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2015 Global Automotive Tax Guide

November 2015

A guide covering everything you need to know about car taxation in 44 countries – from import and registration to finance, direct and indirect taxation

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Global Automotive Tax Guide
Published by PwC

November 2015
568 pages, numerous tables and figures

The material contained in this guide reflects the position between December 2014 and April 2015 (respectively September 2015 for Argentina, Brazil, Canada, China, India, Japan, Malta, Mexico, Moldova, New Zealand, South Korea, South Africa, Thailand, Ukraine, USA). 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.

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Tax matters!

We welcome you to the 2015 Global Automotive Tax Guide. This publication compiles tax aspects relating to the use of a car in 44 of the world's most relevant car markets. It provides unique oversight over aspects like custom duties upon importation, car registration duties, car taxation – both from a direct and indirect tax perspective as well as company car taxation rules in those markets. The level of taxes and duties raised around the use of a car will eventually determine demand.

Therefore, the information provided in this guide by the Global Automotive Tax network of PwC is indispensable for strategy departments of OEMs and suppliers, fleet operators, HR departments and tax departments of multi-national companies with activities in these markets.

We hope that you find this guide useful and the information may serve as a tool in supporting your organizations' tax strategy.

Alexander Unfried

Global Automotive Tax Leader

T: + 49 711 25034 3216,
alexander.unfried@de.pwc.com
www.pwc.com/us

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Argentina

Ricardo Tavieres
Automotive Tax Leader
p: +54 11 4850 0000 Ext.6708
e: ricardo.d.tavieres@ar.pwc.com

Néstor Rossi
p: +54 11 4850 0000 Ext.6713
e: nestor.rossi@ar.pwc.com

Ignacio Biagioni
p: +54 341 446-8022
e: ignacio.biaggioni@ar.pwc.com

Argentina

1. Importation of vehicles

1.1. Customs duties

1.1.1. New vehicles

A "Mutual Agreement on Automotive Policy between the Republic of Argentina and the Federative Republic of Brazil" is in effect until June 30, 2016. This agreement 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) for certain vehicles provided they meet requirements relating to origin and other conditions stipulated in the agreement.

Additionally, there is another agreement that establishes a 100% tax concession for certain vehicles of Mexican origin provided they meet the requirements relating to origin and other conditions stipulated in the agreement.

Consequently, vehicle imports governed by the special conditions described above are covered by a 100% tax concession (i.e., 0% tariff), whereas all other vehicle imports are subject to a 35% tariff, except for imports of hybrid vehicles, in which case the import duty is reduced to 2%.

1.1.2. Used vehicles

Nationalisation 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 definite 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.
- New motor vehicles imported to the Argentine Special Customs Zone (Province of Tierra del Fuego) after two years have elapsed from the date of granting of their license in the special customs zone.
- Motor vehicles termed as "collector's item" and/or of historical interest, which are more than 30 years old and whose FOB value is not less than 12,000 USD).
- Motor vehicles which by nature have special features relating to their use or purpose (for example, cars adapted for use by disabled persons) which have been authorized by the Secretariat of Industry.

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 range from 10.5% to 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 import 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 cars subject to a 21% VAT, the additional tax rate payable is 20%. In the case of cars 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

The applicable rate is 0.50% of the CIF value, with a maximum of 500 USD per shipment. However, the rate does not apply in the following cases:

- Goods originating from MERCOSUR member states (Argentina, Brazil, Uruguay and Paraguay).
- Goods pertaining to the universe of capital assets.
- Goods originating from the Republic of Chile or Bolivia.
- Goods originating from the countries that form part of the A.C.E. N° 58 (Argentina, Brazil, Paraguay, Peru and Uruguay), and A.C.E N° 59 (Argentina, Brazil, Colombia, Ecuador, Paraguay, Uruguay and Venezuela).
- Hybrid cars.

1.2.4. Additional income tax for registered taxpayers

A 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 payable rate is 2,5% using the same basis of calculation as for 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 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

- Cars with diesel engines: Imports whose price, net of tax, is above 225.000 ARS are subject to this tax at a 10 % rate.

- Motor vehicles (*) destined for passenger transport with an import value above 225.000 ARS: The applicable rate (excluding buses, ambulances, and others) are:

Value Range AR$	Rate
170.000- 210.000	30%
210.001 - onwards	50%

(*) Diesel vehicles are additionally subject to the 10 % rate indicated above.

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 a title deed 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 before the Registry by any of the parties involved (transferor or transferee).

Notwithstanding the latter, the transferee assumes the legal obligation to register the transfer before the Registry within ten days 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 formalised 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.

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, provided such individuals or entities are legally competent (from a civil law perspective), and have permanent residence in Argentina.

Consequently, foreign entities may only register vehicles if they are duly registered before the Corporation Control Authority, either through a branch or subsidiary of a foreign company.

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)
- Tax on minimum presumed income (legal entities)
- 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% of the market value of the vehicle, in line with an approved valuation table.

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 paid in the province where the vehicle is registered. 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 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. In 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%.

Certain provinces envisage annual discounts for vehicles with no prior debt and/or additional rates directed at raising funds for specific purposes.

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 progressive rate (which increases in line with the net worth) ranges from 0.5% to 1.25%. This tax does not apply to individuals whose net worth is below 305,000 ARS.

Individuals that do not reside in Argentina and who own assets in the country are subject to this tax at a 1.25% 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, whichever is greater, during the first five years of ownership.

3.5. Tax on minimum presumed income (IGMP)

This tax applies to individuals residing in the country and is applicable to their net worth in the country and abroad at the fiscal closing date. It is applied at a 1% rate.

This tax complements the income tax, and must only be paid when it exceeds the income tax for the same period. The IGMP paid in a given fiscal period may be used as a tax credit under the income tax payable in subsequent ten periods.

Motor vehicles are subject to this tax, whereby their purchase price –net of tax payments made under the income tax – is used as the tax base, in general, during the first five years of ownership.

3.6. Income tax (IG)

Income tax paid in respect of the taxpayer's net income amounts to 35% for legal entities, whereas individuals are subject to a progressive rate ranging from 9% 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 stem 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 ranges from 3.5% to 5.5%.

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 amortisations 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, licence, 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 110.000 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. Accounting

5.1. General

In Argentina, Technical Resolution 18, issued by the Argentine Federation of Professional Councils of Economic Science, establishes how leases must be registered.

For accounting purposes a distinction must be made between an operating lease and a financial lease. An agreement qualifies as a financial lease only to the extent that the contract between the lessor and the lessee has been established on a full-payout basis. This means that the lease instalments should at least be equivalent to the full replenishment of the initial investment made by the lessor, plus interest costs charged to the lessee and other transaction costs incurred by the lessor.

When the lease contract includes an option feature allowing the lessee to buy the car at the end of the contractual period, such an option is added to the contractual monthly lease payments if the value of the option is a maximum 15% of the value (initial investment by the lessor) of the car.

Further, IAS 17 covers accounting for leases under International Financial Reporting Standards (IFRS). The objective of this standard is to establish the appropriate accounting policies for the lessor and the lessee in relation to lease agreements.

Under IAS 17, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. Financial leases are those where the risk and rewards incidental to the ownership of an asset are substantially transferred to the lessee. If this criterion is not respected, the lease will be classified as an operating lease.

Under IAS 17, options are treated differently from Argentine accounting law. Bargain purchase options, as defined by IAS 17, are added to the contractual lease payments and therefore form part of the minimum lease payments. Additionally, criteria other than the repayment of the initial amount invested by the lessor are applicable under IAS 17, such as the automatic transfer of ownership at the end of the contract, non-cancellable contractual lease period versus useful economic life of the car, and other qualitative conditions indicating that the lessee is bearing the substantial part of the risks and rewards related to the car during the contractual period.

The basic principle to qualify as a financial lease in Argentine GAAP is similar to IAS 17 and is consistent with the true and fair view principle in Argentine accounting law. Substantially all the risks and rewards should be transferred to the lessee based on the substance of the transaction rather than on the legal form. However, as mentioned above, Argentine accounting law has different assessment criteria and, in some cases, strict enforcement of these criteria could result in different accounting treatment under Argentine accounting law and under IFRS.

Currently, IASB in cooperation with FASB are reconsidering the accounting model under IFRS and US GAAP. The objective is to eliminate the notion of an operational lease and a financial lease. All contracts would have to be assessed from the point of view of the inherent obligations and rights, and accounted for accordingly. This would cause more lease contracts to be reported on the balance sheet than under current accounting principles. In general, this would improve accounting of lease contracts as the proposed new accounting model would provide greater transparency and neutrality, and more relevance to the financial statements which are the key drivers of high quality financial reporting standards.

Below is a short overview of the accounting treatment under Argentine accounting law of different possibilities for acquiring/leasing a car.

5.2. Hire purchase

5.2.1. Purchaser

In the case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over its useful economic life.

The purchaser must disclose the accounting policies relating to the car in the notes to the accounts.

5.2.2. Vendor

A sold car is written off when ownership risks and rewards are transferred to the buyer. Amounts receivable should be recorded in the balance sheet as a receivable.

5.3. Operational lease

5.3.1. Lessee

An operating lease or rental agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. If the lease contract has a significant effect on the results of the enterprise, the lessee must mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In the case of an operating lease of a rental agreement, the car will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated as economically justifiable in terms of the nature of the asset (the useful economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account. The lessor must disclose the applied valuation rules in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, ie, the capital portion of the minimum lease payments. The depreciation is treated as economically justifiable in terms of the nature of the asset (economic life). In practice this means that the car is depreciated according to the straight-line method over the lease period.

The lessee carries the minimum lease payments as a liability, divided into an amount payable after one year and an amount payable within one year.

Operating charges (depreciation) and financial charges (interest portion of the lease payments) are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, the latter must disclose the valuation rules in the notes to the accounts.

5.4.2. Lessor

The leased car is written off from the lessor's balance sheet. The lease payments received should be recorded on the balance as a receivable and should be equal to the net investment in the lease. This amount comprises the total minimum lease payments less deferred financial income and any unguaranteed residual value accruing to the lessor.

Financial charges would normally be allocated to accounting periods so as to provide a constant periodic rate of return on the lessor's net cash investment (ie, the amount of funds invested in the lease by the lessor) in the lease in each period. Finally, the lessor does not need to disclose anything in the notes to the accounts.

6. VAT

6.1. 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.

6.2. 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 110.000 ARS.

6.3. 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”.

6.4. 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 minimum presumed income and 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 (ie, 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 110.000 ARS.

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

7. Company car

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

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; amortisations 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 recognised 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.

7.2. 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.

7.3. 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.

8. Income taxes – drivers' personal taxation

8.1. 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.

8.2. 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.

8.3. Business kilometres

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 kilometres covered, plus fixed costs such as toll fees, parking, etc.).

9. *Selling a car*

9.1. 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 annulled) less amortisations 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 35%, while individuals pay a progressive rate ranging from 9% 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 3.5% to 5.5%, except when the vehicle constitutes a fixed asset for the seller.

Additionally, the first sale of vehicles in the country is subject to the excise tax in the following cases:

- Diesel cars: If the sales price is above 225.000 ARS, the excise tax payable is 10 %.
- Cars for passenger transport with a sales value above 225.000 ARS: Applies a progressive tax rate based on the tax value of the vehicle this does not include buses, ambulances, among others) from 30% to 50%
- Domestic cars for passenger transport with a sales value above 225.000 ARS: Applies a progressive tax rate based on the tax value of the vehicle (this does no include busesm ambulances, amog otrher) from 10% to 30%.
- Additionally, diesel vehicles pay the 10% rate indicated above.

In both cases, the 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 subject to a 5% export duty, which may be recovered in part through drawbacks.

9.2. 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 amortisation and maintenance and upkeep expenses relating to the vehicle.

10. 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.

However, 2014 and 2015 were difficult years for Argentina automotive industry, due to macroeconomic problems (such as foreign exchange restrictions to pay por imports), whose incidence was increased in these periods.

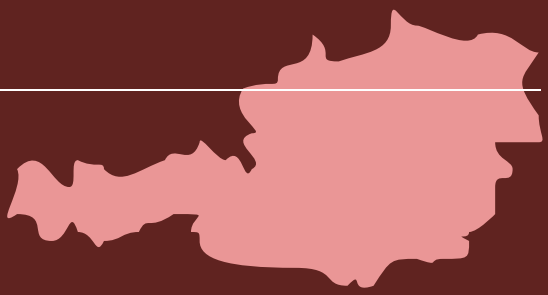
Meanwhile Brazil, which is the main destination of Argentine exports, is experiencing a political and economic crisis, which negatively affects the demand for vehicles produced in our country.

In December there will be a change of government authorities in our country, and the expectation is that the new government will focus its efforts on attacking macroeconomic imbalances affecting industrial activity.

11. 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 501883306
e: peter.perktold@at.pwc.com

Rupert Wiesinger
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 approximately 185 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 19.80 EUR.

1.2. Who can register a car?

The economic owner, i.e., the legal owner or the main user of the car, is obliged 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 license duty (Normverbrauchsabgabe, or NoVA)
- Motor vehicle tax (Kraftfahrzeugsteuer, or KfzSt//Motorbezogene Versicherungssteuer, or Motorbezogene VersSt)

2.2. Car license 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 license duty. Intra-Community acquisitions are also subject to a car license duty (the acquisition by authorised car dealers for further delivery is excluded from this regulation). General exemptions apply to taxis, show cars, etc.

2.2.2. Taxable person

The supplier (seller) of the car (e.g. car dealer) is usually liable for the car license duty.

2.2.3. Tax due

According to an ECJ ruling from 2010 (Commission v Austria, C-433/09), the car license duty is not included in the VAT base for the supply of cars. Thus, the car license duty payable is increased by 20%. This 20% increase does not apply in the case of short licenses by car trades for cars that are used for a taxable sale and if the car is supplied by a car trader to a company which uses the car for a taxable lease. The car license duty tax rate is calculated according to the following formula:

(CO2 emission (gram per kilometre) – 90 gram) divided by 5

The maximum tax rate amounts to 32%. However, for vehicles having a CO2 emission higher than 250 gram per kilometre, the car license duty is increased by 20 EUR for each gram CO2 per kilometre above 250 gram per kilometre. The tax rate has to be rounded to whole percentages.

The car license duty is reduced:

- from March 1, 2014 to December 31, 2014 by 350 EUR for diesel vehicles and 400 EUR for other vehicles
- in 2015 by 400 EUR for all vehicles
- as of January 1, 2016 by 300 EUR for all vehicles

2.2.4. Tax period

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

2.2.5. Tax benefits for environmentally-friendly vehicles

For cars with environmentally friendlier engines (hybrid, fuel meeting the E85 specification, natural gas, biogas, liquid gas or hydrogen), the car license duty is reduced by 600 EUR up to December 31, 2015.

The total of the car license duty reductions cannot result in a credit balance.

In the case of used cars already licensed in another EC Member State, the car license duty has to be basically calculated based on the values that were applicable at the time the car was licensed for the first time (in the other EC Member State).

Special provisions apply for cars without a CO2 emission. In this case the CO2 emission for car license duty purposes is calculated as follows:

Fuel	CO2 emission
Gasoline	(Average fuel consumption per 100 kilometres) × 25
Diesel	(Average fuel consumption per 100 kilometres) × 28

For cars with no CO2 emission (e.g. electric vehicles) and no fuel consumption the CO2 emission is deemed to be the double effective rated output (expressed in kilowatt).

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, but 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.

Tax base	Tax rate
Actual kilowatts of the car minus 24 kilowatts	0.6 EUR per kilowatt, at least 6 EUR per month

Example: For a car with an 88kW (120hp) engine, the tax base is 64kW. The monthly motor vehicle tax amounts to 38.40 EUR (64 × 0.6).

As of March 1, 2014 the motor vehicle tax will be calculated as following:

Until 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

A bonus is granted if the motor vehicle tax is paid on an annual basis, whereas if paid on a semi-annual, quarterly or monthly basis, a loading 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 authorities on a quarterly basis. Otherwise, the tax has to be self-calculated and paid to the tax authorities 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 and 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 Minister 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 or leasing and other special-purpose cars.

4.3. Cross-border lease of passenger cars

For the supply of services to taxable persons, the general rule to determine the place of supply of services is applicable, i.e., 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. Accounting

5.1. General

As VAT incurred in connection with the acquisition of passenger cars is generally not deductible as input VAT, such VAT is part of the acquisition costs.

5.2. Hire purchase

5.2.1. Purchaser

In the case of a purchase, the company will capitalise the car as a fixed tangible asset on its statutory books with the acquisition cost (purchase price plus ancillary costs). For income tax purposes, the car has to be depreciated over a period of at least eight years.

5.2.2. Vendor

There are no special rules for the vendor.

5.3. Operational lease

5.3.1. Lessee

An operating lease car is not capitalised by the lessee and thus cannot be depreciated. The lease payments are treated as operating expenses in the profit and loss account (in certain cases subject to a special calculation which aim at spreading the lease expenses over 8 years).

5.3.2. Lessor

In the case of an operating lease the car will be capitalised (kept on lessor's balance sheet) as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value). For income tax purposes, the car has to be depreciated over a period of at least eight years. The lease payments are treated as income in the profit and loss account.

5.4. Financial lease

In the case of a financial lease, whether a leased passenger car is recorded as a fixed asset by the lessor or the lessee depends on whether only the right to use the car or the economic substance of the leased car shall be transferred to the lessee.

Leased passenger cars are attributable to the lessee, unless one of the following conditions is met in the case of full-payout leasing contracts:

- The initial lease term and the leased asset's useful life are nearly the same. This can be assumed if the initial lease term exceeds 90% of the leased asset's useful life.
- The initial lease term is less than 40% of the leased asset's useful life.
- The initial lease term ranges between 40% and 90% of the leased asset's useful life and the lessee has the option to buy the asset or to prolong the lease term at a negligible price.
- The asset is tailored for the special use of the lessee. After termination of the lease contract, the asset is not of further use to other persons or companies.

In the event that the car is attributable to the lessor, please refer to section 5.3.2 above for accounting treatment.

5.4.1. Lessee

If the leased car is attributable to the lessee according to the conditions mentioned above, the car will be capitalised as a fixed asset by the lessee at acquisition cost (purchase price, production cost or assigned value).

For income tax purposes, the car has to be depreciated over a period of at least eight years. The interest portion of the lease payments are not part of the capitalized acquisition costs.

The lessee records the acquisition cost as a liability.

The finance charges (interest portion of the lease payments) are expensed in the profit and loss account.

5.4.2. Lessor

Under the above-mentioned conditions, the leased car is not capitalised in the lessor's books and consequently there is no provision for depreciation. The outstanding lease payments are recorded as receivables and equal the net present value of the lease payments. The interest portion of the lease payments is shown in the profit and loss account as finance income.

6. Company car

6.1. 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.

6.2. Company car – 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 1.5% of the vehicle's acquisition cost (including VAT if not deductible and Austrian car license duty) per month, with a 720 EUR per month maximum. The income in-kind can be reduced upon proper evidence of a minimum private use of the car. Special provisions apply to used cars.

7. Income taxes – drivers' personal taxation

7.1. Commuter traffic

If an employee commutes between home and office, this is basically not considered a business expense for the employee that can be deducted from his taxable income. However, a general allowance in the amount of 291 EUR per annum is deductible from taxable income if the distance between home and office does not exceed 20km. If the distance between home and office exceeds the 20km 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 distance.

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

7.2. Business kilometres

If an employee who uses his private car for business purposes receives a mileage allowance from his employer, this mileage allowance is not considered taxable income up to an amount of 0.42 EUR per kilometre. The mileage 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.

8. Electric vehicles

Austria has no specific legal provisions for electric vehicles. The Austrian tax law provides for some tax exemptions for electric vehicles in order to favour their purchase, e.g., they are subject to neither the car license duty nor the motor vehicle tax. Additionally, some federal states and communities subsidise the purchase of electric vehicles at different levels.

With regard to Austrian VAT, there are no differences between traditional and electric vehicles. Any input VAT incurred by the purchase, lease and use of electric vehicles is generally not deductible.

