their return from foreign travel may apply their 800 USD Customs and Border Patrol exemption against the price of the imported vehicle, thus lowering the total amount of duties paid.

For further details regarding customs duties and vehicle standards for imported vehicles, please refer to www.cbp.gov.

Exceptions

US citizens claiming non-resident status who are employed abroad may import a foreign vehicle duty-free for a short visit, provided the vehicle is exported upon exit from the United States.

US non-residents may import a vehicle duty-free for up to one year, for personal use, in conjunction with the owner’s arrival in the United States. If this exemption is used, the vehicle must be exported within one year or duties will be assessed against the vehicle.

1.2. *Import sales and use tax*

See section 5.3 for discussion of the use tax that would be due upon importing a vehicle into the United States.

2. Vehicle registration

2.1. When does a vehicle need to be registered?

Vehicle registration is mandated by each state. Generally, a vehicle must be registered to be used in the United States. A vehicle should be registered whenever legal title transfers or state of residence changes. In the state of New York, if an individual lives out of state and then becomes a resident, the person has 30 days to register the vehicle with the state of New York. However, if the person is not a resident of the state of New York, the home-state registration of the individual is valid while traveling throughout the state.

2.2. Who can register a vehicle?

The owner of the vehicle does not have to be the registrant of that vehicle. However, the owner of legal title must authorize the registrant to register the vehicle with the state. If a vehicle is leased, the lessor typically is considered to be the owner; the lessor will authorize the lessee to register the vehicle with the state.

2.3. Is a foreign owner allowed to register his vehicle in the United States?

A foreign owner may register his vehicle in the United States provided that all of the paperwork surrounding the vehicle has been filed. In the state of New York, the owner must be able to prove title of ownership, provide bill of sale, have paid the relevant sales/use taxes, prove ownership of a vehicle-liability insurance policy, completed Form MV-82 (*application for vehicle registration*), substantiate the owner's name and date of birth, and pay the registration fees. If the vehicle was imported from another nation, there are additional requirements imposed by the US Customs and Border Patrol.

2.4. Can a vehicle with a foreign number plate be used on public roads?

Individuals with number plates from Canada and Mexico may travel freely throughout the United States without changing their number plates. In addition, nationals from countries that have ratified the Inter-American Convention of 1943 (generally Central and South American countries) may tour throughout the United States with foreign number plates for either one year or the duration of their visa (whichever is shorter), as long as their vehicle displays the International Registration Marker, and the driver carries an International Driving Permit. Tourists from countries that have ratified the Convention on International Road Traffic of 1949 may travel throughout the United States for up to one year with their foreign number plates and with their own personal driver's license. Motorists from other countries generally must secure a driving license in the United States after completing the necessary driving tests and paperwork and may not use their foreign number plates in the United States.

When traveling throughout the United States in a foreign vehicle, people must have the International Registration Marker affixed to their vehicle. Driving with foreign number plates and/or paperwork can be risky. To mitigate this risk, it is a best practice to carry the International Driving Permit, which is issued in the five most commonly used languages. This permit can be obtained through an international automobile federation or local automobile club.

3. Vehicle taxation

3.1. What are the different vehicle taxes?

In the state of New York, sales and use tax is the primary tax levied against vehicles. See section 5 below. Vehicle owners also must pay registration fees, as discussed in section 3.2 below. The purchase/sale, lease, or use of a vehicle for businesses and individuals also can have income tax implications, as discussed below in sections 4, 6 and 7.

3.2. Registration fee

3.2.1. Taxable event

When an individual registers a vehicle for the first time or renews the registration, a registration fee is due to the state where the vehicle is registered.

3.2.2. Taxable person

The registrant (regardless of whether the registrant is the owner) is the person responsible for paying the tax. Registration of the vehicle cannot be completed unless all related taxes and fees have been paid.

3.2.3. Tax due

When a person registers a vehicle for the first time, he or she will pay a registration fee and additional one-time charges. The registration fees for the state of New York can be found in the table below. In addition to the registration fees, the state of New York has additional one-time charges which include a vehicle plate fee of 25 USD, a title certificate fee of 50 USD and the sales/use tax on the vehicle if it has not yet been paid. There is a minimum 2-year fee of \$32.50 for a vehicle that has 6 or more cylinders or for an electric vehicle.

Registration fees for passenger vehicles – New York State								
<i>Weight in lbs</i>		<i>2-year fee</i>	<i>Weight in lbs</i>		<i>2-year fee</i>	<i>Weight in lbs</i>		<i>2-year fee</i>
Min.	Max.		Min.	Max.		Min.	Max.	
0	1,650	26.00 USD	3,451	3,550	56.50 USD	5,351	5,450	102.50 USD
1,651	1,750	27.50 USD	3,551	3,650	59.00 USD	5,451	5,550	105.00 USD
1,751	1,850	29.00 USD	3,651	3,750	61.50 USD	5,551	5,650	107.50 USD
1,851	1,950	31.00 USD	3,751	3,850	64.00 USD	5,651	5,750	110.00 USD
1,951	2,050	32.50 USD	3,851	3,950	66.50 USD	5,751	5,850	112.50 USD
2,051	2,150	34.00 USD	3,951	4,050	69.00 USD	5,851	5,950	115.00 USD
2,151	2,250	35.50 USD	4,051	4,150	71.00 USD	5,951	6,050	117.00 USD
2,251	2,350	37.50 USD	4,151	4,250	73.50 USD	6,051	6,150	119.50 USD
2,351	2,450	39.00 USD	4,251	4,350	76.00 USD	6,151	6,250	122.00 USD
2,451	2,550	40.50 USD	4,351	4,450	78.50 USD	6,251	6,350	124.50 USD
2,551	2,650	42.00 USD	4,451	4,550	81.00 USD	6,351	6,450	127.00 USD
2,651	2,750	43.50 USD	4,551	4,650	83.50 USD	6,451	6,550	129.50 USD
2,751	2,850	45.50 USD	4,651	4,750	85.50 USD	6,551	6,650	131.50 USD
2,851	2,950	47.00 USD	4,751	4,850	88.00 USD	6,651	6,750	134.00 USD
2,951	3,050	48.50 USD	4,851	4,950	90.50 USD	6,751	6,850	136.50 USD
3,051	3,150	50.00 USD	4,951	5,050	93.00 USD	6,851	6,950	139.00 USD
3,151	3,250	52.00 USD	5,051	5,150	95.50 USD	6,951 or more		140.00 USD
3,251	3,350	53.50 USD	5,151	5,250	98.00 USD			
3,351	3,450	55.00 USD	5,251	5,350	100.50 USD			

In addition, you may be subject to a specific vehicle use tax for New York City and/or counties outside New York City when you register or renew your vehicle registration.

3.2.4. Tax period

Registration fees are paid on an annual or biennial basis, depending on the rules of the state of registration. The fee must be paid before a vehicle's registration can be renewed. As noted in the table above, New York imposes a biennial registration fee.

4. Income taxes – Business

4.1. Tax deduction of vehicle-related expenses

Vehicles used for business purposes that are owned by a trade or business are entitled to depreciation deductions.³⁰ However, certain limitations can apply to vehicles used in a business (for example, the personal use of a business vehicle).

4.2. Luxury Auto Depreciation Limits

A luxury automobile is defined as any passenger vehicle weighing less than 6,000 pounds that is available for both business and personal use (regardless of whether it is used for personal purposes). The taxpayer may depreciate the value of a luxury automobile over five years using the MACRS depreciation method³¹. The maximum allowable yearly depreciation for passenger vehicles placed in service in 2021 for which the additional first year depreciation deduction does not apply is limited as follows:

Luxury auto depreciation limits	
<i>Year of service</i>	<i>Regular depreciation limit</i>
1	10,000 USD
2	16,000 USD
3	9,600 USD
4+	5,760 USD

4.2.1. Business deductions for leased vehicles

For vehicles that are leased by a business, the business is able to deduct the associated rent expense with leasing a vehicle.³² See section 5.4 for further discussion of the deduction of related sales tax expenses.