Belgium

Pascal Janssens
Automotive Tax Leader
p: +32 3 2593119
e: pascal.janssens@be.pwc.com

Aline Borgermans
p: +32 2 7104345
e: aline.borgermans@be.pwc.com

Frédéric Souchon
p: +32 2 7107251
e: frederic.souchon@be.pwc.com

Florence Goffinet
p: +32 2 7109356
e: florence.goffinet@be.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). The former official document or so-called “VAT certificate” has been abolished since October 1, 2014.

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 the situation 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).

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.

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 both the cylinder capacity of the vehicle (expressed in taxable horsepower, or fiscal horsepower) and the power of the engine (kilowatt hours per hour). Please find hereafter an overview table.

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 for petrol and diesel vehicles.

Car registration for petrol and diesel vehicles				LPG
Till 8 hp	and/or	Till 70 KW	€ 61.50	-
9 and 10 hp	and/or	From 71 till 85 KW	€ 123.00	-
11 hp	and/or	From 86 till 100 KW	€ 495.00	€ 197.00
From 12 till 14 hp	and/or	From 101 till 110 KW	€ 867.00	€ 569.00
15 hp	and/or	From 111 till 120 KW	€ 1,239.00	€ 941.00
16 and 17 hp	and/or	From 121 till 155 KW	€ 2,478.00	€ 2,180.00

More than 17 hp	and/or	More than 155 KW	€ 4,957.00	€ 4,659.00

Car registration for second-hand cars

1. Up to 8hp and/or up to 70kW
2. From 9hp to 10hp and/or from 71kW to 85kW
3. 11hp and/or from 86kW to 100kW
4. From 12hp to 14hp and/or from 101kW to 110kW
5. 15hp and/or from 111kW to 120kW
6. From 16hp to 17hp and/or from 121kW to 155kW
7. More than 17hp and/or more than 155kW

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.

Tax on registration of second-hand cars (2014-2015) – amount in EUR

	1	2	3	4	5	6	7
From 1 day to 12 months	61.50	123.00	495.00	867.00	1,239.00	2,478.00	4,957.00
From 12 to 24 months	61.50	110.70	445.50	780.30	1,115.10	2,230.20	4,461.30
From 24 to 36 months	61.50	98.40	396.00	693.60	991.20	1,982.40	3,965.60
From 36 to 48 months	61.50	86.10	346.50	609.90	867.30	1,734.60	3,469.90
From 48 to 60 months	61.50	73.80	297.00	520.20	743.40	1,486.80	2,974.20
From 60 to 72 months	61.50	67.65	272.25	476.85	681.45	1,362.90	2,726.35
From 72 to 84 months	61.50	61.50	247.50	433.50	619.50	1,239.00	2,478.50
From 84 to 96 months	61.50	61.50	222.75	390.15	557.55	1,115.10	2,230.65
From 96 to 108 months	61.50	61.50	198.00	346.80	495.60	991.20	1,982.80
From 108 to 120 months	61.50	61.50	173.25	303.45	433.65	867.30	1,734.95
From 120 to 132 months	61.50	61.50	148.50	260.10	371.70	743.40	1,487.10
From 132 to 144 months	61.50	61.50	123.75	216.75	309.75	619.50	1,239.25
From 144 to 156 months	61.50	61.50	99.00	173.40	247.80	495.60	991.40
From 156 to 168 months	61.50	61.50	74.25	130.05	185.85	371.70	743.55
From 168 to 180 months	61.50	61.50	61.50	86.70	123.90	247.80	495.70
More than 180 months	61.50	61.50	61.50	61.50	61.50	61.50	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.

Walloon region

In the Walloon region the above system also applies. 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 CO_2 emissions exceed 145g and the below table.

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 for children at expense (application of the lower category) and LPG installations.

Flanders region

Depending the capacity of the person (private/legal) and whether it concerns a new or old car, a different formula based on CO_2-emissions, fuel type, Euro norm, age, etc. will be applied to calculate the registration tax.

It has become a complicated formula that can be consulted online (simulation tool/app on the website of Tax Administration of Flanders Region - *http://belastingen.vlaanderen.be*).

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 for Flanders, Brussels and Walloon regions.

Annual circulation tax tariffs applicable July 1, 2014 till June 30, 2015

HP	Brussels	Walloon Region	Flanders [EUR]
≤4	76.96	76.96	76.96
5	96.36	96.36	96.23
6	139.13	139.13	139.13
7	181.90	181.90	181.76
8	224.93	224.93	224.93
9	267.96	267.96	267.83
10	310.46	310.46	310.33
11	402.86	402.86	402.73
12	495.26	495.26	495.13
13	587.40	587.40	587.40
14	679.80	679.80	679.80
15	772.20	772.20	772.20
16	1011.52	1011.52	1011.38

HP	Brussels	Walloon Region	Flanders [EUR]
17	1250.96	1250.96	1250.96
18	1490.28	1490.28	1490.28
19	1729.20	1729.20	1729.20
20	1968.65	1968.65	1968.52
21(+)	+107.31/HP (to be calculated)	2075.97	+107.18/HP (to be calculated)
22+		+107.32/hp(to be calculated)	

2.3.4. Tax period

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

If, however, a vehicle falls out of use within the first month of its registration in Belgium, the annual circulation tax for the remaining period will be refunded to the person mentioned on the registration form of this vehicle.

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 2014 to June 30th 2015

Amounts in EUR

≤ 7	***89.16***
> 7, ≤ 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, however, a vehicle falls out of use within the first month of its registration in Belgium, the annual supplementary circulation tax for the remaining period will be refunded to the person mentioned on the registration form of this vehicle.

3. Income taxes – taxable persons

3.1. Level of deduction

Costs related to cars (owned or leased) are not fully deductible for the company. A percentage of the costs is included in the company's taxable profits as disallowed expenses and is subject to corporate tax. This percentage is linked to the CO_2 emissions of the car.

The levels of deduction of car related costs, except fuel, mobile telephone equipment and financing, are shown in the table below. Fuel costs are deductible for 75% and mobile telephone equipment and financing (interest) costs are fully deductible.

Please find hereafter an overview table.

CO_2 Diesel (g/km)	CO_2 Petrol (g/km)	CO_2 Electrical (g/km)	Level of deduction
		0	120%
0 - 60	0 – 60		100%
61 – 105	61 – 105		90%
106 – 115	106 – 125		80%
116 – 145	126 – 155		75%
146 – 170	156 – 180		70%
171 – 195	181 – 205		60%
>196	>205		50%

In addition, 17% of the yearly benefit in kind (see below) will be included in the employer's taxable profits as disallowed expenses and be subject to corporate tax. Corporate tax will be due on these new 17% disallowed expenses even in case of current year losses or the use of carry forward tax attributes, hence qualifying as the minimum taxable basis.

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 per cent), 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.

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.

5. *Accounting*

5.1. General

In Belgium, generally accepted accounting principles are established by the law of July 17, 1975 and implemented by royal decree (the most important being that of January 30, 2001, which implements the provisions of the Company Law and deals with the general and specific accounting requirements for commercial companies, and as such is applicable to Belgian lease companies).

For accounting purposes a distinction needs to be made between an operating lease and a financial lease. An agreement qualifies as a financial lease only to the extent that the contract between the lessor and the lessee has been established on a full-payout basis.

This means that the contractual lease instalments should at least be equal to the reconstitution of the entire initial investment made by the lessor, the interest costs charged to the lessee and other transaction costs incurred by the lessor.

When the lease contract includes an option feature allowing the lessee to buy the car at the end of the contractual period, such an option is added to the contractual monthly lease payments if the value of the option is a maximum 15% of the value (initial investment by the lessor) of the car.

The accounting legislation is interpreted by a Standard Accounting Principles Commission, which also advises the Belgian government on changes in the law that may be considered necessary.

Further, IAS 17 deals with the accounting for leases under International Financial Reporting Standards (IFRS). The objective of this standard is to prescribe for both lessors and lessees the appropriate accounting policies in relation to lease agreements.

Under IAS 17, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee.

Financial leases are leases for which the risk and rewards incidental to the ownership of an asset are substantially transferred to the lessee. If this criterion is not satisfied, the lease will be classified as an operating lease.

Under IAS 17, options are treated differently than under Belgian accounting law. Bargain options, as defined by IAS 17, are added to the contractual lease payments and are therefore part of the minimum lease payments.

Also, criteria other than the reconstitution of the initial amount invested by the lessor are applicable under IAS 17, such as automatic transfer of ownership at the end of the contract, bargain purchase options, contractual lease period versus economical life of the car, and other qualitative conditions indicating that the lessee is bearing the substantial part of the risks and rewards related to the car during the contractual period.

Consequently, the same lease contract can be accounted for differently under Belgian accounting law and under IFRS.

Currently, the IASB in cooperation with the FASB is reconsidering the accounting model under IFRS and US GAAP. The objective is to eliminate the notion of an operational lease and a financial lease. All contracts would have to be looked at from their obligations and rights points of view and accounted for accordingly. This would bring more lease contracts onto the balance sheet than under current accounting principles. In general, this would improve the accounting of lease contracts as the proposed new accounting model would bring to the financial statements more transparency, more neutrality and more relevance – the key drivers of high quality financial reporting standards.

As a special remark, please note that, in view of obtaining the tax benefits related to electrical vehicles as mentioned in chapter 3 and chapter 8, (i.e. 120% tax-deductibility), specific accounting reserves need to be recorded on the liabilities side of the balance sheet (cf. the intangibility condition).

Below is a short overview of the balance sheet rules affecting the different possibilities in acquiring a car.

5.2. Hire-purchase

5.2.1. Purchaser

In the case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over the estimated useful lifetime. In practice this usually means that the car is depreciated linearly over a period of four to five years.

The purchaser will have to disclose the valuation rules with regard to the car in the notes to the accounts.

5.2.2. Vendor

The sold car is not capitalized in the vendor's balance sheet and consequently there is no provision for depreciation. The payments to be received should be recorded on the balance sheet as a receivable.

5.3. Operational lease

5.3.1. Lessee

An operating lease or renting agreement is not capitalized by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. In principle, the lessee has to disclose nothing, unless the lease contract has a significant effect on the results of the enterprise. In the latter case, the lessee is obliged to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In the case of an operating lease or a renting agreement, the car will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated over the useful economic lifetime.

The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognized as income in the profit and loss account. The lessor is obliged to disclose its valuation rules in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement, the car will be capitalized as a fixed tangible asset in the lessee's accounts at the acquisition price, i.e., the capital portion of the minimum lease payments. The depreciation has to be in line with the useful economic lifetime. In practice this means that the car is depreciated linearly over the lease period.

The lessee carries as a liability the minimum lease payments, divided into an amount payable after one year and an amount payable within one year.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, he will have to disclose the valuation rules in the notes to the accounts.

5.4.2. Lessor

The leased car is not capitalized in the lessor's balance sheet and consequently there is no provision for depreciation. The lease payments to be received should be recorded on the balance sheet as a receivable (long-term to short-term) and should equal the net investment in the lease. This amount consists of the total of the minimum lease payments minus finance income allocated to the future period. Any unguaranteed residual value accruing to the lessor is treated as a fixed asset.

The financial income should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (ie, the amount of funds invested in the lease by the lessor) in the lease in each period. Finally, the lessor does not have to disclose anything in the notes to the accounts.

6. Company car

6.1. VAT due on private use of company cars

Since January 1st 2011, 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 lease cars as well: if the private use (commuter and weekend traffic) is more than 50%, the VAT deduction is limited to the non-private use. If the private use is less, 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

6.1.1. 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.

6.1.2. 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= (purchase price/5 + expenses (for which VAT was due)) multiplied by (50% - % of professional use)

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

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

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

6.2. 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 CO_2 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 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.

The taxable percentage to apply to the catalogue value of the car is 5.5% for a diesel car with a CO_2 emission rate of 91g/km and for a petrol car with a CO_2 emission rate of 110g/km. This base taxable percentage of 5.5% is then increased/decreased by 0.1% for each CO_2 gram per kilometer below or above the CO_2 emission thresholds of 91g/km and 110g/km (with a minimum percentage of 4% and a maximum percentage of 18%). In no circumstance can the benefit in kind be lower than 1,250 EUR per year.

The CO_2 emission thresholds and minimum benefit in kind amount are indexed every year. The above amounts are income 2015 amounts.

The following formula will be applied to determine the taxable benefit in kind in 2015:

Diesel cars:

[(5.5% + (CO_2 emissions of the car – 91)) * 0.1 %] * catalogue value * age % * 6/7 (minimum 4% and maximum 18% of the catalogue value – if CO_2 emissions are not known, they are deemed to be 195 g/km)

Petrol, LPG and natural gas cars:

[(5.5% + (CO_2 emissions of the car – 110)) * 0.1 %] * catalogue value * age % * 6/7 (minimum 4% and maximum 18% of the catalogue value – if CO_2 emissions are not known, they are deemed to be 205 g/km))

For example, the 2015 taxable benefit in kind for the private use of a new diesel car emitting 134 g CO_2/km with a catalogue value of EUR 28,600 is amounting to (5.5% + [(134 – 91) * 0.1 %]) * 28,600 * 6/7 = EUR 2,402.40

In addition, 17% of the yearly benefit in kind will be included in the employer's taxable profits as disallowed expenses and be subject to corporate tax.

The number of private kilometers 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.

6.3. 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, based on the CO_2 emissions of the company car.

Besides this solidarity contribution, no other employer social security contribution is due. This CO_2 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 2015, the monthly CO_2 contribution will be calculated as follows, with a minimum of EUR 25.01:

Petrol cars: ((CO_2 emissions * 9)-768)/12 x 1.2051 or EUR 87.37 if CO_2 emissions are not known

Diesel cars: ((CO_2 emissions * 9)-600)/12 x 1.2051 or EUR 88.88 if CO_2 emissions are not known

LPG cars: ((CO_2 emissions * 9)-990)/12 x 1.2051

Electric cars: EUR 25.01

No CO_2 contribution is due on company cars put at the disposal of a self-employed company director.

7. Income taxes – drivers' personal taxation

In respect of the employee's tax position, the deduction of most car costs are subject to a deduction limitation of 75%.

According to the Belgian personal tax legislation, an employee can opt for a fixed deduction or he can prove his professional costs due to the fact that he is of the opinion that these are higher than the fixed deduction.

If the taxpayer does not prove his professional costs, the fixed deduction is automatically applied. Above the fixed deduction, the reimbursement of commuter traffic costs by the employer to the employee is tax exempt up to a maximum of 380 EUR.

If the taxpayer opts to prove his 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 kilometers.

7.1. 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.

7.2. Commuter traffic

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

7.3. Business kilometers

Except for the fuel costs, the finance costs in order 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 kilometers are deductible up to a maximum 75%.

7.4. Environmentally friendly cars

Environmentally friendly vehicles are stimulated quite intensively in Belgium, certainly for company cars.

8. Electric vehicles

In Belgium, the government was heavily promoting the go-to-market of electric vehicles by a number of measures involving the vehicle but also infrastructure needed to successfully market electric vehicles (e.g., loading points). This is over now, no more tax reduction exists as such for private individuals, but electric vehicles still benefit from a reduced or null registration tax (depending on the region) as well as reduced road tax. Moreover, in the Walloon Region, the eco-malus system penalizes car with higher CO2 emissions (see point 2.2.3 above in this respect).

As far as company incentives are concerned, the tax deduction for costs related to cars emitting no CO_2 emissions (electric vehicles) is 120%. These cars can also be fully depreciated in two years. For hybrid cars emitting less than 61g/km of CO_2, the tax deduction is 100%.

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 with a minimum of 1,250 EUR) and a minimum social security contribution is due by the employer (i.e., 25.10 EUR per month).

Electric vehicles pay the lowest registration (the minimum of 61.50 EUR or zero EUR in Flanders Region) and annual circulation tax (the minimum of 75.77 EUR per year).

9. 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.

In Belgium, this is already reflected in a number of taxes.

Plans are being made to introduce kilometer charging for trucks and other vehicles. Timing is estimated for 2016. The Governments of the Brussels, Walloon and Flemish region have, preliminary, agreed upon the applicable rates for trucks and personal vehicles. The roll-out is however only in a testing phase. The preliminary agreement also foresees that the kilometer rate will be higher for trucks passing through Brussels.

Aside, further clarifications regarding the methods to determine the VAT deduction on the private/professional use of cars are expected.

10. Legal background

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

Brazil

Cassius Carvalho
Automotive Tax Leader
p: +55 11 3674 2582
e: cassius.carvalho@br.pwc.com

Diogo Santos
p: +55 11 3674 2965
e: Diogo.santos@br.pwc.com

Soraya Keiko
p: +55 11 3674 2821
e: Soraya.keiko@br.pwc.com

Amanda Pereira
P: +55 11 3674 3847
e: amanda.pereira@br.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 harmonised system (usually, the Mercosur harmonised 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 industrialised 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 good added by the import duty. With respect to imports, the IPI is creditable by importers when importing for resale or manufacturing purposes (ie, 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 consists of the CIF valueand the PIS-Import and COFINS-Import themselves (grossed up calculation). 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 19% (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, 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 RENAVAM), which assigns each vehicle a unique number which allows it to be identified in the course of its useful life. The RENAVAM 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 cancelled when the vehicle is dismantled or deemed irrecoverable.

Information on the chassis, monobloc, aggregates and unique features of the vehicle should be provided to RENAVAM: (i) by the manufacturer or assembler, before the commercialisation, 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 RENAVAM will be passed to the executive organ of transit responsible for the vehicle registering.

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 RENAVAM. 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 licence 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 owner may also register and license the vehicle before state authorities on behalf of the owner. The registration and licence 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 RENAVAM 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. Travelling

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

- Vehicles owned by a foreign non-resident traveller utilised 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 traveller 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 authorisation, or (iii) a person authorised 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
  - Authorisation to drive (when applicable)
  - Document proving the ownership of the vehicle
  - Proof of insurance in force
- Vehicles owned by a traveller resident in other countries (outside Mercosur): in this situation, the vehicle must be submitted to the temporary admission regime and the term of the authorisation 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 organisations

In the case of foreign diplomatic missions or representations of international organisations, 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 pre-determined 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 utilisation 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 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 an 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. Accounting

5.1. Accounting standards

In terms of accounting, Brazil is facing a relatively new accounting environment, turning towards the conversion of the Brazilian general accepted accounting principles (BRGAAP) into the IFRS. The enactment of Federal Law 11,638/07 (amended by Law 11.941/09) signified the first important step towards this direction. Further to this matter, the Committee for Accounting Pronouncements (CPC) has been created in order to act as a technical body responsible for issuing accounting technical statements which are leading the BRGAAP to convert into the IFRS.

5.2. Hire purchase/operational lease/financial lease

Accordingly, it can be said that the accounting rules applicable to the hire purchase of vehicles, operational leases and financial leases are now in line with IFRS principles.

6. VAT/sales tax

6.1. 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 federal excise tax or tax on manufactured products (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 (ie, 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 "single-phased" or "raised rate" regime.

Please, find below the main aspects of these taxes.

6.2. Federal VAT (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, wholesaler 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 the market regulation. Currently, 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 consists of 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.

While the first program was an "all or nothing" program, i.e., either the company was waived from the 30% increase or subject to it, the INOVAR-AUTO created a phased-in approach, i.e., the amount of incentive is based on the value added locally, as well as the amounts invested in R&D and engineering. In fact, in view of INOVAR-AUTO, the company can inds itself in a more advantageous situation, once the amount of credits exceeds the 30% IPI increase (currently topped in 32%), as follows:

- 30% of the materials purchase value destined to the production of vehicles (including tools)

- 1% of the expenses in R&D incurred in the immediately preceding quarter of which the credit is calculated
- 1% of the expenses in engineering and basic industry technology

Moreover, the program creates a tax incentive for those authorised entities to install their activities in Brazil and for new plants or new projects by existing players, provided in all cases the activity has been previously authorised by the government. According to this tax incentive, the referred authorised entities will be granted with presumed IPI credits equivalent to 30% of the sale of imported vehicles during the maximum period of 24 months (as from the provided authorisation) or by the beginning of the commercialisation period, according to the approved investment in Brazil. These credits can only be used during the operational phase, i.e., once the company begins to sell manufactured cars. Additionally, in each calendar year, the tax incentive is limited to 50% of the annual projected number of vehicles to be produced. In principle, this incentive aims to mitigate the above-mentioned 30-point increase to the IPI tax rate.