4.2.2. Sale of a vehicle

See section 8 below for the income tax implications of selling a vehicle.

4.2.3. Vehicle-related tax credits

New Qualified Plug-in Electric Drive Motor Vehicles Credit

³⁰ Businesses are allowed additional depreciation or "bonus" depreciation for federal tax purposes for the first year the vehicle is placed in service if the vehicle is placed in service before January 1, 2027. Different bonus depreciation limitations apply if the vehicle is acquired before or after September 27, 2017.

If the vehicle is acquired after September 27, 2017, businesses are allowed to deduct 100% of the cost of a vehicle in the year acquired if placed in service in years 2017 through 2022; 80% of the cost of the vehicle if placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.

If the vehicle is acquired before September 28, 2017, businesses are allowed to deduct 50% of the cost of a vehicle if placed in service before 2018, 40% in 2018, and 30% in 2019. Businesses can depreciate the remaining cost of the asset under the normal Modified Accelerated Cost Recovery System ("MACRS") depreciation method.

For luxury automobiles, bonus depreciation is limited to 8,000 USD per vehicle for vehicles acquired and placed in service after September 27, 2017. For luxury vehicles acquired before September 28, 2017, bonus depreciation is limited to 6,400 USD for vehicles placed in service in 2018, and limited to 4,800 USD for vehicles placed in service in 2019.

³¹ This limit is separate from the bonus depreciation limit. For example, a company purchases a luxury automobile before September 28, 2017 and places it in service in 2021 and claims bonus depreciation; the company is limited to 8,000 USD bonus depreciation and 10,100 USD for MACRS depreciation for a total of 18,100 USD.

³² While a business is able to deduct these costs for tax purposes, the timing of the deductions for tax purposes, depending on the type of lease, may be different from the deductions for accounting purposes.

³²

This federal tax credit is applicable only to those who purchase or lease a new vehicle that is powered by a rechargeable electric motor that has a capacity of at least four kilowatt-hours and weighs less than 14,000 lbs. The base amount of the credit is 2,500 USD and increases by 417 USD with battery capacity of not less than five kilowatt hours, plus 417 USD for each kilowatt-hour of capacity in excess of five kilowatt-hours. This credit is capped at 7,500 USD in aggregate. If this credit is taken, the basis of the vehicle should be reduced by the amount of the credit. For businesses, this credit is taken as part of the general business credit.

5. Sales and use tax

5.1. General rules regarding sales tax on sale/purchase

The United States does not impose a VAT. Instead, the individual states and local jurisdictions have been given authority to levy sales and use taxes against purchases. In New York, the sale/purchase of a vehicle triggers a sales tax. In the case of casual sales (person to person), the sales tax is paid when the vehicle is registered with the department of motor vehicles. In the case of vendor/dealership sales, the tax must be collected by the vendor upon the sale of the vehicle. The vendor is required to remit the sales tax to the Department of Taxation and Finance. As noted in section 2.3, the purchaser cannot register the vehicle without proof that the sales tax was paid.

Sales and use tax rates are determined at the state and local (city and/or county) levels. For instance, in New York City, sales trigger a 4% state tax rate, a 4.5% city tax rate and a 0.375% Metropolitan Commuter Transportation District surcharge rate; resulting in a total 8.875% sales tax rate.

In New York, as it is in most states, the taxable base for sales tax on a motor vehicle is determined on a “net” basis. The net basis of the vehicle for sales tax purposes is the sales price less the value of a vehicle that the seller accepts for trade-in and plans to later resell. For example, a customer buys a vehicle for 20,000 USD. The seller agrees to take the customer’s current vehicle as a trade-in and gives the customer a 4,000 USD credit for his trade-in. The net taxable base of the customer’s purchased vehicle for sales tax purposes would be 16,000 USD.