It is important to stress that several restrictions and requirements apply, and it is subject to previous governmental approval.

Decree nº 7.819 of October, 3rd of 2012 provides for the rules relating to the Inovar-Auto Program, and stipulates with regard to the requirements which have to be met by the taxpayers in order to benefit from the IPI rates' reductions.

The objective of the adopted decree, which regulates the new law, as well as the reduction of the IPI rates is to promote the manufacturing and use/consumption of vehicles within Brazil. In this sense, for example, please follow below a sample table with some IPI rates and tax burdens resulting from the application of the IPI benefits in the automotive sector. The selected NCMs correspond to the harmonized tariff codes as provided in the Brazilian harmonised tax codes (TIPI):

Rates								
From	*1º/04/2013*		*1º/01/2014*		*1º/07/2014*		*1º/01/2015*	
until	*31/12/2013*		*30/06/2014*		*31/12/2014*		*31/12/2017*	
NCM	*regular*	*reduced*	*Regular*	*reduced*	*regular*	*reduced*	*regular*	*reduced*
8703.21.00	32%	2%	33%	3%	33%	3%	37%	7%
8703.23.10								
Ex 01	38%	8%	40%	10%	40%	10%	43%	13%
8703.22.10	38%	8%	40%	10%	40%	10%	43%	13%
8703.23.10	55%	25%	55%	25%	55%	25%	55%	25%
8703.24.10	55%	25%	55%	25%	55%	25%	55%	25%
8704.21.90								
Ex 01	32%	2%	33%	3%	33%	3%	38%	8%
8703.23.90								
Ex 01	38%	8%	40%	10%	40%	10%	43%	13%

6.3. PIS and COFINS

6.3.1. 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

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.

6.3.2. 'Single-phased' or 'raised rate' 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.

6.4. State value-added tax (ICMS)

6.4.1. 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/intra-state rates (i.e., usually 17%; 18% in the States of São Paulo, Minas Gerais and Paraná; and 19% 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 merchandizes 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.), the transaction is treated as an internal transaction (i.e., internal/intra-state rate is applicable).

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	17%	In 29.41%	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	19%	In 36.84%	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	12%	N/A	12%

No	State	Tax rate	Tax basis reduction	Total tax burden
11	Distrito Federal	12%	N/A	12%
12	Bahia	12%	N/A	12%
13	Sergipe	17%	In 29.41%	12%
14	Alagoas	17%	In 29.41%	12%
15	Pernambuco	12%	N/A	12%
16	Paraíba	25%	In 52%	12%
17	Rio Grande do Norte	25%	In 52%	12%
18	Ceará	17%	In 29.41%	12%
19	Piauí	17%	In 29.41%	12%
20	Maranhão	17%	N/A	17%
21	Tocantins	12%	N/A	12%
22	Pará	12%	N/A	12%
23	Rondônia	17%	In 29.41%	12%
24	Acre	25%	In 52%	12%
25	Amapá	17%	N/A	17%
26	Roraima	12%	N/A	12%
27	Amazonas	25% luxury cars 12% other cars	N/A N/A	25% 12%

6.4.2. 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 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.

6.4.3. Operations subject to the 4% rate – Federal Resolution 13, of 2013

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

The rule is applicable to the goods and merchandizes 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 merchandizes 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 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.

6.5. 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, eg, 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.

6.6. Hire purchase: Supply of goods?

Providing that the hire purchase is termed on an instalment 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.

6.7. 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, on December 2009.

7. Company car

7.1. 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.

7.2. Company car in personal tax returns – benefit in kind

7.2.1. 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 1st 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.

7.2.2. 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 properly 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.

7.3. Social security and labour aspects

According to the Brazilian labour 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 labour and social security charges, as described below.

Labour charges:

- 13th salary – equivalent to one month salary usually paid in two instalments, 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 BRL 513.01 (for fiscal year 2015).

8. *Income taxes – drivers' personal taxation*

8.1. 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.

8.2. 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 (labour, social security and income tax). As a general rule, companies may deduct up to 6% of the base salary from the employees remuneration.

8.3. Business kilometres

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

9. *Selling a car (capital gains taxation)*

9.1. Taxable persons

Legal entities may recognise 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.

9.1.1. Resident legal entity

The capital gain will be recognised 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 (eg, *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 BRL240,000) for the IRPJ (corporate income tax); and (ii) 9% for the CSLL (social contribution on net income).

9.1.2. 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.

9.1.3. 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, in 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 emphasised that the tax on capital gain cannot be adjusted in the annual income tax return.

9.1.4. 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.

9.2. 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.

10. Future developments

With the aid of technology, vehicles are heading towards innovations and technologies in favour 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 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 internalised 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 analysing alternatives to stimulate the use of these vehicles, in addition to the reduction of the taxes usually levied on them.

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 oth0065rs
- 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 13/2013 (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

Bulgaria

Irina Tsvetkova
Automotive Tax Leader
p: +359 2 9355126
e: irina.tsvetkova@bg.pwc.com

Svetlin Krastanov
Tax Manager
p: +359 2 91003
e: svetlin.krastanov@bg.pwc.com

Bulgaria

1. Car registration

1.1. When does a car need to be registered?

Within 14 days after a vehicle has been purchased or imported into the territory of Bulgaria it should be registered.

Any changes in the registration data shall be declared before the competent authorities within a 14-day window after they have occurred.

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 timeframes. When the vehicle is co-owned, the registration procedure can be done by one of the 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 shall be entitled to register their vehicles in Bulgaria upon obtaining a long-term residence certificate or permanent residence certificate;
- other foreign individuals shall be 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 organisations and consulates lead by honoured consuls in Bulgaria, shall be 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.

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 that are in force from January 1, 2015, there is no need to declare the vehicle separately before the respective municipality. The required information on 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 obtaining 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 environmental standards.

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 the engine power of the car and is further adjusted with a coefficient that depends on the year of the manufacturing of the automobile.

The tax is determined by each municipality within the following statutory ranges:

- For cars up to 37kW inclusive, from 0.34 BGN to 1.02 BGN for each kilowatt
- For cars above 37kW up to 55kW inclusive, from 0.40 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, from 1.23 BGN to 3.69 BGN for each kilowatt

Depending on the year of the manufacturing of the automobile, the base shall be multiplied with the following coefficients:

Number of years since the year of manufacturing (including the year of manufacturing)	Coefficient
More than 14 years	1
More than 5 years up to 14 years inclusive	1.5
Up to 5 years inclusive	2.8

The property tax is decreased:

- by 20% - 40% (as adopted by each municipality) for automobiles with engine power of up to 74kW inclusive which are equipped with operational catalysing devices and do not comply with environmental standards Euro 3, Euro 4, Euro 5, Euro 6 and EEV;
- 50% for automobiles with engine power of up to 74kW which meet environmental standards Euro 3 and Euro 4;
- 60% for automobiles with engine power of up to 74kW which meet environmental standards Euro 5 and Euro 6.

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	Fee per unit
Newly manufactured	146 BGN
Used up to 5 years	200 BGN
Used from 5–10 years	253 BGN
Used above 10 years	267 BGN

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.

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 6,000km 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 environmental fee. 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.

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. Accounting

5.1. General

The generally accepted accounting principles in Bulgaria are established by the Accountancy Act, the National Financial Reporting Standards for Small and Medium-sized Entities (NFRSSME) and the International Financial Reporting Standards (IFRS). NFRSSME, which generally comply with IFRS with some exception noted below, can be used only by small and medium-sized companies meeting certain requirements.

For accounting purposes the operating (exploitation) lease shall be distinguished from the financial lease.

IFRS and NFRSSME give the following examples of situations that, individually or in combination, would normally lead to a lease being classified as a finance lease:

- Ownership is transferred to the lessee at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term, priced such that it is reasonably certain at inception that the lessee will exercise the option.

- The lease term is for the majority of the economic life of the asset.
- At inception, the fair value of the asset isn't significantly higher than the present value of the minimum lease payments.
- The leased assets are very specialised and only the lessee can use them without major modifications.

According to IFRS and NFRSSME, lease contracts which do not fall under the substantial criteria for financial lease, shall be considered operating (exploitation) leases.

5.2. Normal purchase

5.2.1. Purchaser

In the case of a purchase of a vehicle, the company will capitalize it as a fixed asset in its balance sheet at the acquisition cost (normally the purchase price and directly attributable costs) and depreciate it as economically justifiable based on the nature of the asset (economic life). In practice this usually means that the vehicle is depreciated linearly over a period of four to five years (see also section 5.2.2 below).

The purchaser will have to disclose the valuation rules applicable to the vehicle in the notes to the financial statements.

5.2.2. Vendor

A sold car is derecognized from the vendor's balance sheet and accumulated depreciation is written off from car's cost. The revenue from the sale should be recognized in the income statement against receivable in the balance sheet if it is not paid in cash; the carrying amount of the car (cost minus accumulated depreciation) at the point of sale represents the cost of the sale in the income statement.

5.3. Operating lease

5.3.1. Lessee

In case of operating lease or rental agreement the leased asset is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating expenses in the profit and loss account. Any expenses other than lease payments made for the asset are accounted separately and treated as operating expenses.

The lessee should disclose the total of non-cancellable minimum lease payments payable within one year, in one to five years and in more than five years according to IAS 17.

5.3.2. Lessor

In the case of an operating lease or a rental agreement, the car will remain as a fixed asset in the balance sheet of the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life) as normal. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account. The depreciation expenses should be offset against the rental income (this is a requirement of NFRSSME).

The lessor is obligated to disclose its valuation rules in the notes to the financial statements and the short- and long-term portion of the receivables. The lessor must also disclose the future minimum lease payments receivable under non-cancellable leases in total and receivable in less than one year, one to five years, and more than five years (required by IAS 17).

5.4. Financial lease

5.4.1. Lessee

In the case of financial lease agreement, the vehicle is to be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price being the lower of fair value of the leased asset and the present value of the minimum lease payments. The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life).

According to IAS 17, the lessee also recognizes a liability against the amount of the asset, presenting separately the amount payable after one year and the amount payable within one year. This liability is treated as a usual loan and is being repaid over the term of the lease. Lease rentals are split into two components – an interest charge and the reduction in the lease receivable. According to NFRSSME the amount of the lease liability is equal to the total sum of all minimum lease payments and the difference to the purchase price (FV) is recognized as deferred financial expense amortized over the term of the lease as interest charge.

The depreciation and finance (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset in the balance sheet of the lessee, the latter will have to disclose the valuation rules and the long- and short-term portions of the lease liabilities in the notes to the accounts. According to IAS 17, for finance leases, lessees must disclose:

- The net carrying amount at the balance sheet date for each class of asset.
- A reconciliation between the total minimum lease payments and their present value.

5.4.2. Lessor

If the leased car is derecognized from the lessor's balance sheet it is no longer depreciated. Thus accumulated depreciation has to be written off from the cost and revenue is recorded as an ordinary sale at the lower of the asset's fair value or the present value of the minimum lease payments against receivable.

The lease payments received should be recorded on the balance sheet as a deduction of the receivable and finance income is also recognised calculated based on the constant percentage rate of return on the net investment. According to NFRSSME the amount of the lease receivable is equal to the total sum of all minimum lease payments and the difference to the sales price (FV) is recognized as deferred financial income amortized over the term of the lease as interest income.

The finance income should normally be allocated to accounting periods so as to give a constant periodic rate of return of the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period.

According to IFRS and NFRSSME, the lessor realises two types of income – profit or loss from the leasing contract equal to the potential profit or loss from a direct sale and financial income from the minimum lease payments – for the term of the contract.

The lessor must disclose in the notes to the financial statements the net carrying amount at the balance sheet date for each class of asset and a reconciliation between the total minimum lease payments and their present value. The amount of receivables – short- and long-term portion – should be also disclosed.

6. Company car

6.1. 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.

6.2. 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 or the costs are taxed with a 10% one-off tax on the corporate level (i.e., when these are used for the purposes of the management). The respective expenses and the one-off tax are tax-deductible for the company. Costs taxable with a one-off tax on the corporate level are non-taxable for the individual.

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

If the car is also used for private purposes, the costs for the car's operation and maintenance may be treated as a taxable benefit in-kind of the individual under certain conditions. The use itself of a company car for private purposes is not explicitly determined as a taxable benefit for the individual.

7. 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.

8. 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 does not have an internal combustion engine.

9. Future developments

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

10. 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
- Commission Implementing Regulation (EU) No 1001/2013 of October 4, 2013 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff
- 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 for products after the use of which mass waste is generated
- IAS 17 Leases

Canada

Todd Thornton
Automotive Tax Leader
p: +1 905 815 6407
e: todd.thornton@ca.pwc.com

Audrey Diamant
p: +1 416 687 8933
e: audrey.j.diamant@ca.pwc.com

Attila Gaspardy
p: +: +1 416 941 8455
e: attila.gaspardy@ca.pwc.com

Diana Terlizzi
e: +1 905 815 6429

Canada

1. Importation of cars

1.1. Customs duties

In order to import a car into Canada you must first meet the requirements of the Canada Border Services Agency (CBSA) and Transport Canada (TC).

When importing an allowable car into Canada, duties and taxes are payable on the "price paid or payable" for the vehicle. The rate of customs duties applied is typically 6.1%. However, if the importation is from a country that has entered into a free trade agreement with Canada, preferential duty rates may apply.

For example, if a car is imported into Canada from the United States and is eligible under the North American Free Trade Agreement (NAFTA), the rate of duty is 0%.

If the car is equipped with air conditioning, an additional $100 CAD in excise taxes would also be payable.

1.2. Import VAT/sales tax

Upon importing cars into Canada for commercial use (i.e. imported for sale or for any commercial, industrial, occupational, institutional or other like use), Goods and Services Tax (GST) is paid on the value of the cars for duty purposes plus all duties and taxes (e.g. customs duties and excise taxes). It is the importer of record who is 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 cars are imported to be delivered into a harmonized sales tax (HST)1 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 cars 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.

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

Temporary importation of rental vehicles

Currently, rental vehicles that are registered in another country (foreign-based rental vehicles) and temporarily imported by Canadian residents are generally subject to full taxes at the border (i.e. the GST/HST on the full value of the vehicle, the Green Levy and the automobile air conditioner tax apply). Such importations were, until recently, also prohibited under federal vehicle safety rules unless it could be shown that the vehicle in question satisfied all Canadian standards. Generally, no taxes or similar restrictions apply to foreign-based rental vehicles temporarily imported by foreign residents visiting Canada.

The federal government introduced the following changes to the tax treatment of rental vehicles temporarily imported by Canadian residents in its 2012 budget:

- 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 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
- $300 CAD for pickup trucks, sport utility vehicles and vans
- $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.

This measure applies to foreign-based rental vehicles temporarily imported by Canadian residents on or after June 1st, 2012.

2. Car registration

2.1. When does a car 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.[2]

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

- a person buys a new/used car,
- a person transfers a car 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 car from outside Canada.

It should be noted that proof of minimum insurance is required at the time of registration before a car 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 Canadian Motor Vehicle Safety Act and meet the requirements set out by the Registrar of Imported Vehicles (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 car?

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)).

[2] 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 licence, 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. *Car taxation*

3.1. What are the different car taxes?

The main taxes applicable in Canada for cars/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 cars

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 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.

3.2.2. Taxable person

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

3.2.3. 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 expense 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 cars

	Passenger vehicles that cost more than the prescribed amount	Other passenger vehicles
CCA class	Class 10.1	Class 10
Maximum cost added to CCA class	Prescribed amount: for vehicles purchased in 2014, $30,000 CAD + GST/HST & PST on $30,000 CAD	Purchase price + GST/HST & PST + improvements
Maximum CCA rate	15% in year acquired; otherwise 30%	
	15% in year of disposal	N/A
Recapture or terminal loss?	None	Possible
Maximum interest deduction	Interest limit: for vehicles purchased in 2015, $300 CAD per 30-day period ($3,600 CAD for a full year)	

4.1.1. Company-leased cars

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

8. 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);

9. prescribed monthly based lease limit (for leases entered into in 2015, $800 CAD plus GST/HST and PST) multiplied by 12 (when the car is available to the employee for a full year);

10. annual lease limit, calculated as

    – prescribed lease cost limit (for leases entered into 2015, $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)

        ○ manufacturer's list price.

4.1.2. GST/HST and QST

Employers who purchase or lease cars 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. 14), 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 2015, the CRA will accept as reasonable an allowance calculated in accordance with the following prescribed rates:

Distance driven	Reasonable allowance for 2015	
First 5,000km	$0.55 CAD	+$0.04 CAD for each km driven in the Yukon, NWT or Nunavut
Each Additional km	$.0.49 CAD	

5. Accounting

5.1. Accounting standards

Canadian publicly accountable enterprises must use International Financial Reporting Standards (IFRS) to prepare interim and annual financial statements for financial years beginning on or after January 1, 2011.

For accounting purposes a distinction needs to be made between an operating lease and a financial lease. IAS 17 deals with the accounting for leases under IFRS. The objective of this standard is to prescribe for both lessors and lessees the appropriate accounting policies in relation to lease agreements.

Under IAS 17, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. A lease is classified as a financial lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Whether a lease is a financial lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a financial lease are

1. the lease transfers ownership of the asset to the lessee by the end of the lease term;
2. the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable so that it will be reasonably certain, at the inception of the lease, that the option will be exercised;
3. the lease term is for the major part of the economic life of the asset even if title is not transferred;
4. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
5. the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Indicators of situations that individually or in combination could also lead to a lease being classified as a financial lease are

6. if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

7. gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease);

8. the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Bargain purchase options, as defined by IAS 17, are added to the contractual lease payments and are therefore part of the minimum lease payments. Also criteria other than the reconstitution of the initial amount invested by the lessor are applicable under IAS 17, such as the automatic transfer of ownership at the end of the contract, non-cancellable contractual lease period versus useful economic life of the car and other qualitative conditions indicating that the lessee is bearing the substantial part of the risks and rewards related to the car during the contractual period.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over its useful economic life.

The purchaser will have to disclose the accounting policies with regards to the car in the notes to the accounts.

5.2.2. Vendor

The sold car is derecognized when risks and rewards of ownership are transferred to the buyer. The amounts receivable should be recorded on the balance as a receivable.

5.3. Operational lease

5.3.1. Lessee

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. An operating lease or renting agreement is not capitalized by the lessee and thus not depreciated. If the lease contract has a significant effect on the results of the enterprise, the lessee has to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

Lessors are required to present assets subject to operating leases in their statements of financial position according to the nature of the asset.

Lease income from operating leases is required to be recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

The leased assets are depreciated consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IAS 16 and IAS 38.

5.4. Financial lease

5.4.1. Lessee

At the commencement of the lease term, lessees are required to recognize the leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are required to be apportioned between the finance charge and the reduction of the outstanding liability. The finance charges shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

A financial lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IAS 16 "Property, Plant and Equipment". If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

5.4.2. Lessor

Lessors are required to recognize assets held under a financial lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease. Under a financial lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the financial lease.

Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are to be recognized as an expense when the selling profit is recognized.

6. Sales taxes (GST/HST/QST/PST)

6.1. 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 leveied 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 sales tax component. Currently, the HST rate is:

- 13% in Ontario, New Brunswick, and Newfoundland and Labrador;
- 15% in Nova Scotia.
- 14% in Prince Edward Island,

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. 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 cars and related parts, and certain services, such as maintenance. The PST rates vary from province to province: in Manitoba it is 8%, in Saskatchewan it is 5% 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 is required to self-assess PST, or, in case of motor vehicle purchases, PST is usually levied at the time of vehicle registration.

6.2. Deduction

6.2.1. 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 sun roof) 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. 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.

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.

6.2.2. 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

Currently, employers that qualify as large businesses (with taxable supplies made in Canada in the preceding fiscal year of at least $10M CAD, including supplies made by associates) cannot claim an ITC for the provincial component of HST

paid in Ontario and Prince Edward Island – 6%[3] and 9% respectively – 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.

6.2.3. QST

The general rules for deductibility as described above for GST/HST also typically apply to input tax refund claims by persons that do not qualify as large businesses (essentially the same definition as for HST above) for QST purposes.

Large businesses are subject to a restriction on claiming an input tax refund for QST paid on similar expenses as indicated above for Ontario and Prince Edward Island HST.

6.2.4. PST

PST paid is generally not deductible or recoverable by the purchaser.

6.3. 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 instalment 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.

GST/HST and QST due must be paid to the respective tax authority on the earlier of the day the consideration is paid or becomes due.

6.4. 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.

[3] 8% before July 1, 2015

7. Company car

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

The use of a car 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 2015, 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 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, New Brunswick, and Newfoundland and Labrador; 14/114 applies in Nova Scotia and 13/113 in Prince Edward Island. Reduced factors apply in Ontario and Prince Edward Island if the employer is a large employer that was denied an input tax credit for the provincial portion of the HST in those provinces. 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 licences – 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 2015, 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 (6.6% if the registrant is a large business); 9% applies in New Brunswick and Newfoundland and Labrador; 10% applies in Prince Edward Island (6.5% if the registrant is a large business); and 11% applies in 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.

7.2. Company car 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 car 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.

7.2.1. 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 car 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 car, 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 a 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 car to carry out employment duties,
- the car 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 is met, the reduction factor is:

Personal kilometres/1,667
Number of months in the year the car was available (number of days available divided by 30 and rounded to the nearest whole number)

7.2.2. 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 2015)
= 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 2015.

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.

7.2.3. Business kilometres

As a general rule, for allowances paid in 2015, the CRA will accept as reasonable an allowance calculated in accordance with the following prescribed rates:

Distance driven	Reasonable allowance for 2015	
First 5,000km	$0.55 CAD	+ $0.04 CAD for each km driven in the Yukon, NWT or Nunavut
Each additional km	$0.49 CAD	

8. Income taxes – drivers' personal taxation

Please refer to section 4.2.

9. Selling cars

9.1. 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, car 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 10% 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 and over @ 10%

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, and, at the time the person brought the vehicle into British Columbia, the depreciated purchase price of the vehicle was $40,000, the person is required to pay 10% PST on $40,000.

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.

9.2. 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 car, is permitted to deduct the lesser of $3,000 CAD and the actual purchase price of the vehicle to arrive at the amount that is subject to PST in Saskatchewan.

If a person purchases a vehicle at a private sale in British Columbia, the person is required to pay PST at the rate of 12% on the purchase price of the vehicle, unless a specific exemption applies.

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% on the depreciated purchase price of the vehicle.

The above rules apply to a person not resident in British Columbia if the person purchases a vehicle outside of British Columbia and then brings, sends or receives delivery of the vehicle in British Columbia registered for use in British Columbia.

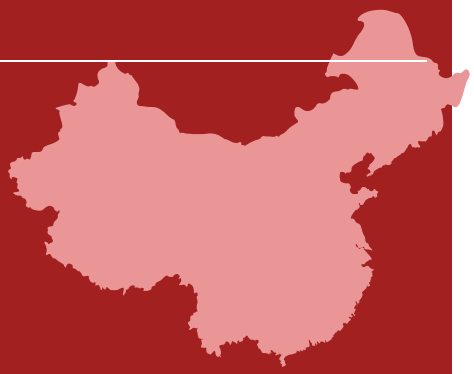
10. Future developments

Effective January 1, 2016, the Government of Newfoundland and Labrador will increase the provincial portion of the HST from 8% to 10%. The new HST rate of 15% is a combination of the 5% federal GST and the 10% provincial portion.

11. Legal background

- Excise Tax Act, Act Respecting the Quebec Sales Tax, various PST legislations
- Customs Act, Customs Tariff
- Income Tax Act

People's Republic of China (PRC)



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 category of cars imported.

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

Taxable Items	Tax Rate
Passenger vehicle	
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%
Medium and light commercial buses	*5%*

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

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).

According to Caishui [2015] No. 104, effective from 1 October 2015 to 31 December 2016, the vehicle purchasing tax could enjoy the reduced rate of 5% for qualified passenger vehicles which Cylinder capacity is lower than 1.6L (including 1.6L).

According to the announcement of the Ministry of Finance, the State Administration of Taxation, and the Ministry of Industry and Information Technology [2014] No.53, effective from 1 September 2014 to 31 December 2017, the vehicle purchasing tax could be exempted for qualified new energy automobiles purchased.

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
1.0–1.6L (included)		300–540 RMB	(included)
1.6–2.0L (included)		360–660 RMB	
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 (included), 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

Tax item	Calculation unit	Year base tax amount	Remarks
Wheeled special machinery vehicles		16–120 RMB	

According to Caishui [2015] No. 51, vehicle and vessel use tax could be reduced by 50% for qualified vehicles and vessels which can save energy; meanwhile, vehicle and vessel use tax could be exempted for qualified new energy vehicles and vessels.

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 the car-related expenses.

For 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. Accounting

5.1. Accounting standards

In the year 2006, China has adopted a new basic accounting standard and 38 new Chinese Accounting Standards that are substantially in line with international standards, though a few exceptions are noted.

The basic standard is akin to a conceptual framework, and the 38 standards address nearly all over the issues covered in International Financial Reporting Standards. The Ministry of Finance (MOF) has also adopted 48 new Chinese Auditing Standards that are similar to International Standards on Auditing issued by the International Auditing and Assurance Standards Board. These standards, which were effective from January 1st 2007, become mandatory for all listed Chinese enterprises. Other Chinese enterprises are also encouraged to apply these standards.

The new accounting system is largely based upon International Accounting Standards and the accounting system has experienced great changes as this has been implemented.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the company will record the car as a fixed asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over its useful economic life.

5.2.2. Vendor

The sales would be recognised when risks and rewards of ownership are transferred to the buyer. The amounts receivable should be recorded on the balance as a receivable.

5.3. Operational lease

5.3.1. Lessee

Under operational lease arrangement, the cars are normally not capitalised by the lessee and thus not depreciated in the lessee book. The lease payments are treated as operating charges and are booked in the profit and loss account as expense items.

5.3.2. Lessor

Under operational lease arrangement, the cars are normally recorded as a fixed assets by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated over the useful economic life. The depreciation is treated as an operating expense in the profit and loss account. The rental income collected from the lessee should be recognised as income in the profit and loss account.

5.4. Financial lease

5.4.1. Lessee

Under a financial lease arrangement, the car will be capitalised as a fixed asset in the lessee's accounts at the acquisition price, ie, the capital portion of the minimum lease payments. The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice this means that the car is depreciated linearly over the lease period.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

5.4.2. Lessor

Normally the leased car is not recognised as fixed assets in the balance sheet of the lessor under a financial lease arrangement. The rental income received by the lessor should be recorded on the balance as a receivable and should equal the net investment of the lease. The book amount consists of the total of the minimum lease payments minus finance income allocated to the future period and any unguaranteed residual value accruing to the lessor.

The financial charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (ie, the amount of funds invested in the lease by the lessor) in the lease in each period.

6. *VAT*

6.1. General

The applicable tax rate for general VAT taxpayers and the small-scale taxpayers are generally 17% and 3% respectively. Other VAT rates of 13%, 11% and 6% also apply on specific items.

6.2. Deduction

The amount of VAT paid of borne by a taxpayer at the time purchasing goods or receiving taxable labour 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:

9. VAT indicated on the special VAT invoices obtained from the seller.

10. VAT indicated on import VAT memos obtained from the customs authorities. Input VAT = sales considerations x applicable VAT rate

6.3. 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.

6.4. Leasing: Supply of services?

A VAT pilot program was launched in China starting from January 1st 2012 in Shanghai for some selected industries subject to business tax previously, and the VAT pilot program has been nationally implemented since 1 August, 2013. Under the VAT pilot program, the lease of tangible movables properties including the supply of operational and financing leasing services should fall into China's VAT and the applicable tax rate is 17%.

7. Company car

IIT exemption might be available for expatriate employees

8. Income taxes – driver's personal taxation

N/A

9. 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.

9.1. 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 [2002]7 and Circular [2002]11, 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 = (FOB of export sales - value of tax-free raw materials) x (normal VAT rate - 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, (ie, negative VAT payable) and ECR amount, whichever is lower.

Whereas,
ECR amount = (FOB of export sales - value of tax-free raw materials) x export VAT refund rate

9.2. 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.

VAT refund for export = Purchase price of exported goods x export VAT refund rate

The leakage is referred as the non-creditable and non-refundable input VAT, which shall be absorbed as the cost of the goods. It is calculated as follow:

VAT leakage = purchase price of exported goods x (VAT rate - 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.

10. Future developments

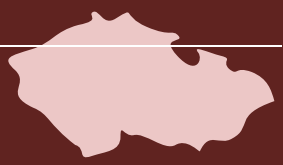
A VAT pilot program started on January 1st 2012 in Shanghai in the transportation and some modern services industries that were previously subject to business tax and then has been nationally implemented since 1 August, 2013..

The indirect tax reform mainly seeks to merge the existing VAT and business tax (BT) systems, i.e., BT will no longer exist and will be merged into VAT system and the VAT pilot program is expected to be rolled over all over the country covering all the industries in China in the near future.

11. 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

Czech Republic



Jan Fischer
Automotive Tax Leader
p: +420 251152539
e: jan.fischer@cz.pwc.com

Petra Safkova
p: +420 251152552
e: petra.safkova@cz.pwc.com

Jiri Zouhar
p: +420 251152202
e: jiri.zouhar@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 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.

2.2.3 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 50,400 CZK.

2.2.4 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
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.

Costs related to the reconstruction or modernisation of a vehicle exceeding CZK 40,000 within one tax period which qualify as a technical appreciation (improvement) should be capitalised 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. 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, 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);
- 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).

The lessor, being the owner of the vehicle, can depreciate the vehicle in a standard way (straight-line or accelerated depreciation).

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

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 must correct the claim (if the actual claim was higher) and may correct it (if the claim was lower). 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.

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 an obligation or option to buy 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 and is similar to a rental agreement. 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.

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 the contract does not include an obligation for the lessee to acquire the title to the respective vehicle, the lease is treated as an operational lease from the VAT point of view (see section 4.4 above). However, if the vehicle is eventually purchased by the lessee, the purchaser may, apart from the rent, claim input VAT from the purchase price of the vehicle as described in section 4.2 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 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. *Accounting*

5.1 General

Generally, the accounting depreciation period and method for motor vehicles is not specifically regulated by accounting legislation. According to Czech accounting legislation, the lessor, being the owner of the leased asset, is obliged to capitalise and depreciate the cost of a leased asset over its expected useful life.

For the most popular form of vehicle finance on the Czech market, consumer loans, the customer capitalises the asset and the lender recognises the loan as a receivable.

5.2 Hire purchase

Czech accounting rules do not prescribe any specific treatment for this type of sale transaction. Although the Czech legal system does not recognise it either, such a contract can be concluded on a case-by-case basis. The accounting treatment would then follow each particular case. The receivable due from the customer is recognised on the sale of the asset subject to hire purchase. At the same time, the cost of sale is recognised when the asset is disposed of from the balance sheet of the seller. In so doing, the finance company matches the cost and sale proceeds related to the sale of the vehicle.

The most significant issue is how to recognise the margin on the hire-purchase contract (i.e., the difference between the selling price and the cost of the vehicle), as this margin includes potentially a margin on the sale of the vehicle and the financing margin. In substance, hire purchase represents the provision of a loan and, therefore, provided the hire-purchase agreement separates the sales and finance margin, only the sales margin related to the sale of the asset should be recognised at the time of the sale. While a grey area in Czech accounting, the widely accepted practice is to defer and recognise the financing margin or, if no split is made between the sale and finance margin, the whole profit margin over the contract term. Czech GAAP does not stipulate whether this margin should be recognised using the effective interest rate or straight-line method. The income statement recognition of the margin is usually achieved through the recognition of a non-taxable provision in the amount of the margin as the margin, for tax purposes, at the time of selling the vehicle (i.e. at the time of sale of the vehicle, the finance company would recognise the sales and cost of sales and book a provision equivalent to the finance margin. This provision would then be released to the income statement over the contract term using either the effective interest rate or straight-line method).

For tax purposes, contract profits are taxed in the period of asset disposal, while the creation of the provision, which effectively offsets the initial profit on the sale of the asset, is non-tax-deductible. Depending on the circumstances of the financier, a deferred tax asset can be recognised on the carrying amount of this provision, as it represents a temporary difference.

5.3 Operational lease

5.3.1 5.3.1 Lessee

A vehicle rented under an operating lease is neither capitalised nor depreciated by the lessee. The related liability is not recognised in the balance sheet of the lessee either. Lease payments are treated as operating charges in the lessee's income statement. Czech GAAP does not prescribe the income statement recognition method. The usual treatment is to recognise the operating lease cost on a straight-line method over the lease term – though we note that other methods are possible too.

5.3.2 Lessor

A vehicle leased out under an operating lease is recognised by the lessor as property, plant and equipment and is depreciated over its useful life. While not explicitly prescribed by Czech GAAP, rental income is generally recognised on a straight-line basis over the lease term.

5.4 Financial lease

5.4.1 Lessee

A vehicle held under a financial lease is not capitalised by the lessee and, therefore, is also not depreciated by the lessee. The related liability is not recognised by the lessee either. Lease payments are treated as operating charges in the lessee's income statement. Czech GAAP does not prescribe the income statement recognition method. The usual treatment is to recognise the financial lease cost on a straight-line method over the lease term – though we note that other methods are possible too.

5.4.2 Lessor

A vehicle leased out under a financial lease is recognised by the lessor as property, plant and equipment and is depreciated over its lease term. While not explicitly prescribed by Czech GAAP, rental income is generally recognised on a straight-line basis over the lease term.

6. *Company car*

6.1 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 to justify 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.

6.2 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. 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.

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.

7. 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 3.70 ZK per kilometer. These compensations do not affect the driver's tax base for personal income tax purposes and are tax-deductible for the company.

8. Electric vehicles

Electric vehicles, hybrid vehicles, CNG or LPG vehicles and vehicles using ethanol 85 (E85) are exempt from road tax.

9. Future developments

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

10. Legal background

- Road Tax Act
- VAT Act
- Income Taxes Act
- Act on Conditions for Operating Vehicles on Public Roads
- Other

Denmark

Joan Faurskov Cordtz

p: +45 3945 9463
e: joan.faurskov.rasmussen@dk.pwc.com

Leif Skytte

p: +45 3945 3329
e: leif.skytte@dk.pwc.com

Denmark

1. Car registration

1.1. When does a car need to be registered?

A new or second-hand car put into free circulation 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 its 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 kilometres 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 tax authorities.

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 184 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 105% for the car's value (sales price) up to 81,700 DKK, and 180% for the value exceeding 81,700 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 34,100 DKK, and 30% for the rest of the car's value.

For certain equipment, i.e., air bags, a tax reduction applies.

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 tax authorities.

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

Please find an overview table below.

Petrol vehicle				2015
				Tax per 6 months (DKK)
Km/L minimum	20.0			310
Under	20.0	but not under	18.2	600
Under	18.2	but not under	16.7	890
Under	16.7	but not under	15.4	1,190
Under	15.4	but not under	14.3	1,480
Under	14.3	but not under	13.3	1,770
Under	13.3	but not under	12.5	2,060
Under	12.5	but not under	11.8	2,350
Under	11.8	but not under	11.1	2,640
Under	11.1	but not under	10.5	2,930
Under	10.5	but not under	10.0	3,230
Under	10.0	but not under	9.1	3,800
Under	9.1	but not under	8.3	4,400
Under	8.3	but not under	7.7	4,980
Under	7.7	but not under	7.1	5,560
Under	7.1	but not under	6.7	6,140
Under	6.7	but not under	6.3	6,730
Under	6.3	but not under	5.9	7,310
Under	5.9	but not under	5.6	7,890
Under	5.6	but not under	5.3	8,500
Under	5.3	but not under	5.0	9,080
Under	5.0	but not under	4.8	9,650
Under	4.8	but not under	4.5	10,230
Under	4.5			10,830

Diesel vehicle					2015
					Tax per 6 months (DKK)
				Tax	*Additional tax for diesel vehicles*
Km/L minimum	32.1				120
Under	32.1	but not under	28.1		580
Under	28.1	but not under	25.0		1,040
Under	25.0	but not under	22.5	310	1,130
Under	22.5	but not under	20.5	600	1,240
Under	20.5	but not under	18.8	890	1,340
Under	18.8	but not under	17.3	1,190	1,450
Under	17.3	but not under	16.1	1,480	1,550
Under	16.1	but not under	15.0	1,770	1,670
Under	15.0	but not under	14.1	2,060	1,790
Under	14.1	but not under	13.2	2,350	1,910
Under	13.2	but not under	12.5	2,640	2,030
Under	12.5	but not under	11.9	2,930	2,130
Under	11.9	but not under	11.3	3,230	2,230
Under	11.3	but not under	10.2	3,800	2,470
Under	10.2	but not under	9.4	4,400	2,680
Under	9.4	but not under	8.7	4,980	2,890
Under	8.7	but not under	8.1	5,560	3,140
Under	8.1	but not under	7.5	6,140	3,320
Under	7.5	but not under	7.0	6,730	3,530
Under	7.0	but not under	6.6	7,310	3,790
Under	6.6	but not under	6.2	7,890	3,990
Under	6.2	but not under	5.9	8,500	4,200
Under	5.9	but not under	5.6	9,080	4,450
Under	5.6	but not under	5.4	9,650	4,670
Under	5.4	but not under	5.1	10,230	4,960
Under	5.1			10,830	5,190

2.3.4. Tax due – vans and lorries (registered with yellow number plates)

Please find an overview table below.

Excise rate 2015: 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 between June 3, 1998 and April 25, 2007 – partly commercial use						
Petrol	1,530	1,810	2,660	6,640	7,370	7,370
Diesel	2,100	2,630	3,780	8,040	8,960	9,160
Vans or lorries registered after April 25, 2007 – partly commercial use						
Petrol	3,960	4,240	5,090	6,640	7,370	13,205
Diesel	4,530	5,060	6,210	8,040	8,960	15,005
Vans or lorries registered between June 3, 1998 and April 25, 2007 – private use only						
Petrol	2,060	2,340	3,190	9,600	10,330	10,330
Diesel	2,630	3,160	4,310	11,000	11,920	12,130
Vans or lorries registered after April 25, 2007 – private use only						
Petrol	6,920	7,200	8,050	9,600	10,330	22,000
Diesel	7,490	8,020	9,170	11,000	11,920	23,800

2.4. Tax for private use

Please find an overview table below.

Exce rate 2015: Tax per year (DKK)						
Weigh t	0–500kg	501–	1,001–	2,001–	2,501–	3,001–
		1,000kg	2,000kg	2,500kg	3,000kg	4,000kg
Vans or lorries registered after April 25, 2007 – private use only						
	55,510	55,510	55,510	55,510	55,510	116,380
Vans or lorries registered before April 25, 2007 – private use only						
	9990	9990	9990	55,510	55,510	55,510

If the van is used for both professional and private purposes, 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 40 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 becomes taxable when supplied to the retailer.

2.6.2. Tax due

Petrol and Diesel tax		2015
Petrol	4,568	DKK per L
Diesel	3,127	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		2015
Storebæltsbroen	235	DKK
Øresundsbroen	345	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.

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

A number of 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 apply:

- 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 schools activities are 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 operational lease with regard to VAT.

5. *Accounting*

5.1. General

In Denmark, the financial reporting of most companies is regulated by the Danish Financial Statements Act. Certain companies are required to apply, or have voluntarily adopted, the International Financial Reporting Standards (IFRS) or other rules. This is not further discussed.

The Danish Financial Statements Act is a framework act, which means that, for certain accounting areas such as leases, the act provides few or no specific rules. In such cases, inspiration is most often sought in the IFRS rules for the corresponding areas. In the case of leases, this means that Danish GAAP is strongly influenced by IAS 17, including with respect to the distinction between operating and financial leases and the requirement for recognising financial lease assets in the balance sheet of the lessee's financial statements.

We have provided below a brief description of the usual Danish accounting principles on recognition and measurement relating to the various possibilities of acquiring a car. Based on the Danish Financial Statements Act, the description is not exhaustive.

The Danish Financial Statements Act is at the moment (spring 2015) in a process of being updated. At the moment we do not expect changes regarding leases. Changes in the Danish Financial Statements Act will have effect from January 1, 2016.