5.2. Sales tax on leased vehicles

If a vehicle weighing 10,000 pounds or less is leased long-term in New York, the sales tax, based on the entire lease period payments, is to be paid by the lessee at the inception of the lease. A long-term lease is determined under this law in New York to be any lease greater than one year or a lease that is less than a year but has renewal options in the contract that would take the lease period beyond one year. The tax is based on the combination of the complete lease payments and option to renew. The tax must be paid by the date the first payment is due or when the vehicle is registered with the state, whichever is earlier. The requirement to pay the sales tax at inception of the lease by the lessee in the state of New York is not common. Most states will impose their sales tax on the monthly rent payments as they are collected throughout the duration of the lease.

5.3. Use tax

When vehicles are transported across state or country lines, a use tax may be owed on the vehicle. In the state of New York, a use tax is owed on vehicles purchased by New York residents outside of the state of New York. This use tax is generally the difference between the sales tax of the resident’s county (for example, the total sales tax rate in Albany, New York, is 8%) and the sales taxes previously paid on the vehicle. For example, if someone purchased a vehicle in Michigan, the sales tax rate applied to the purchase would have been 6%, so the resident would owe a 2% use tax on the vehicle in Albany, New York. In the case of vehicles purchased outside of the United States, there is no “sales tax” previously paid on the goods; the use tax owed would be the price of the imported good multiplied by the resident’s applicable county rate.

If the purchase was made while the purchaser is a non-resident of the state of New York, generally no use tax will be owed. The notable exception relates to the purchase of aircrafts, vessels and motor vehicles used to transport New York residents affiliated with the purchasing entity. For example, if a company purchases a vehicle in the United Kingdom, imports it into the United States and uses it to transport company executives who are residents of New York, use tax will be owed on the purchase of the vehicle.

5.4. Income tax deduction of sales tax

As a general rule in the United States, businesses may expense costs incurred that are reasonable and necessary. Individuals may generally deduct the taxes paid during the year on their personal tax return, subject to general limitations. There are, however, special rules regarding the appropriate treatment of sales taxes paid during the year.

5.4.1. Businesses

Businesses may deduct the sales taxes paid in conjunction with reasonable and necessary purchases. However, for vehicles purchased, they should add the sales tax to the basis of the vehicle and depreciate it as discussed in section 4.1. In this case, the deduction of sales taxes paid likely is spread over the depreciation periods. Any sales tax included in a lease payment by a lease is deducted as a business expense.

5.4.2. Individuals

Sales taxes paid in conjunction with the purchase of a motor vehicle may be deductible if a special election is made. However, as this election has several limitations, including not being able to deduct state and local income taxes, this election generally is not made by individual taxpayers.

6. Company car

6.1. Company car in personal tax returns – benefit in kind

When an employer provides a vehicle to the employee, any non-business use of that vehicle generally is considered to be a taxable fringe benefit to the employee that is reportable as income on the employee's Form W-2 and is subject to employment taxes. There are three special valuation methods to calculate the taxable fringe benefit: 1) the automobile lease value rule, 2) the vehicle cents-per-mile rule and 3) the commuting valuation rule.

6.1.1. Automobile lease value rule

The automobile lease value rule is used most often. Under this method, the taxable fringe benefit from the personal use of the vehicle is found by multiplying the non-business use percentage (non-business miles/total miles driven) by the annual lease value. The table below is used to calculate the annual lease value. The fair market value of the automobile is calculated as of the date the vehicle is first available to the employee and is used for the four subsequent years in determining the taxable fringe benefit. After the four-year period, the fair market value of the auto should be recalculated.

Annual lease value table					
<i>Automobile fair market value</i>		<i>Annual lease</i>	<i>Automobile fair market value</i>		<i>Annual lease</i>
<i>Min.</i>	<i>Max.</i>	<i>Value</i>	<i>Min.</i>	<i>Max.</i>	<i>Value</i>
0 USD	999 USD	600 USD	22,000 USD	22,999 USD	6,100 USD
1,000 USD	1,999 USD	850 USD	23,000 USD	23,999 USD	6,350 USD
2,000 USD	2,999 USD	1,100 USD	24,000 USD	24,999 USD	6,600 USD
3,000 USD	3,999 USD	1,350 USD	25,000 USD	25,999 USD	6,850 USD
4,000 USD	4,999 USD	1,600 USD	26,000 USD	27,999 USD	7,250 USD
5,000 USD	5,999 USD	1,850 USD	28,000 USD	29,999 USD	7,750 USD
6,000 USD	6,999 USD	2,100 USD	30,000 USD	31,999 USD	8,250 USD
7,000 USD	7,999 USD	2,350 USD	32,000 USD	33,999 USD	8,750 USD