5.2. Purchase

5.2.1. Purchaser

In the case of a purchase, the company will capitalise the car as a fixed tangible asset on its balance sheet at the cost and depreciate as economically justifiable with respect to the nature of the asset (economic life). In practice, this usually means that the car is depreciated on a straight-line basis over a period of four to five years.

The purchaser will have to disclose the accounting policy with regard to the car in the notes to the financial statements.

5.2.2. Vendor

When the car is sold, it is no longer capitalised in the vendor's balance sheet and consequently there is no asset to account for, either as a non-current or current asset. The revenue from the sale should be recorded on the balance sheet as a receivable if it is not paid in cash. The vendor has to disclose the accounting policy in the notes to the financial statements.

5.3. Operating lease

5.3.1. Lessee

An operating lease or renting agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating expenses in the profit and loss account. The lessee is obliged to give certain disclosures regarding the lease contract in the notes to the financial statement, and to disclose the accounting policy for operational leases. Also, certain disclosures are required.

5.3.2. Lessor

In the case of an operating lease, the car will remain as a fixed asset by the lessor at the cost price and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract should be recognised as revenue in the profit and loss account. The lessor is obligated to disclose its accounting policy in the notes to the financial statement.

5.4. Finance lease

5.4.1. Lessee

In a finance lease agreement the car will be capitalised as a fixed tangible asset in the lessee's balance sheet at the costs, i.e., the lower of the car's fair value and the present value of the minimum lease payments. The asset is then depreciated. The depreciation period depends on whether the ownership of the asset is expected to be transferred to the lessee when the lease contract expires. However small companies have the possibility to recognize finance leases as operating leases.

At the inception of the lease, the lessee carries as a liability an amount equal to the capitalised asset. Subsequent lease payments are divided into interests and repayments of the liability.

The operating expenses (depreciation) and financial expenses (interest portion of the lease payments) are accounted for together with other expenses in the profit and loss account.

The lessee will have to disclose the accounting policy for financial leases in the notes to the financial statement. Also, certain disclosures are required.

Small entities have the option not to use financial leasing, but lessee then has to use the model for operational lease as described above in 5.3.1, i.e. disclosures instead of recognition as assets and liabilities.

5.4.2. Lessor

The leased car is not capitalised in the lessor's balance sheet and consequently there is no asset to depreciate. The lessor capitalises a receivable on the balance sheet equal to the net investment in the lease. This amount consists of the total of the minimum lease payments less finance income allocated to the future period. Any unguaranteed residual value accruing to the lessor is included in the net investment.

The finance income should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net investment in each period; subsequently lease payments are divided into interests and repayments of the receivable. The lessor will have to disclose the accounting policy for financial leases in the notes to the financial statement. Also, certain disclosures are required.

5.5. Staff costs and management costs

If the car is a part of the agreement between the employee and the company as a salary surrogate the costs must be included in the notes for staff costs and the remuneration of the management.

6. *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.

6.1. 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, 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.

6.2. Tax due on private use of company cars (vans and lorries) – only private use

Please find an overview table below.

Excise rate 2015: 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	6,920	7,200	8,050	9,600	10,330	22,000
Diesel	7,490	8,020	9,170	11,000	11,920	23,800

If the van is used for both business and private purposes, the tax will be lower.

6.3. Company car – income taxes

In principle, when an employer provides the employee with a company car for both business and private purposes, this is a taxable benefit and tax is due to the Danish state.

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 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 taxed earnings) pays to the employer for having the company car the 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 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.

6.4. 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.

7. Income taxes – drivers' personal taxation

7.1. 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) between the residence and the place of employment for transport exceeding 24km per day. This applies to transportation in private cars, buses, trains, etc.

Mileage deduction	2015
0 – 24 km	No deduction
25 – 120 km	2.05 DKK per km
< 120 km	1.03 DKK per km

Special rules apply for persons with low income and/or for persons living in "fringe areas".

7.2. 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 3.70 DKK per kilometre for the first 20,000km per calendar year and 2.05 DKK per kilometre for mileage above 20,000km 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.

8. Electric Vehicles

No registration tax is applied.

9. 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 tying car taxation to CO_2 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.

Changes in the Danish weight tax for cars are expected in 2015 (see section 2.3.3 and 2.3.4 above). The Danish government wants to lower the tax rates with around 5 %.

10. Legal background

- Danish VAT legislation
- Registration Tax Act
- Weight Duty Act
- Danish Financial Statements Act
- Tax Assessments Act

Estonia

Kätlin Klaos
p: +372 6 141 836
e: katlin.klaos@ee.pwc.com

Hannes Lentsius
p: +372 6 141 937
e: hannes.lentsius@ee.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 is registered either as an Estonian resident person (an individual or a legal person) or a person 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

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 over 12t 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 over 12t, whereby the trucks of the road train shall 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 Motor Vehicle Registration Centre and which the Motor Vehicle Registration Centre has entered in the Traffic Register.

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.

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.

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	61 EUR
4	Amendments to register data other than change of owner of a vehicle	20 EUR

2.2.2.2. State fee rates

The quarterly tax rates are in the range from 0 EUR to 232.60 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

Starting from December 2014 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 and therefore not affected by the change in legislation.

4.3. Exceptions to the general rule

There are some exceptions still allowing deduction of whole input VAT paid in relation to car related costs after December 1, 2014. 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 outside of VAT scope.

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.

4.7. Specific rule for leasing companies

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. *Accounting*

5.1. General

According to the Estonian Accounting Law and corresponding guidelines from the Estonian Accounting Standards Board (EASB), Estonian companies have the option to choose which accounting methods and principles to use – either Estonian Generally Accepted Accounting Principles (Estonian GAAP) or International Financial Reporting Standards as adopted by EU (IFRS).

In general, the Accounting Law is in its essence very similar to IFRS, but it is simplified and in some cases allows fewer alternative treatments than does IFRS. Financial statements prepared in accordance with IFRS are also mainly in compliance with local GAAP, but not vice versa.

For accounting purposes, the definition of operating and financial leases coincides with the one used by IFRS. Financial leases are defined as the leases of assets where all substantial risks and rewards of ownership are transferred to the lessee; all other lease transactions are recorded as operating leases. Under local GAAP, the following criteria indicate the situation where a lease agreement is classified as a financial lease:

- The ownership of the asset is transferred to the lessee by the end of the lease term.
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the beginning of the lease, it is reasonably certain that the option will be exercised.
- The lease term covers the major part of the economic life of the asset (over 75%), even if title is not transferred.
- At the inception of the lease, the present value of the minimum lease payments amounts to nearly all of the fair value of the leased asset (over 90%).
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made and therefore it is probable that the lease will be extended to cover the major part of the economic life of the asset.

5.2. Hire purchase

A hire purchase can be treated either as an operating lease or as a financial lease from the accounting perspective, depending on the price of purchasing the asset during or at the end of the lease term. If the price is expected to be sufficiently lower than the fair value at the purchase date, then the hire purchase is treated as a financial lease. If the price is not expected to be sufficiently lower than the fair value at the purchase date and the lessee is not obligated to exercise the right of repurchase, then it is treated as an operating lease. Please see the respective "Operating lease" and "Financial lease" sections for accounting treatment details.

5.3. Operational lease

5.3.1. Lessee

Generally, lease payments under an operating lease should be recognised as an expense on a straight-line basis over the lease term. Initial payment, which may constitute a larger payment compared to the following regular payments, should also be recognised as expenses over the lease term in equal amounts, not as a single lump sum.

5.3.2. Lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet similar to owned property, plant and equipment. Operating lease payments should be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the benefits from the leased asset were derived. Initial direct costs incurred in entering into an operating lease agreement are capitalised and allocated to income over the lease term in proportion to the recognition of rental income (IAS 17, p 52).

5.3.3. Disclosures in the notes to the financial statements

The lessors and the lessees should disclose the following information for operating leases:

- Rental income (expenses) from operating leases during the accounting period;
- Other significant additional conditions (contingents rent, renewal and repurchase options, restrictions)

The lessors should disclose the acquisition cost and the carrying amount of the leased assets by category of assets.

5.4. Financial lease

5.4.1. Lessee

Under a financial lease agreement, the car will be capitalised in the lessee's accounts as property, plant and equipment at the acquisition cost. The car is depreciated in accordance with its economic lifetime if it is reasonably certain that the lessee will obtain the title to the car at the end of the lease period. Otherwise, the car is depreciated linearly over the lease period, taking into consideration the contractual residual value of the car.

5.4.2. Lessor

When assets are leased out under a financial lease, the present value of the lease payments is recognised as a receivable in the net investment in the lease. Since it is the lessee who bears all the substantial risks and rewards connected to the ownership of the asset, the asset is transferred from property, plant and equipment to receivables from the financial lease. The receivable is equal to the present value of minimum lease payments plus any expected residual value of the asset by the end of the lease agreement. Lease payments received are divided into repayments of financial lease receivables and financial income. Financial income is recognised over the term of the lease at a constant periodic rate of return.

5.4.3. Disclosures in the notes to the financial statements

The following should be disclosed in the notes to the financial statements of lessors and lessees:

- Amounts
- Payment terms
- Interest rates
- Base currencies
- Other significant additional conditions (contingent rent, renewal and repurchase options, restrictions)

In addition, the lessee should disclose the acquisition cost and the carrying amount of assets under the financial lease terms.

6. Company car

6.1. VAT due on private use of company cars

From December 1, 2014 private use of company passenger cars is not deemed to be a taxable event for VAT purposes.

6.2. Company car – income taxes

If company 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 cars, the tax base is capped at 256 EUR per car per month, unless a logbook is kept in respect of the company car.

7. 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 tax return.

8. Electric vehicles

There are no specific tax rules for electric vehicles. In some specific parking zones in Tallinn, the capital of Estonia, no parking fees are imposed in the public parking area for electric vehicles whose CO_2 emissions are zero.

9. Future developments

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

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@fi.pwc.com

Mervi Kojonkoski
Tax Manager
p: +358 20 787 7473
e: mervi.kojonkoski@fi.pwc.com

Finland

1. Car registration

1.1. When does a car need to be registered?

As the main rule, a person permanently resident in Finland is not allowed to drive a foreign registered vehicle which has not been taxed in Finland. At the moment a new or second-hand vehicle is put into free circulation on Finnish public roads, the vehicle should be registered in Finland.

Also, in the case a vehicle changes owners 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 with strict restrictions. If such conditions are not met, as of 1.1.2015 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 to the customs authorities before the car is taken into use.

Generally a person resident abroad may use a vehicle registered in a foreign country on public roads for up to one year. 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,
- fuel fee and
- recycling fee on tires.

2.2. Car tax

2.2.1. Taxable event

Taxable vehicles are passenger cars, vans, other motor cars with an unloaded weight of less than 1,875kg and motorcycles

According to the Finnish Car Tax Act, car tax shall be levied before the vehicle is registered or taken into use in Finland irrespective 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 the car is used in Finland after more than 50% of the parts of the car are changed, the car tax shall be levied on passenger cars as if the car is 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 entered in the Finnish vehicle register as the owner of the vehicle. If the vehicle has been sold on hire purchase subject to retention of 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 would be liable to pay car tax even if the taxation procedure was 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 had 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 customs authorities must 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 the case that he 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 the car into use. If car tax is not paid to customs 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 varies between 5.0% and 50.0% of the taxable value depending on the CO2 emissions of the car. If information on the emissions is not available (e.g. cars registered in 2001–2002), 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 33.4%.

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 the 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 that is reduced of the car tax value of the new vehicles 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 vehicles are for sale in a price list with prices on which no discounts are granted (a so-called net price list).

The customs authorities publish 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 have to inform customs 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 import. If such value is not available, the general retail value is determined on the basis of the price at which similar vehicles would generally be put for sale, reduced by an amount corresponding to usual discounts. Therefore, the taxable value can be determined based on the so-called asking price by reducing from it an amount corresponding to usual discounts. The amount of usual discounts for a used vehicle is 5% of the asking price (including the car tax) with an addition of 750 EUR or 1,500 EUR, depending on which of these results in a greater reduction. The reduction for used vehicles is, however, 30% at most when calculated from the asking price. The amount reduced from the asking price of the vehicle which corresponds to usual discounts is equivalent to the amount of discounts granted on various grounds in the vehicle market.

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

2.3.3. Tax due

As of January 1st 2013, the amount of vehicle tax on passenger cars levied per day has varied between 0.118 EUR and 1,661 EUR depending on the emissions of the car. If information on the emissions is not available (e.g. cars registered in 2001–2002), the amount is determined based on the weight of the car and varies between 0.345 EUR and 1.467 EUR per day. The rate for an average vehicle with emissions at 190g/km is 0.535 EUR per day.

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 vehicle taxes will increase from the beginning of January 2016.

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 (2.17 EUR, including VAT, per passenger car tyre as of 2013). Finland has one of the highest recycling rates for car tires as 90% of passenger car tyres are recycled.

3. *Income taxes – taxable persons*

According to section 7 of 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 the case of private use of a company's car, the benefit should be taxed as earned income of the individual – in some cases the benefit may be taxed as a disguised distribution.

However, in the 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 actually 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 24% is generally due on the import, supply and acquisition of a car in Finland. The Finnish Value Added Tax Act has been in force as of June 1st 1994. 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, the 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 the 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 an option to purchase the vehicle only according to the leasing agreement, the leasing is 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. *Accounting*

5.1. General

In Finland, accounting principles are described in the Accounting Act and Accounting Ordinance, both implemented in law on December 30th 1997. The Finnish Accounting Act and the Accounting Ordinance do not include rules relating to the different handling of an operating lease and a financial lease for accounting purposes.

In Finland, IFRS accounting rules became applicable as of December 31st 2004. According to the Accounting Act, public companies have to strike their consolidated financial statements according to IFRS standards. If the public interest company does not have to strike consolidated financial statement, they should apply IFRS standards to their financial statement. All the other companies have a possibility to apply IFRS standards to their financial statement. According to IFRS accounting rules, the person that will bear the risk for the vehicle will, in principle, be required to report it in its balance sheet.

Below a short overview will be given of the balance sheet rules according to the Finnish Accounting Act and Accounting Ordinance. These rules are applicable if the company in question does not have to apply IFRS accounting rules to its financial statement.

5.2. Lease contract

5.2.1. Lessee

A lease agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. According to the Accounting Ordinance the lessee is obliged to mention the lease contract in the notes to the annual accounts. The lessee has to announce the total amount of lease payments due to different lessors (normally lease payments due during the next financial year and lease payments due after one year) and material terms relating to these lease contracts.

5.2.2. Lessor

In a lease agreement the car will be recorded as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognized as income in the profit and loss account. The lessor is obligated to disclose its valuation rules in the notes to the annual accounts.

6. Company car

6.1. 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.

6.2. Company car – income taxes

If an employee or his family uses the employer's passenger car or van for private purposes, this gives rise to a taxable company car benefit. Commuting to and from work is considered 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 put into service. 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 national board of taxes determines the taxable values for the most common benefits annually.

The value of the benefit can be calculated on a monthly basis or alternatively on the basis of kilometres of private driving, in which case a driver's log has to be kept.

In 2015 the value of car tax benefit has been determined as follows:

- Age group A (vehicles taken into use from 2013 to 2015)
  - Unlimited company car benefit: The value of the benefit per month is 1.4% 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 1.4% of the car's replacement price plus 105 EUR, or 0.07 EUR per kilometre.
- Age group B (from 2010 to 2012)
  - Unlimited company car benefit: The value of the benefit per month is 1.2% of the car's replacement price plus 300 EUR or 0.20 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 2010)
  - Unlimited company car benefit: The value of the benefit is 0.9% per month of the car's replacement price plus 315 EUR, or 0.21 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.

The employee must keep a driver's log 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 trip

- User of 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 revaluate the taxable value of the company car benefit in the final assessment if 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%.

7. Income taxes – drivers' personal taxation

7.1. Private use

The costs for the private use of a car are not deductible.

7.2. 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 the case public transportation is not available, the costs for the use of one's own car can be deducted. The deductible amount is 0.25 EUR per kilometre (decision for tax year 2014).

In the case the taxpayer has a company car, the deductible amount is also calculated according to the least expensive means of travel. In the case the costs are calculated according to the use of one's own car, the deductible amount if the taxpayer has a company car benefit (limited or unlimited) is 0.20 EUR per kilometre (decision for tax year 2014).

7.3. Business kilometres

Work-related travel costs are reimbursable by the employer tax-free. The maximum reimbursement is 0.44 EUR per kilometre and 0.12 EUR per kilometre if the taxpayer has a limited car benefit (tax year 2015).

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 620 EUR per year is automatically deducted from employment income to cover work-related expenses, so in practice only costs exceeding 620 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 0.13 EUR per kilometre if the taxpayer has a limited car benefit (decision for tax year 2014).

8. 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 0.118 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 and 0.005 EUR per 100kg of the total mass of the car levied per day if the car works with both petrol and electricity.

Vehicle tax of the electric vehicles will be based on the lowest rate applicable to cars in Finland (i.e. 0.118 EUR) even after the increase of the vehicle tax from January 1, 2016.

9. Future developments

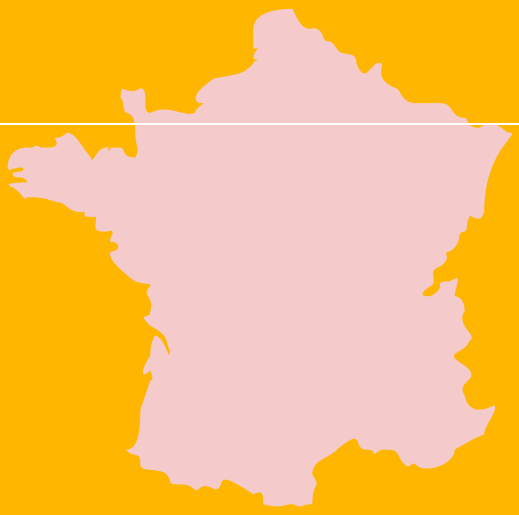
A working group of Finnish Ministry of Transport and Communications proposed in their group report on December 16, 2013 that the current vehicle taxation and car taxation could be replaced by a kilometre-based taxation. In addition to the kilometre tax, a fuel tax would be levied.

The kilometre tax would be based on the CO_2 emissions and the region where the car is used. The working group proposes that the matter would be approached through experiments. There are still several open questions and, thus, no law amendments are expected in the next couple of years.

10. Legal background

- Finnish VAT Act
- Finnish Car Tax Act
- Finnish Accounting Act
- Ordinance on registration of vehicles
- Act on fuel fee
- Act on vehicle tax
- Act on tire fee
- Finnish Income Tax Act
- National Board of Taxes' decision regarding the value of fringe benefits.

France



José Manuel Moreno
p: + 33 1 5657 83 81
e: jose.manuel.moreno@fr.landwellglobal.com

Renaud Jouffroy
p: + 33 1 5657 42 29
e: renaud.jouffroy@fr.landwellglobal.com

Laurent Poigt
p: + 33 1 56 57 77 54
e: laurent.poigt@fr.landwellglobal.com

David Quiniou
P: + 33 1 56 57 42 07
e: david.quiniou@fr.landwellglobal.com

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.

Also, whenever a vehicle changes ownership and is intended to be used on French public roads, a new registration for the vehicle needs to be requested.

1.2. Who can register a car?

Currently, a car needs to be registered in France in the name of the legal owner, in the department where the establishment to which the vehicle is allocated is located.

When the vehicle is subject to a financial lease or lease of at least two years, it must be registered by the owner in the department where the lessee resides or where the registered office of the establishment to which it is allocated by the lessee is located.

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

In principle, yes, for vehicles leased to a customer established in France under a lease agreement or financial lease of at least two years. In such a case, the Ministry of Transport and Housing has instructed prefectures to accept the registration of a vehicle in France in the department of residence of the lessee, albeit in the name of its owner located in another member state.

However, in practice and even if it is contrary to the Ministry of Transport and Housing's instructions, we are aware that certain prefectures are still reluctant to accept the registration of a vehicle in France when the foreign owner is not registered under a specific commercial registration number (so called SIRET number) in France in the French Commercial Register (Registre du Commerce et des Sociétés). Please not that this SIRET number is usually granted to French established entities. Indeed, for the completion of the car registration form, this SIRET number – is still required. Consequently, such a requirement could not be satisfied by non-French based owners. In this case, it is recommended to directly contact the car registration department of prefecture in order to anticipate such a practical issue and to avoid any delay in the car registration.