Annual lease value table					
8,000 USD	8,999 USD	2,600 USD	34,000 USD	35,999 USD	9,250 USD
9,000 USD	9,999 USD	2,850 USD	36,000 USD	37,999 USD	9,750 USD
10,000 USD	10,999 USD	3,100 USD	38,000 USD	39,999 USD	10,250 USD
11,000 USD	11,999 USD	3,350 USD	40,000 USD	41,999 USD	10,750 USD
12,000 USD	12,999 USD	3,600 USD	42,000 USD	43,999 USD	11,250 USD
13,000 USD	13,999 USD	3,850 USD	44,000 USD	45,999 USD	11,750 USD
14,000 USD	14,999 USD	4,100 USD	46,000 USD	47,999 USD	12,250 USD
15,000 USD	15,999 USD	4,350 USD	48,000 USD	49,999 USD	12,750 USD
16,000 USD	16,999 USD	4,600 USD	50,000 USD	51,999 USD	13,250 USD
17,000 USD	17,999 USD	4,850 USD	52,000 USD	53,999 USD	13,750 USD
18,000 USD	18,999 USD	5,100 USD	54,000 USD	55,999 USD	14,250 USD
19,000 USD	19,999 USD	5,350 USD	56,000 USD	57,999 USD	14,750 USD
20,000 USD	20,999 USD	5,600 USD	58,000 USD	59,999 USD	15,250 USD
21,000 USD	21,999 USD	5,850 USD			

For automobiles with a fair market value of more than 59,999 USD, the annual lease value equals (0.25 x the fair market value of the automobile) USD + 500 USD. If the employer has 20 or more vehicles available for business and personal use and each individual vehicle is worth less than 51,100 USD, the average of the entire fleet may be used in determining the annual lease value.

6.1.2. Vehicle cents-per-mile rule

For 2021, employers may elect to use the vehicle cents-per-mile rule, if the automobile has a fair market value of 51,100 USD or less and the vehicle is driven by employees at least 10,000 miles per year. The fair market value limitation is updated annually by the Internal Revenue Service (IRS). In addition, one of the following conditions must be met:

- The vehicle is regularly used (50% or more each year) in the employer's business
- The vehicle is generally used each workday to transport at least three employees to and from work in an employer-sponsored commuting vehicle pool

If either condition is met, the employer can value the taxable fringe benefit from the personal use of the vehicle at 0.56 USD/mile. This amount usually is adjusted annually by the IRS. However, in certain situations, the IRS will make a periodic interim adjustment depending upon certain factors.

6.1.3. Commuting valuation rule

Employers may elect to use the commuting valuation rule under which the taxable fringe benefit from commuting use of the vehicle is valued at 1.50 USD/person per way, if the following conditions are met:

- The vehicle is owned or leased by the employer.
- The vehicle is provided to an employee for use in the business.
- The employer requires the employee to commute in the vehicle for bona fide, non-compensatory business reasons.
- The employer has a written policy prohibiting personal use other than commuting.
- The employee does not use the vehicle for other than de minimis personal use.
- The employee who uses the vehicle is not a *control employee* (defined below).
 - A *control employee* of a nongovernment employer for 2021 is generally any of the following employees:
 - A board or shareholder-appointed, confirmed, or elected officer whose pay is 115,000 USD or more;
 - A director;
 - An employee whose pay is 235,000 USD or more; or
 - An employee who owns a 1% or more equity, capital, or profits interest in your business.
 - A *control employee* for a government employer for 2021 is either of the following:
 - A government employee whose compensation is equal to or exceeds Federal Government Executive Level V, i.e., 161,700 USD in 2021; or
 - An elected official.