1.4. 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.

As an exception to this rule, French legislation tolerates that, under certain circumstances and specific conditions, a French-resident employee of a foreign employer who is granted the use of a company car by his foreign employer can use the company car with foreign number plates on French public roads (for private or professional purposes) without having to (re-)register the car in France, and without paying French road taxes and VAT.

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, namely

- 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 (carte grise). The amount of tax is based on the horsepower of the vehicle and varies depending on the place of registration. Non-polluting vehicles running exclusively or partially on electricity, natural gas, liquefied petroleum gas (LPG) or superethanol E85 are liable to be wholly or partially exempted from registration tax through a deliberation of the Regional Council.

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 could be proportional or fix. 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.

2.3. 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 since July 1, 2006.

The tax rules vary depending on whether or not 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 kilometer:

Number of g/km of CO2	Amount per g[EUR]
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, it is based on the engine rating for administrative purposes:

Taxable hp	Tax (flat amount in EUR)
Up to 10	0
Higher than or equal to 10 and less than 15	100
Higher than or equal to 15	300

For the purpose of the two scales above, vehicles running on superethanol E85 benefit from a 40% allowance, except if the number of g/km of CO2 exceeds 250.

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 is in force since January 1st 2008. Under this system, a supplemental tax (Ecopastille) is payable on purchases of vehicles with high CO2 emissions registered for the first time in France after that date.

On the other hand, purchasers or hirers of a new vehicle replacing a scrapped vehicle more than 15 years old will get a bonus of 200 EUR in 2013, 2014 and 2015.

2.3.2.1. 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

- 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 and 2015;
- that has not been granted EC Type Approval, but whose taxable horsepower is higher than 5hp in 2014.

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 will henceforth be reduced by a tenth for each started year since their registration (instead of by each full past year, as it was before).

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:

Amount of supplemental tax (EUR)			
Year of purchase			
CO2 emissions rate (g/km)	*2011*	*2012*	*2013*
Rate ≤ 135	0	200	0
135 < rate ≤ 140	0	200	100
140 < rate ≤ 145	0	200	300
145 < rate ≤ 150	0	500	400
150 < rate ≤ 155	200	750	1,000
155 < rate ≤ 175	750	750	1,500
175 < rate ≤ 180	750	1,300	2,000
180 < rate ≤ 185	750	1,300	2,600
185 < rate ≤ 190	750	2,300	3,000
190 < rate ≤ 200	1,600	2,300	5,000
200 < rate ≤ 230	1,600	3,600	6,000
230 < rate ≤ 235	1,600	3,600	6,000
235 < rate ≤ 240	1,600	3,600	6,000
Rate > 240	2,600	3,600	6,000

Amount of supplemental tax (EUR)		
Year of purchase		
CO2 emissions rate (g/km)	*2014*	*2015*
Rate ≤ 130	0	0
130 < rate ≤ 135	150	150
135 < rate ≤ 140	250	250
140 < rate ≤ 145	500	500
145 < rate ≤ 150	900	900

Amount of supplemental tax (EUR)		
Year of purchase		
CO2 emissions rate (g/km)	*2014*	*2015*
150 < rate ≤ 155	1,600	1,600
155 < rate ≤ 175	2,200	2,200
175 < rate ≤ 180	3,000	3,000
180 < rate ≤ 185	3,600	3,600
185< rate ≤ 190	4,000	4,000
190 < rate ≤ 200	6,500	6,500
Rate > 200	8,000	8,000

For a private vehicle that has not been granted EC Type Approval, the amount of supplemental tax due is as follows (for 2015):

Taxable hp	Tax (EUR Taxable hp)
Tax (EUR) Taxable hp ≤ 5	0
6 ≤ taxable hp ≤ 7	1,500
8 ≤ taxable hp ≤ 9	2,000
10 ≤ taxable hp ≤ 11	3,600
12 ≤ taxable hp ≤ 16	6,000
16 ≤ taxable hp	8,000

Tax exemption and allowance

Since January 1, 2009 vehicles acquired by handicapped persons are exempted. Cars acquired by large families (at least three children) benefit from a reduction of tax.

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.

Tax period

When a car is registered for the first time in France by a new owner/user as of January 2008.

2.3.2.2. 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 de Services et de Paiement”) or is deducted by the seller from the price of the vehicle.

The amount of the bonus depends on whether or not the vehicle has been granted EC Type Approval and whether it runs on a combination of electricity and petrol or diesel oil (hybrid cars).

Vehicles that have been granted EC Type Approval:

1. The amount of the bonus granted for vehicles that run on natural gas or LPG and that have been granted EC Type Approval are no longer eligible for any special bonus as of 2011. The amount of the bonus was set at 2,000 EUR for vehicles purchased in 2008, 2009 and 2010, for vehicles with a CO2 emission rate of greater than 135g/km.

2. Vehicles running on a combination of electricity and petrol or diesel oil and that have been granted EC Type Approval benefit from a bonus when satisfying the conditions specified in the table below:

Amount of bonus (EUR)

CO2 emissions rate (g/km)	*2010*	*2011*	*2012*
Rate ≤ 110	2,000	2,000	2,000
110 < rate ≤ 130	2,000	0	0
130 < rate ≤ 135	2,000	0	0
135 < rate ≤ 140	0	0	0

Amount of bonus (EUR)

CO2 emissions rate (g/km)	*Between August 2012 and October 2013*	*After November 2013*
Rate ≤ 20	10% of the price capped at 4,000 and with a minimum of 2,000	27% of the price capped at 6,300
20 < rate ≤ 60		20% of the price capped at 4,000
Rate > 60		8,25% of the price capped at 3,300 and with a minimum of 1,650

3. For vehicles that have been granted EC Type Approval but that do not run on natural gas, LPG or a combination of electricity and petrol or diesel oil, the bonus applicable is as follows:

Amount of bonus (EUR)

	2010	*2011*	*2012*
Rate ≤ 20	5,000	5,000	5,000
20 < rate ≤ 50	5,000	5,000	5,000
50 < rate ≤ 60	5,000	5,000	3,500
60 < rate ≤ 90	1,000	800	400
90 < rate ≤ 95	1,000	400	100
95 < rate ≤ 100	500	400	100
100 < rate ≤ 105	500	400	100

Amount of bonus (EUR)

	2010	*2011*	*2012*
105 < rate ≤ 110	500	400	0
110 < rate ≤ 115	500	0	0
115 < rate ≤ 120	100	0	0
120 < rate ≤ 125	100	0	0
125 < rate ≤ 130	0	0	0

Amount of bonus (EUR)

CO2 emissions rate (g/km)	*Between August 2012 and October 2013*	*After November 2013*
Rate ≤ 20	7,000	27% of the price capped at 6,300
20 < rate ≤ 50	5,000	
50 < rate ≤ 60	4,500	20% of the price capped at 4,000
60 < rate ≤ 90	550	
90 < rate ≤ 105	200	0
Rate > 105	0	0

After January 2015

Rate ≤ 20	27% of the price capped at 6,300
20 < rate ≤ 60	20% of the price capped at 4,000
60 < rate ≤ 90	150€
Rate > 90	0

4. Vehicles that have not been granted EC Type Approval: A bonus of 150 EUR (200 EUR for 2013) is awarded for vehicles that have not been granted EC Type Approval and that have a fiscal horsepower of less than 4hp.

3. Corporate income tax

3.1. Level of deduction

For passenger vehicles used privately or for mixed use the annual depreciation rate is typically 20% to 25%.

There are, however, some exceptions. For example, vehicles acquired between January 1, 2007 and January 1, 2010 and which run on electricity, natural gas or LPG may be depreciated fully over 12 months.

As regards passenger cars, the value of the car from which depreciation is calculated is limited to 18,300 EUR (or 9,900 EUR for polluting vehicles owned, leased or used from January 1, 2006 and that were put into circulation from June 2004, when their CO2 emissions rate exceeds 200g/km). These limits do not apply to car hire companies, taxis, driving school vehicles, or ambulances.

Accumulators and other specific GPL or GNV equipment can be excluded from the calculation basis of the ceiling if they are invoiced separately and recorded separately as an asset in the balance sheet.

With cars leased under a financial lease or under a lease financial of three years or more, the lessee must include in its corporate tax calculation the portion of the lease charges corresponding to the lessor's depreciation which exceeds the first 18,300 EUR/9,900 EUR of the purchase price.

4. VAT

4.1. General

The purchase or lease of cars, plus the various services or goods in connection with a car, are subject to the standard rate of VAT (20% since the January 1, 2014).

4.2. Deduction

VAT incurred on the purchase price or car lease rentals is not usually deductible where there is private or mixed (i.e., private and business) use.

Therefore, the 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.

A VAT exemption applies to supplies of cars to diplomatic missions or international organizations under certain conditions.

5. Accounting

5.1. General

The legal owner of the vehicles must record the impairment in value of the leased equipment in depreciation and amortization expenses since they are recorded as assets in the balance sheet.

5.2. Financial lease

Hence, in the case of a financial lease, depreciation on the vehicle is recorded in the lessor's books. The lessee, who uses the asset leased under the financial lease, must record the lease rentals as expenses.

More generally, private vehicles must be depreciated using the straight-line and not the accelerated method.

The rate of depreciation must be determined taking account of the expected useful life of the vehicle. The annual rate usually admissible for private vehicles is from 20% to 25%.

The leased assets must be depreciated over their expected useful lives and not over the term of the lease. Financial lease companies can opt for amortization of the asset over the term of the lease, which corresponds to the amortization of the capital used to acquire these investments, which is recorded as lease expenses.

6. Company cars

6.1. Tax on company cars

Companies with a registered office or establishment in France must declare the vehicles they own, lease or use (or where the vehicles are leased in France for a period of more than three months, regardless of whether the lessee is established in France or not) and pay an annual tax on company cars (irrespective of the state in which the vehicles are registered).

6.1.1. Vehicles subject to tax on company cars

- 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)

6.1.2. Tax due

With respect to cars owned, leased or used from January 1, 2006 that were put into circulation from June 2004, the tax amount varies depending on the CO2 emissions rate:

CO2 emissions rate (g/km)	Tax per CO_2 g(EUR)
< 50	0
> 50 < 100	2
> 100 < 120	4
> 120 < 140	5.5
> 140 < 160	11.5

CO2 emissions rate (g/km)	Tax per CO_2 g(EUR)
> 160 < 200	18
> 200 < 250	21.5
> 250	27

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(EUR)
3 or less	750
3 or less	750
4-6	1,400
7-10	3,000
11-15	3,600
Above 15	4,500

Since October 1, 2013, in addition to this first tax, a new tax is levied on company cars depending on both the type of fuel used (i.e. excluding vehicles running exclusively on electricity) and the year of first registration. The tax amount per vehicle is as follows:

Year of first registration of the vehicle	Gasoline(EUR)	Diesel(EUR)
Until December 31st 1996	70	600
From 1997 to 2000	45	400
From 2001 to 2005	45	300
From 2006 to 2010	45	100
From 2011	20	40

6.1.3. Tax exemption

The tax is not payable on vehicles intended exclusively for sale or short-term rental, or for transportation purposes (e.g., taxis) if such activity is part of the company's normal business operations.

Since December 2011, an exemption is provided for vehicles with a combination of electric energy and motor gasoline or diesel engine which emit less than 110g of CO2.

In practice, this measure applies to vehicles whose registration certificates mention in the section "Energy source"

- "EE" for vehicles with a combination of electric energy and motor gasoline;
- "EH" for non-reloadable vehicles with a combination of electric energy and motor gasoline;
- "GL" for vehicles with a combination of electric energy and diesel engine;

- "GH" for non-reloadable vehicles with a combination of electric energy and diesel engine.

This exemption is time-limited for a period of eight trimesters starting from the first day of the first current trimester on the date which the vehicle is put into circulation.

6.1.4. Tax period

The tax is an annual tax, payable in quarterly instalments.

6.2. 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.

6.3. Company car –income taxes

Tax on company cars cannot be deducted from the corporate income tax base.

7. *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 for 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 20% of the acquisition value (10% if the car is over five years old) per year, or the actual amount of rentals, as well as insurance and maintenance costs, and can include 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 business 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 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
  - 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, or 40% of said costs if the employer pays the fuel costs. Alternatively, fuel costs can be taken into account for their actual amount.

Company car purchased			
Annual fixed value	*Company car of less than 5 years*	*Company car of more than 5 years*	*Company rented*
If the employer does not bear the gas expenses	9% of the purchase price	6% of the purchase price	30% of the annual global cost(rental, maintenance, insurance)
If the employer does not bear the gas expenses	12% of the purchase price	9% of the purchase price	30% of the annual global cost(rental, maintenance, insurance and gas)
Evaluation on actual expenses incurred	Expenses taken into account: • 20% of the purchase price • The insurance cost • The maintenance costs • The gas expenses, if any	Expenses taken into account: • 10% of the purchase price • The insurance cost • The maintenance costs • The gas expenses, if any	Expenses taken into account: • Annual global rent • The insurance cost • The maintenance costs • The gas expenses, if any

8. Electric vehicles

N/A

9. Future developments

In February 2015, the government presented a project of "green certificate" that would be provided to the least polluting vehicles. This certificate will allow holders to circulate in restricted traffic zones established by cities.

Moreover, the government announced a bonus of 10,000 euros that will be introduced from April 2015 for purchasers of a new electric car emitting less than 20 grams of CO2/km, replacing a scrapped diesel vehicle more than 13 years.

From July 1, 2015, any person reselling second-hand car brought into France via an intra-community acquisition of goods will be 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 measure is to prevent resellers in France using the second-hand VAT regime (so called “VAT merger Scheme”) for vehicles which are not eligible to this regime.

10. Legal background

- General Tax Code
- Highway Code

Germany

Alexander Unfried
Automotive Tax Leader
p: +49 711 25034 3216
e: alexander.unfried@de.pwc.com

Eva Mohr
Placeholder for text
p: +49 711 25034 3230
e: eva.mohr@de.pwc.com

Jens Müller-Lee
Placeholder for text
p: +49 711 25034 1101
e: jens.mueller-lee@de.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.

1.2. Who can register a car?

In general, the person who acts as 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 need not necessarily 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. Therefore, lessees are responsible for registering their leased cars.

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).

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

In principle, if a vehicle is used not only temporarily in Germany, it has to be registered. In practice German legislation tolerates if the registration is applied for after the vehicle has been run in Germany for up to three months.

2. Car taxation

2.1. What are the different car taxes?

The German government levies various taxes and other charges on motoring, from VAT ("Umsatzsteuergesetz" UStG) and excise duties on the purchase of a car to direct taxation on private use of company cars. In addition, there are other taxes in Germany that are directly or indirectly related to the use of vehicles, such as fuel tax ("Energiesteuergesetz" EnergieStG) and the truck toll system ("LKW-Maut" - the introduction of a passenger car toll system is under discussion momentarily), which are not the subject of this article, however.

2.2. Registration tax

There is no tax on the registration of cars in Germany. However, to obtain a number plate, a service charge is levied by the local municipality. The cost of registration depends on the municipality where the car is registered, although this sum should not exceed 100 EUR, including the cost of the number plates.

2.3. Car taxes

2.3.1. Taxable event

Cars that are registered in Germany are subject to circulation tax. In addition, foreign- registered cars are subject to German circulation tax if they are used in Germany for a period of one year or more. Please note that registration of a car is necessary if the car is used in Germany (see section 1.4) and therefore the circulation tax becomes due anyway.

Car registration is now strictly linked to a control process with the tax authorities ensuring that the registered keeper of the car fully complies with the payment due for 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.

2.3.2. Taxable person

The taxable person is, in general, the economic owner of the car. If a foreign-registered car is run in Germany for a period of one year or more, 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. Actually, one has to determine whether the first registration of a motor vehicle is before July 1, 2009 or after June 30, 2009 in order to calculate the accurate tax due (see below).

From May 1, 2005 onwards, according to the official opinion of the German tax authorities, it is not possible any longer to classify SUV's (sport utility vehicles – permissible maximum weight is higher than 2,800kg) as commercial vehicles in order to achieve advantages in car taxation. The rate of tax for commercial cars is measured according to the weight. From May 1, 2005 onwards, the rate depends also for SUV's only on the emissions and cubic capacity (see table below). However, based on the latest decision of the Federal Court of Finance the car taxation depends on an overall view. Therefore, it is still possible to qualify an SUV as a commercial vehicle if it does not have equipment typical of a car (e.g., back seat with safety belts).

The government has enacted a car tax exemption amounting to 330 EUR for diesel cars which have been equipped with a fine particle filter. This exemption is granted to all cars which have been registered before January 1, 2007 and which have been equipped with the fine particle filter in the period between January 1, 2006 and December 31, 2009. 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 (Kraftfahrzeugsteuergesetz, or KraftStG)).

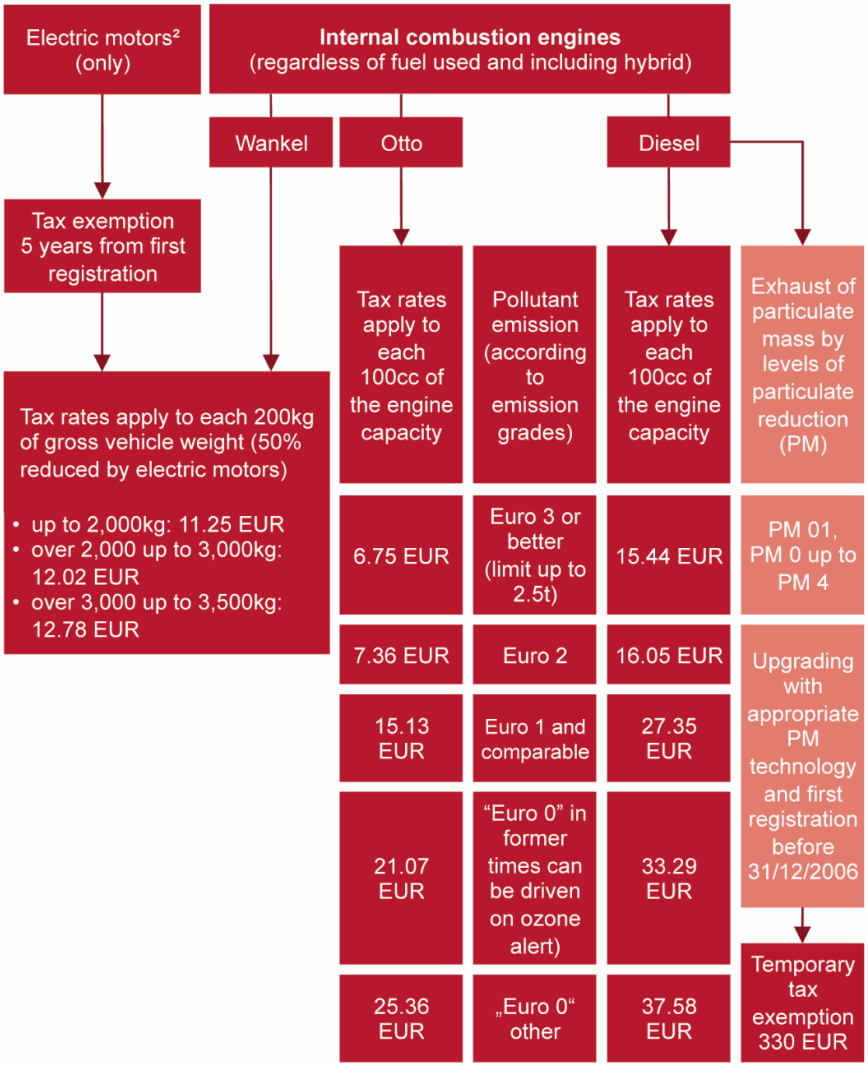
The new taxation applies for all motor vehicles registered after July 1, 2009 and changed to a mixed CO_2 emissions- and engine capacity-based tax (article 9 section 1(2)(b) of the KraftStG). The tax rates range from 2 EUR for petrol engine to 9.50 EUR for diesel-driven cars for each 100cc. In addition each emitted gram per kilometre of CO_2 exceeding the base emission of 120g/km is taxed by 2 EUR. The base emission is reduced for cars registered after January 1, 2012 to 110g/km. For cars registered after December 31, 2013 the base emission is reduced to 95g/km.

Furthermore diesel vehicles which are first registered between January 1, 2011 and December 31, 2013 and fulfill the Euro 6 standard will receive once an allowance of taxation of 150 EUR (article 3(b) of the KraftStG). Car owners of diesel vehicles (Euro 6 standard) registered between July 1, 2009 and June 3, 2010 are able to profit by the allowance of taxation on application (article 18 section 11 of the KraftStG). The allowance of taxation ended on December 31, 2013 regardless of the de facto used allowance.

Electric cars with batteries are tax-exempt for a period of five years after the first registration, followed by a reduction of 50% on a weight-calculated car tax which also applies to cars driven by emission-free fuel cells. Electric cars registered between May 18, 2011 and December 31, 2015 are tax-exempt for a period of ten years. For later registrations until December 31, 2020 the tax-exempt period will be reduced to five years again. The initial car registration must not necessarily have happened in Germany in order to benefit from this exemption.

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.

Overview of motor vehicle tax for passenger cars with registration until 30/06/2009[1] – Germany

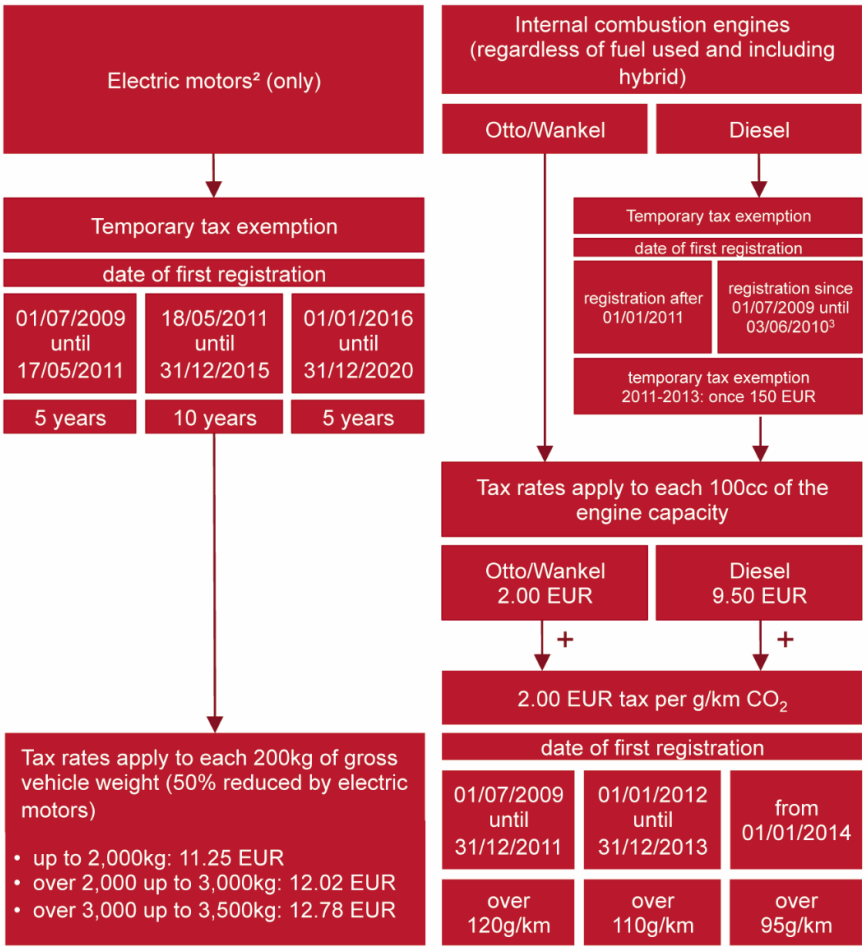


[1] Excepted cars with a date of first registration from 05/11/2008 until 30/06/2009, see exemption above

[2] Completely or mainly supplied by mechanic or electrochemic energy storage

Source: Federal Ministry of Finance (*Bundesfinanzministerium*), translated by PwC
http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Steuerarten/Kraftfahrzeugsteuer/Merkblaetter_und_Uebersichten/kfz-steuer-fuer-personenkraftwagen.html

Overview of motor vehicle tax for passenger cars with registration since 01/07/2009[1] – Germany



[1] Additional cars with a date of first registration from 05/11/2008 until 30/06/2009, see exemption above

[2] Completely or mainly supplied by mechanic or electrochemic energy storage

[3] On application

Source: Federal Ministry of Finance (*Bundesfinanzministerium*), translated by PwC
http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Steuerarten/Kraftfahrzeugsteuer/Merkblaetter_und_Uebersichten/kfz-steuer-fuer-personenkraftwagen.html

Since February 1, 2015, the Federal Government supports retrofitting of particle filters to older diesel vehicles with 260 EUR per vehicle. Eligible are cars which were registered before January 1, 2007. For light commercial vehicles up to 3.5 tonnes that were registered for the first time before December 17, 2009, this subsidy can also be applied. All in all the Federal Government provides 30 million euros for this purpose.

2.3.4. Tax period

Annual.

3. Direct taxation

Costs related to all means of transport from passenger cars to buses and other vehicles are deductible for direct tax purposes, although the vehicle must be at least partly used for business purposes. The costs are deductible for direct tax purposes, either as depreciation of the asset or as operating expenses. All expenses must be duly supported by relevant documentation, i.e., invoices and contracts. The deduction is granted regardless of whether the car is purchased or leased. Cars have to be reported as assets in the balance sheet of the company at their purchase price and must be depreciated linearly over a five- or six year period (Bundesministerium für Finanzen,15.12.2000, BStBl. 2000 I S. 1532). A shorter period is not accepted, even if a company expects to keep a car for less than five years.

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 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.

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 depends on its treatment for direct tax and accounting purposes. If a car is recorded on the tax balance sheet of a lessor, the lease qualifies 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 qualifies as a supply of goods.

5. Accounting

5.1. General

In various decrees from the German Ministry of Finance, the German tax authorities have regulated the tax and accounting principles for the leasing of movable goods. For tax and accounting purposes a distinction has to be made between an operating lease and a financial lease. 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.

5.2. 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.

5.3. 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.

The following gives you an overview of the differences, whereby it has to be taken into account that this summary does not include all possible options.

5.3.1. Lease without the option to purchase the car or to extend the lease period

If the fixed lease period for the car is at least 40% but less than 90% of the asset depreciation range, the car has to be recorded as a fixed asset by the lessor. If the fixed lease period for the car is less than 40% or more than 90% of the asset depreciation range, the car is treated as a fixed asset of the lessee.

5.3.2. Financial lease with the option to purchase the car

The car is treated as a fixed asset of the lessor if the fixed lease period is at least 40% and less than 90% of the asset depreciation range and the purchase price must not be less than the depreciated original purchase price of the car. Therefore, the purchase price has to exceed the value of the car shown in the books of the lessor. Hence, the car has to be recorded by the lessee if the lease period is at least 40% but less than 90% of the asset depreciation range but the purchase price is less than the depreciated purchase price of the car. If the fixed lease period is less than 40% or more than 90% of the asset depreciation range, the car has to be recorded as a fixed asset by the lessee.

5.3.3. Financial lease contracts with the option to extend the lease period

The car has to be shown in the books of the lessor if the fixed lease period is at least 40% but less than 90% of the asset depreciation range, and if the lease payments made in the additional lease period exceed the depreciated purchase price of the car. Hence, the car has to be recorded by the lessee if the lease period is at least 40% but less than 90% of the asset depreciation range and if the lease payments made in the additional lease period do not exceed the depreciated purchase price of the car.

The car is treated as an asset of the lessee if the fixed lease period is less than 40% or more than 90% of the asset depreciation range.

6. Company car

6.1. 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 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 kilometre 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 kilometre distance between place of employment and place of the household.

Since 2013 a special rule applies to the acquisition of electrically driven vehicles and hybrid engines to give tax benefits for the higher cost of such vehicles. When determining the private value under the "1% Regulation", the costs for the accumulator (aka, "battery") shall be subtracted from the list price covering vehicles purchased prior January 1, 2023. As the amount of such costs for the accumulators in the total vehicle price are mostly not available, lump sums have been implemented. For purchases prior January 1, 2014 the vehicle price is reduced by 500 EUR per kilowatt hour (kWh) accumulator capacity with a maximum reduction of 10,000 EUR. The lump sums are reduced every year by 50 EUR for the accumulator capacity and 500 EUR for the maximum reduction. For the 2015 the amounts are therefore 400 EUR per kilowatt hour (kWh) accumulator capacity with a maximum reduction of 9,000 EUR (Einkommensteuergesetz EStG, § 6 Abs. 1 Nr. 4). Please note that the taxable profit of the business is not increased by this value if an employee of the company drives the car. This type of private use is covered by the driver's personal income tax (see section 6.2). Managing directors and shareholders are considered to be employees in this sense.

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.

6.2. 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. Company managing directors are considered to be employees in this sense. The value of the private use is subject to wage tax as well as to social security contributions. 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 kilometres recorded in the driver's logbook. Please note, that the German tax authorities has 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.

Alternatively, benefit in kind can be calculated through the simplified method "1% Regulation", as described above. The amount based on the "1% Regulation" is considered to be the value of the private use of the company car and is therefore subject to monthly 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.

7. *Income taxes – driver's personal taxation*

7.1. Commuter traffic

Expenses stemming from commuting between home and the office are considered business expenses of the employee. The employee can deduct a lump sum of 0.30 EUR per full kilometre from his taxable income, regardless of the means of transport used (i.e., company car, private car, public transport). Generally, the business expenses may not exceed 4,500 EUR per annum, unless the expenses incurred using a vehicle owned by the employee or using a vehicle that has been made available for the use of the employee.

7.2. Business kilometres

In addition, if an employee uses his private car for business trips other than commuting between home and the office, he can deduct the expenses incurred 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 kilometre. This option does not 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 for business journeys up to a maximum of 0.30 EUR per kilometre, 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.

8. Future developments

Due to increasing problems with pollution of the environment, especially in inner-city areas, the German federal government allowed community governments of major cities to limit access to their cities or certain areas of the city or region (Umweltzone – environmental areas or green zones) to those cars which fulfil certain environmental requirements. This legislation is based on a directive of the European Parliament and Council (2008/50/EC). Cars that fulfil these criteria have to be marked with a sticker. There are three categories of stickers available (green, yellow and red) whereby access to the areas in the city may depend on the colour of the sticker. Should a car not be marked with a proper sticker but nevertheless accesses a restricted area, penalties amounting to 80 EUR will be due (Verband für bürgernahe Verkehrspolitik e.V.). Over time 144 different "environmental areas" have been implemented throughout Germany covering most of the major German cities and municipal regions such as Frankfurt, Munich, Cologne, Dusseldorf, Bonn, Ruhr Area, Stuttgart, Hanover or Mannheim. The conditions for access to the respective zone may vary both depending on the location as well on the time period (e.g., stronger restrictions in the summer periods). Beginning with 2013 no cars with a red sticker are allowed to gain access in all environmental areas anymore. In some cases access is even restricted to cars with green stickers only. In addition, most cities plan to expand or have expanded the environmental areas on outskirts as well. We recommend contacting the German Federal Environment Agency (Bundesministerium für Umwelt) for further details about the affected cities.

9. 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)

Greece

Evanthia Koutsioumpa
p: +30 210 687 4491
e: evanthia.koutsioumpa@gr.pwc.com

Ioanna Karyda
p: +30 210 6874 400
e: ioanna.karyda@gr.pwc.com

Panagiotis Tsouramanis
p: +30 210 687 4547
e: panagiotis.tsouramanis@gr.pwc.com

Mariza Sakellaridou
P: +30 20 687 4557
e: mariza.sakellaridou@gr.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
- Taxation on certain luxurious cars

2.2. Registration tax

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 sum of the ex-factory price and insurance and transportation costs. It is clarified that in case of additional optional equipment which is not included in the wholesale price, the extra value corresponding to such equipment will be added to the taxable value.

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 mileage of the car (i.e. distances in kilometres covered by the car).

The taxable value determined after the above reduction shall be further reduced by an amount of 0.30% for each 500 kilometres exceeding the annual average which is defined as 15,000 kilometres. The reduction rate, as determined from all of the above calculations, cannot be higher than 95%. These rules came into effect as of December 28, 2013.

The classification rate is determined on the basis of the car's engine capacity (cubic centimetres) and its anti-polluting technology (i.e. pursuant to the environmental requirements determined by European directives and regulations) as follows (from January 1, 2011 onwards):

Engine capacity (cc)	Specifications of EU Directive 98/69/EC phase B or subsequent Directive phase B (EURO 4) and specifications of Regulations 715/2007 and 692/2008 (Euro 5)	Specifications of EU Directives 98/69/EC phase A	Specifications of EU Directives 94/12/EC 91/441/EEC 89/458/EEC 88/76/EEC (Euro 1,2,3)	Conventional technology
Up to 900	5%	14%	24%	37%
901-1,400	12%	27%	49%	66%
1,401-1,600	20%	45%	95%	128%
1,601-1,800	30%	56%	129%	148%
1,801-2,000	40%	83%	216%	266%
Above 2001	50%	142%	334%	346%

Hybrid-technology cars with emissions in accordance with Directive 94/12/EEC and electric cars are exempt from the classification duty.

The pecuniary incentives adopted by the Greek authorities for the replacement of old cars by vehicles that qualify under the requirements of EU Directive 98/69/EC phase B or a subsequent directive or regulation have been extended to replacements to take place until December 31, 2015 under the Ministerial Circular POL 1018/2015. The incentives provided include exemptions from the classification duty for new cars with a taxable value up to a certain threshold (article 16 par. 1 of L.4223/2013, 20 of L.4110/2013, article 20 of L.4002/2011, article 30 par. 4 of L.3943/2011, article 8 par.2 of L.3899/2010 and article 30 par. 8 of L.3943/2001).

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 by L. 3986/2011 and currently in effect, the following shall apply:

5. With regard to private cars that have been registered for the first time in Greece up to October 31, 2010, the annual circulation tax will be determined solely based on the engine capacity (cubic centimetres) 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
	1,929–2,357	660
I	2,358–3,000	880
J	3,001–4,000	1,100
K	Above 4,001	1,320

[5] The tables apply only to private – use passenger cars and tricycles. Lorries, busses, public – use vehicals (eg, taxis), tractors and motorcycles are subject to annual circulation duties at different rates.

6. 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 CO_2 emissions of the car (grams per kilometre), as such will be shown on the car registration, as follows:

CO2 emissions scale	Annual circulation tax (EUR)
Up to 100	0
101–120	0.90
121–140	1.10
141–160	1.70
161–180	2.25
181–200	2.55
201–250	2.80
Above 251	3.40

With regards to hybrid cars of engine capacity (cubic centimetres) of up to 1.929 cc no tax is due, irrespective of first circulation date. For hybrid cars of engine capacity of 1.929 cc and above, an amount of tax equal to 50% of that corresponding to conventional cars will be due. 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	Up to 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. Special tax on certain luxurious cars and tax on luxurious living

According to article 17 of L.3833/2010, as amended and in force, passenger cars classified under tariff code 8703 and SUV's classified under tariff code 8704 are subject to a special tax on luxurious items, which is determined as follows:

For new cars	
Ex – factory value of the car(EUR)	Special tax (1%)
20,000–22,000	10
22,001–28,000	30
> 28,001	40

Moreover, according to article 17 par. 2 of Law 3833/2010, as replaced by article 21 of L. 4110/2013, the distinction between new and used cars, is abolished and, therefore, the special tax on luxurious items will be also imposed on similar used cars, according to the rates of the above table, i.e. depending on their value.

For the purpose of calculating the special tax, the taxable value for used cars is determined according to article 126 of the National Customs Code – L.2960/2001 – and is the same taxable value as for car registration tax purposes.

Following the enactment of L.4211/2013, the special tax is not imposed on cars registered in other EU countries, before entry into force of article 17 of L.3833/2010. Moreover, 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 expenditure of the liable car owner. More specifically:

- With regard to passenger cars with an engine capacity between 1.920cc 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 10% on the annual deemed expenditure related to the car is imposed.

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 4172/2014 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, 30% of the relevant expenses (i.e. lease rentals, service and maintenance, road duty, insurance etc.) are treated as taxable income on the level of the beneficial of the cars.

4. VAT

4.1. General

The standard VAT rate in Greece is 23%.

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. Accounting

5.1. General

Based on recently published Law 4308/2014 which introduced changes in Greek accounting standards (effective from January 1, 2015) a mandatory accounting distinction is introduced between finance and operating leases. Definitions and accounting treatment for the relevant distinction as included in the above law (article 18, par. 5&6) are based on relevant provisions of IAS 17. In brief:

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases.

Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised
- the lease term is for the major part of the economic life of the asset, even if title is not transferred
- at the inception of the lease, the present value of the minimum lease payments amounts (which do not include the cost of any other services provided during the lease term) to cover substantially all of the fair value of the leased asset
- the lease assets are of a specialized nature such that only the lessee can use them without major modifications being made

The new law defines the following principles that should be applied in the financial statements of *lessees*:

- at commencement of the lease term, finance leases should be recognized as an asset (at the hypothetical cost of acquisition of the asset if it had been purchased) and as a corresponding liability to the lessor.
- the liability that arises from finance leases is treated as a loan. Finance lease payments should be apportioned between the finance charge (interest) and the reduction of the outstanding liability.

- for operating leases, the lease payments should be recognized as an expense in the income statement over the lease term on a straight-line basis, unless another systematic basis is more representative for the distribution of the lease expense over the lease income.

The new Law also defines the following principles that should be applied in the financial statements of *lessors*:

- at commencement of the lease term, the lessor should record a finance lease in the balance sheet as a receivable, at an amount equal to the net investment in the lease
- the receivable that arises from finance leases is treated as a loan granted to the lessee. Finance lease payments should be apportioned between the finance income (interest) and the reduction of the outstanding receivable.
- assets held for operating leases should be presented in the balance sheet of the lessor according to the nature of the asset. Lease income should be recognized over the lease term on a straight-line basis, unless another systematic basis is more representative for the distribution of the lease income over the lease term.

Where companies adopt IFRS accounting standards (which are compulsory for companies listed on the Athens Stock Exchange), the distinction between operating and finance leases is also mandatory (based on IAS 17).

It is noted that following the enactment of the new Income Tax Code Law 4172/2013 (as from January 1, 2014) finance leases have been also defined for income tax purposes (please refer to our comments under section 5.4 below).

Finally, a Ministerial Circular is expected to be published in the near future which will set guidelines for the accounting treatment of certain items.

5.2. Hire purchase

5.2.1. Purchaser

The term "hire purchase" is not specifically defined under the Greek GAAP.

In principle, goods purchased should be presented in the purchaser's balance sheet as fixed tangible assets when the purchaser takes the legal title of the asset and be depreciated on a straight-line basis.

5.2.2. Vendor

In principle, the goods sold should not be presented in the seller's balance sheet since the legal title of the asset is transferred to the purchaser.

5.3. Operational lease

5.3.1. Lessee

The leasing payments made under a leasing agreement are treated as rental payments (services) and are deductible for the lessee when fulfilling the general deductibility criteria for business expenses (see above section 3).

5.3.2. Lessor

The lessor must depreciate the car-related costs and include the received leasing payments in his taxable income.

5.3.3. VAT issues

The lease of a car qualifies as a supply of services and, effective as of January 1, 2013, is taxable in Greece in the following cases:

- The "short-term" hiring of a car (i.e. the continuous possession or use of the car throughout a period of not more than 30 days) is taxable in Greece on the condition that the car is actually put at the disposal of the lessee in Greece. If the car is not actually placed at the disposal of the client within Greece, it is not considered that the place of the hiring is Greece.
- Notwithstanding the short-term hiring of a car, Greece is also considered to be the place of the hiring in case of a long-term hiring, if the lessee is not a VATable person and is established in Greece or holds in Greece his permanent residence or usual abode. In the opposite case, when the lessee is not a VATable person and is not established in Greece or does not hold in Greece his permanent residence or usual abode, Greece is not considered to be the place of the hiring.