6.2. Other taxes on company vehicles

The employer must remit employment taxes on the taxable fringe benefit portion of an employee's use of the company vehicle. Social Security and Medicare employment taxes are levied only at the federal level. Unemployment taxes are levied by both the federal and state governments.

7. Income taxes – drivers' personal taxation

7.1. Private use

See section 6 for the income tax implications for the personal use of a company car. An individual may not claim depreciation on a personal income tax return for the vehicle. See section 5.4.2 for discussion of the election to deduct sales tax paid on a personal tax return.

Individuals can qualify for the New Qualified Plug-in Electric Drive Motor Vehicles Credit described in section 4.2.3. Also see section 8 for the personal income tax implications of selling a vehicle.

7.2. Commuter traffic

The distance of one's commute depends on where one's tax home is located. The IRS has determined that one's tax home is not necessarily the place where one resides with family, but the location at which one stays while in the general vicinity of one's place of business. When an employee uses his or her own personal vehicle to commute to and from work, he or she may not claim a business expense deduction on a personal tax return for this mileage. Also, any reimbursement of an employee's mileage from his commute by his employer is taxable income to the employee.

7.3. Business miles

Business miles in excess of an individual's standard daily commute can either be reimbursed by the company, which is then considered an expense for the company, or claimed as an itemized deduction on the individual's personal tax return. For 2021, the business mileage rate is set at 0.56 USD/mile. This business mileage rate is updated periodically by the IRS. Please refer to the IRS website, www.irs.gov, for the most current information.

8. Selling a car

8.1. Sales tax

See section 5 regarding sales tax on the sale of a vehicle.

8.2. Income tax

Selling a vehicle in the United States may have income tax implications at the federal, state and local levels. Individuals and corporations are taxed on any gain from the sale of a vehicle and must make estimated tax payments throughout the course of the year based upon estimates of full-year taxable income. For individuals, this can be accomplished by having the employer withhold applicable income taxes from their regular wages.

8.3. Businesses

Gain from the sale of a vehicle used in a trade or business can be treated as either capital or ordinary. Under the depreciation recapture rules, any gain from the sale of tangible personal property used in a trade or business is treated as ordinary income up to the amount of any depreciation or amortization expense taken on a prior or current tax return for the property. Therefore, if a company has taken depreciation in excess of the gain on sale, the entire gain on the sale of the property will be treated as ordinary income and taxed at ordinary rates. If the depreciation taken is less than the overall gain, the gain up to the amount of depreciation expense taken will be treated as ordinary income and the excess gain will be capital.

8.4. Individuals

When an individual sells a motor vehicle at a price greater than the basis, a capital gain will be reported on the individual income tax return. A personal vehicle's basis is typically the individual's acquisition purchase price. If the vehicle is held for less than one year, the gain is taxed at the individual's ordinary marginal tax rate. However, if the property was held for a period greater than one year, the gain generally will be taxable at lower preferential rates.

Because individuals cannot derive any tax benefits from the depreciation of vehicles for personal use, when a vehicle is sold, it is typically sold at a loss. This loss is not deductible on an individual's tax return.

9. Future developments

The United States government is currently encouraging "greener" transportation methods. Congress is considering legislation that rewards manufacturers and purchasers for reducing their environmental footprint.

US companies currently report their financial statements under US GAAP. However, FASB is currently working on the convergence of its standards with IFRS, with the end goal being global accounting standards.

Prompted by previous statements from President Trump, there has been media speculation regarding the possibility of the US imposing additional tariffs as it relates to the importation of automobiles into the US. Please refer to www.cbp.gov for additional information on any potential new tariffs if announced.

10. Legal background

Federal legal codes:

- Internal Revenue Code (IRC) of 1986, as amended
- United States Code – Title 8

State legal codes:

- Laws of New York – Tax
- Laws of New York – Vehicle and Traffic

Accounting standards:

- Accounting Standards Codification (ASC)