5.4. Financial lease

By virtue of the new Income Tax Code, a financial leasing agreement is considered any oral or written agreement by which the lessor (owner) is obliged, in return of a rent, to provide to the lessee (user) the use of an asset, provided that one or more of the following criteria are met:

a. the ownership of the asset is passed on to the lessee following the end of the lease agreement,

b. the lease agreement includes a term of preferential offer for the purchase of the equipment at a price below market value,

c. the period of the lease covers at least a percentage of 90% of the financial life of the assets, even in case the ownership title is not transferred after the end of the lease agreement,

d. at the time of concluding the lease agreement, the present value of the rents amounts to 90% of the market value of the asset that is leased,

e. the assets that are leased are of such special nature that only the lessee may use them without proceeding to important modifications.

Therefore cars acquired by way of financial leasing shall be depreciated at the rate of 16% per tax year by the lessee.

Please note that the above rules apply for contracts concluded after January 1, 2014; whilst for those concluded prior January 1, 2014, this rule will be applicable as of January 1, 2019 (para.18 art.72 of L.4172/2013).

6. Company car

6.1. 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. Since in most cases input VAT cannot be claimed on the acquisition of cars, the private use does not create a taxable supply.

6.2. 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 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.

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, 2014, i.e. the date when the new Greek ITC came into force. But, as regards employment income withholdings deriving from benefits in kind, application will commence from January 1, 2015.

The above provisions are not applicable to income deriving from shipping companies or to associate with such entities individuals, to the extent that they derive such income.

7. 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.

8. Electric vehicles

As mentioned above (see section 2.2.3), electric cars are exempt from classification duty.

9. Legal background

- Law 2960/2001 (Customs Code)
- 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 cars).

Hungary

Tamás Lőcsei
Automotive Tax Leader
p: +36 1 461 9358
e: tamas.locsei@hu.pwc.com

Balázs Szük
p: +36 1 461 9473
e: balazs.szuk@hu.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 30 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

- its operator is a domestic person/entity or
- 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 30 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.

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 in electronic way by the customs authority

2.2.2. Taxable person

Registration tax is payable by

- the natural or legal person or unincorporated organisation 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 abroad.

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 2015 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*	*6–8*	*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	135,000	540,000	810,000	1,080,000	1,620,000

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*	*6–8*	*4*	*worse than 4*
	1,701cc–2,000cc					
5	Gasoline-powered Otto engine cars between 1,801cc–2,000cc or diesel cars between 2,001cc–2,500cc	185,000	740,000	1,110,000	1,480,000	2,220,000
6	Gasoline-powered Otto engine cars between 2,001cc–2,500cc or diesel cars between 2,501cc–3,000cc	265,000	1,060,000	1,590,000	2,120,000	3,180,000
7	Gasoline-powered Otto engine cars above 2,500cc or diesel cars above 3,000cc	400,000	1,600,000	2,400,000	3,200,000	4,800,000
8	The registration tax rate for electric cars (as defined by regulation 6/1990 KÖHÉM) 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

Environmental classification	Characteristics of the engine
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 of the tax before the conversion and the tax after the conversation.

From January 1, 2014 hearses are not subject to the registration tax, just like ambulances.

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 × (1 – K – k × t ÷ 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, 1,598cm^3 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 month from 49 to 60)
- "t" value is 7 (55-48)

The equation is therefore:

F = A × (1 – K – k × t ÷ T)
F = 340,000 × (1 – 0.49 – 0.07 × 7 ÷ 12)
F = 340,000 × (1 – 0.49 – 0.041)
F = 340,000 × 0.469
F = 159,460 HUF registration tax to be paid for a 55-month 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

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 (%)
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	20,000 HUF
2	Between 81cc–125cc	95,000 HUF
3	Between 126cc–500cc	135,000 HUF
4	Between 501cc–900cc	180,000 HUF
5	Above 901cc	230,000 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 of 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

Rates	
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 EURO IV, EURO V engine	30%
Road tractor of semi-trailer with EURO IV, EURO V engine	50%

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.

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:

- Tyres
- Other crude oils
- Batteries
- Packaging (materials)
- Electrical and electronic products

(Paper-based advertisement materials, other plastic products, other chemical products and office paper 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 fee is payable by the first 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 supplier or the first user for own purposes is subject to the product fee.

2.4.3. Tax due

Parts	Fee rate in HUF per kg (as of January 1,2015)
Tyres	52
Batteries	57
Other crude oils	114
Packaging products	19-1900
Electrical and electronic products	57–304

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.

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 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.

4.2. Deduction

Under the Hungarian VAT Act, input VAT is not deductible on

- car purchases,
- 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. 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 or a service 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 and the date of supply will be the date when the lessee gains possession of or title to 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), separate invoices should be issued for each instalment.

4.4. Place of supply of rented cars

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 person is where the user of the service has established his business or the place where he has his permanent address or usually resides.

5. *Accounting*

5.1. General

For accounting purposes, a distinction needs to be made between financial and operating leases. In practice, hire-purchase agreements are not in widespread use in Hungary

5.2. Hire purchase

5.2.1. Purchaser

When a company purchases a car under a hire-purchase agreement, it books the car as a fixed tangible asset on its statement of changes in financial position at the acquisition cost and depreciates it in accordance with its economic life. The instalment due should be recorded on the statement of changes in financial position as liability.

5.2.2. Vendor

The car is not capitalised on the vendor's statement of changes in financial position and consequently there will be no depreciation. The instalment due should be recorded on the statement of changes in financial position as receivables

5.3. Operational lease

5.3.1. Lessee

The lessee treats the operating lease as a purchase of services, and therefore the car is not booked among its own assets. The lease payments are treated as operating charges in the profit and loss account.

5.3.2. Lessor

The lessor records an operating lease as a fixed asset at its acquisition cost (purchase price or production cost) and depreciates it in accordance with its economic life. The depreciation is treated as an operating expense in the profit and loss account.

5.4. Financial lease

5.4.1. Lessee

The lessee records a car that is subject to a financial lease as a fixed asset at the acquisition cost (purchase price or production cost) and depreciates it in accordance with its economic life.

5.4.2. Lessor

The lessor should account the invoiced capital amount among its non-financial service income, and should book the interest part of the instalments as interest income.

6. Company car

6.1. VAT due on private use of company cars

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.

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.

However, 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.

The proportion of the business and private use of the company car should be proved authentically.

6.2. Company car – income taxes

Until February 1, 2009, the rules on company car tax were included in the Personal IncomeTax Act (PITA), but under the new regulations they are now part of the Act on Motor VehicleTax, 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 tax burden is based on 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.

6.3. Accident tax

Hungary's government levies a tax to be paid by motorists and collected by insurance companies with the purpose of covering the costs of traffic accidents.

The payer of the accident tax is the person who has an obligation to pay mandatory automobile liability insurance (the operator of the vehicle with Hungarian residence, the owner of the vehicle, the owner of the vehicle with residence in other member state). The rate of accident tax is 30% of the annual insurance premium, with a cap of 83 HUF per vehicle per day. The insurance company providing the compulsory automobile liability insurance collect the amount of accident tax together with the due insurance premium and pay it into the tax authority's account. Insurance companies has to pay the tax amount even if they did not collect the insurance premium. If the motorists performed only a partial payment of the insurance premium and the accident tax, then the payment made has to be regarded as payment of the accident tax due, provided that the payment was sufficient enough to cover this.

7. Electric vehicles

In connection with electric and hybrid vehicles, the Hungarian registration tax legislation contains a preferential tax amount as mentioned above under section 2.2.

8. Future developments

No major amendments to the legislation regarding car taxation are expected. Nevertheless we note that significant changes have taken place relating to the E-vignette/E-toll system (payment liability for the usage of public roads). Furthermore a new administrative requirement, the Electronic Public Road Freight Control System was introduced relating to the transportation of goods.

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 LXXXIV of 1999 on Vehicle Registration Rules

India

Dinesh Supekar
Automotive Tax Leader
p: +91 20 4100 4412
e: dinesh.supekar@in.pwc.com

India

1. Importation of cars

1.1. Customs duties

As per the Indian Customs Act of 1962, vehicles imported into India are subject to following types of customs duties:

1. Basic customs duty (BCD): BCD is charged on the transaction value of imported goods. Presently, the standard rate of customs duty is 10%; however, on luxury cars the customs duty may vary.

2. Countervailing duty (CVD): CVD is charged on the transaction value plus the BCD amount to counterbalance the excise duty element, which is levied on goods manufactured in India. Presently, the standard rate of CVD is 12.5%.

3. Customs cess: Education cess (EC) at 2% and secondary and higher education cess (SHE cess) at 1% on the aggregate of import duties (ie, BCD and CVD).

4. Special additional duty (SAD): SAD at 4% is levied on the sum of transaction value, BCD, CVD and customs cess in order to counterbalance the state value-added tax/central sales tax which is levied on sale/purchase of goods.

In addition to above, the National Calamity Contingent Duty (NCCD) at 1% and automobile cess at 0.125% are also charged on the import of vehicles into India. Further, there are certain restrictions on the import of vehicles into India that are governed by the Foreign Trade Policy.

CVD and SAD paid on imports of inputs used for manufacture of vehicles can be set off against the excise duty payable on manufacture.

The rate of customs duty on import of motor vehicles depends on various factors such as the 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 motor vehicles, length of the motor vehicle etc.

The basic customs duty levied on the import of vehicles may vary from 10% to a maximum of 125%.

1.2. Import VAT/CST

At present, there is no VAT/CST implication on the import of goods into India.

1.3. Others

In addition to the above, the following types of taxes needs to be deposited with the concerned authorities:

Motor Vehicle Tax (MVT)/road tax 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. 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 registration 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 car 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. 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.

2.4. 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:

- Customs duty: On import of vehicle in India, customs duty is levied on the transaction value of the vehicle as explained in section 1.1.
- National Calamity Contingent Duty (NCCD): On import of vehicle into India, in addition to customs duty, NCCD at 1% is levied on the transaction value.
- Automobile cess: In addition to the above, on import of vehicle into India, automobile cess at 0.125% of the transaction value is also levied.
- Excise duty: On manufacturing the vehicle in India, the general excise duty rate is 12.5%. However, this may vary depending upon the cubic capacity of the engine, and the length and use of the vehicle.
- Value-added tax (VAT): On the sale of a car within the state, VAT is charged. This rate may vary from state to state (e.g. the VAT rate in the state of Maharashtra ranges from 5% to 12.5%).
- Central sales tax (CST): On the inter-state sale of cars within India, CST would be applicable. CST would be charged at the rate of VAT applicable in the state of the selling dealer. A concessional rate of CST at 2% is applicable if the buyer provides Form C and subject to certain conditions.
- Entry tax: Further, in a few states entry tax shall be applicable on procuring vehicles in the state.
- Local taxes: In addition, vehicles are required to pay certain local taxes such as local body tax, octroi etc at the time of entry into specific municipal area. Rates vary from state to state.
- Road tax: On purchase of vehicle for private/commercial use, road tax is to be paid as explained in section 1.3.

3.2. Registration tax

3.2.1. Taxable event

The following events can be termed as taxable events:

- Import of vehicle
- Purchase of vehicle from within India
- Transfer of vehicle to another state in India
- Hire purchase, lease or hypothecation
- Termination of hire purchase, lease or hypothecation
- Change in ownership

3.2.2. Taxable person

A person who registers their vehicle with Regional Transport Office (RTO) is considered to be a taxable person.

3.2.3. 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 vehicles[4]: On registration of commercial vehicles, an annual road tax has to be paid, which depends upon the carrying capacity of passenger vehicle and loading capacity of goods vehicle. Depending on the vehicle, a separate permit would be required.

3.2.4. 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 fitness[5] 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 purpose, 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 car is allowed as a deduction by way of depreciation at a rate of 15% on the written-down value method.

Cars 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.

If the car is 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, 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.

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[4] Commercial vehicles: Vehicles used as goods and passenger carriers, also known as transport vehicles.

[5] 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, know 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.

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 to which that asset belongs. Depreciation is then calculated on the carrying value of that particular block at the beginning of the year.

4.1.3. Lease charges

In case the car is taken on lease for the purpose of usage in the business and profession, a 100% deduction of the lease charges paid 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, maintenance, rates, insurance etc – is allowed as a deduction.

4.2. Other direct taxes

In India, wealth tax is also levied on the accumulated wealth of a taxable person. Wealth tax is applicable only to individuals, Hindu undivided families and companies.

Wealth tax is levied on certain assets such as houses, jewellery and also cars (other than those used in the business of running them on hire or those held as stock- in-trade).

The value of the cars to be taken for wealth tax purposes is generally the written-down value of the car in the books of accounts. The detailed valuation rule is laid down in Schedule III of the Wealth Tax Act of 1957.

The wealth tax is levied at a rate of 1% on taxable wealth (wealth up to 3m INR does not attract wealth tax).

From Financial Year 2015-16 onwards, the Wealth Tax Act 1957 has been abolished and accordingly, going forward, no wealth tax is payable.

5. Accounting

5.1. Accounting standards

5.1.1. Outright purchase

Vehicles purchased are accounted as fixed assets (except in cases where the entity deals in manufacturing or trading of vehicles), and are governed by Accounting Standard (AS) 10, “Accounting for Fixed Assets”, and is depreciated over the useful life of the assets as prescribed by AS 6, “Depreciation Accounting”.

Key points are as follows:

- Cost: Para 9.1 of AS 10: The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.
- Improvement and repairs: Para 12.1 of AS 10: Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, eg, an increase in capacity

- Depreciation: Para 8 of AS 6: Determination of the useful life of a depreciable asset is a matter of estimation and is normally based on various factors including experience with similar types of assets. The standard provides an option for selecting method of depreciation, the management of a business selects the most appropriate method(s) based on various important factors.

5.1.2. Equated monthly installments

Generally vehicles are purchased on monthly equated installments schemes offered by various lenders with various types of schemes (referred to as a "lease" for accounting purposes). Accounting for leases is governed by AS 19, "Leases".

There are two types of leases as per AS 19: financial lease and operating lease. As per para 8 of AS 19: Whether a lease is a financial lease or an operating lease depends on the substance of the transaction rather than its form.

5.2. Financial lease/hire purchase

Accounting for a hire-purchase transaction is similar to a finance lease.

A financial lease is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership.

The lease term is for the major part of the economic life of the asset even if title is not transferred.

At the inception of the lease, the present value (PV) of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

5.2.1. Lessee

- Lease assets as well as liability for lease should be recognised at the lower of
  - fair value of the leased assets at the inception of the lease or
  - PV of the minimum lease payment from the lessee point of view.
- Apportionment of lease payment:
  - The principal amount is reduced from the outstanding liability.
  - Finance charges are allocated over lease term in such a manner that it would produce a constant rate of return on the remaining principal balance.
- Charge depreciation on financial lease assets as per AS 6.
- Initial direct cost for the financial lease is included in assets under lease.

5.2.2. Lessor

- Recognise asset given under financial lease as receivable at an amount equal to net investment in the lease
  - Net investment: Gross investment - unearned finance income
  - Gross investment: Minimum lease payment from lessor point of view + unguaranteed residual value

- Unearned finance income: Gross investment - PV of gross investment

- Recognition of finance income: On the basis of constant periodic return on the net investment outstanding in respect of financial lease.

5.3. Operating lease

An operating lease is a lease which does not transfer substantially all the risk and reward incidental to ownership.

5.3.1. Lessee

Lease payments should be recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

5.3.2. Lessor

- Record leased out asset as the fixed assets in the balance sheet.
- Charge depreciation as per AS 6.
- Recognise lease income in profit and loss account using the straight-line method unless another systematic basis is more representative of the time pattern of the user's benefit.
- Other cost of the operational lease should be recognised as expenses in the year in which they are incurred.
- Initial direct costs incurred specifically to earn revenues from an operating lease are either deferred and allocated to income over the lease term in proportion to the recognition of rent income, or are recognised as an expense in the statement of profit and loss in the period in which they are incurred.

6. *VAT/CST*

6.1. General

VAT is a state levy, the rate of which varies depending on the state in which the motor vehicles are sold.

CST is charged at a concessional rate of 2% in case of interstate sales subject to the Form C being provided by the buyer

6.2. Deduction/Exemptions

No specific exemptions/deductions are available

6.3. Hire purchase: Supply of goods?

In case of hire-purchase transactions, both VAT/CST and service tax is charged on the prescribed taxable value.

6.4. Leasing: Supply of services?

6.4.1. Operational lease

Operating lease is considered as "deemed sale" under the State VAT law and therefore is subject to VAT/CST.

6.4.2. Financial lease

In case of financial lease, service tax is charged on the prescribed taxable value subject to prescribed deduction under the Service Tax Law

7. Company car

7.1. VAT/CST/sales tax due on private use of company cars

There are no specific provisions under the state laws which prescribe the levy of VAT/CST/sales tax on private use of a company car.

7.2. Company car in personal tax returns – benefit in kind

In case a benefit in kind is provided by employer to the employee, then the value of such benefit is taxed in the hands of employee as a perquisite.

Valuation rules have been prescribed to determine the value of the perquisite provided. The value of a perquisite is treated as salary in hands of 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
1.	*Where the motor car is owned or hired by the employer and*		
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 member of his household and running and maintenance expenses are met or reimbursed by the employer;	Actual amount of expenditure incurred by the employer on the running and maintenance of the car during the relevant previous year Add: remuneration, if any, paid by the employer to the chauffeur Add: 10% per annum of the actual cost of the car as normal wear and tear of the car Less: any amount charged to the employee for such use	Actual amount of expenditure incurred by the employer on the running and maintenance of the car during the relevant previous year Add: remuneration, if any, paid by the employer to the chauffeur Add: 10% per annum of the actual cost of the car as normal wear and tear of the car Less: any amount charged to the employee for such use
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		

Particulars		Where the cubic capacity of the engine does not exceed 1.6L	Where the cubic capacity of the engine exceeds 1.6L
i.	the expenses on maintenance and running are met or reimbursed by the employer or	INR1,800 per month (plus INR900 per month if a chauffeur is also provided to run the car)	INR2,400 per month (plus INR900 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.	INR600 per month (plus INR900 per month if a chauffeur is provided by the employer to run the car)	INR900 (plus INR900 per month if a chauffeur is also provided to run the car)
2.	*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.	such reimbursement is for the use of the vehicle wholly and exclusively for official purposes;	Nil Note: Documents specified are to be maintained by the employer (see Note 1 below)	Nil Note: Documents specified are to be maintained by the employer (see Note 1 below)
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.	The actual amount of expenditure incurred by the employer Less: INR1,800 per month (plus INR900 per month if a chauffeur is also provided to run the car)	The actual amount of expenditure incurred by the employer Less: INR2,400 per month (plus INR900 per month if a chauffeur is also provided to run the car)

Note 1: Documents to be maintained

- Log book 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 above total, 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.

8. Income taxes – Drivers' personal taxation

The provisions relating to private cars in the personal tax return are covered under section 7.2.

9. Selling a car

9.1. Taxable persons

9.1.1. Indirect tax

Persons who are in the business of buying and selling of cars are called dealers [6] who are considered to be the taxable persons.

On sale of a new vehicle or second-hand vehicle by a dealer, VAT/CST are charged at the rate specified under the state VAT laws.

9.1.2. 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 (ie, at 30% plus applicable surcharges and education cess) in the case of a corporate assessee and at applicable slab rates for individuals.

[6] Dealers: Under Indian law, dealer means any person who, for the purposes of or consequential to his engagement in or in connection with or incidental to or in the course of his business, buys or sells goods in the states whether for commission, remuneration or otherwise.

9.2. Private individuals

No VAT/CST is charged on the sale of a vehicle by private individuals[7], as the sale made by a private individual would be considered as a one-time sale, casual sale or occasional sale, provided such a sale is not a regular business activity of such person.

No income-tax implications arise on the sale of cars which are used for personal purposes.

10. Legal background

N/A

[7] Private individual: A person who is not a dealer (as defined in footnote 8) is considered to be a private individual. For example, a consumer, one-time seller, casual seller etc.

Ireland

John Moore
p: +353 1 7925726
e: john.r.moore@ie.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 you bring a vehicle into Ireland from abroad on a permanent basis, you are required to register the vehicle and pay Vehicle Registration Tax (VRT), if applicable, as well as any other taxes due. To register the vehicle, you are required to make an appointment with the National Car Testing Service (NCTS) within seven days of bringing the car to Ireland. Registration must be completed within 30 days of the vehicle's arrival in the state.

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 connection with 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 resides at the time of registration. 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.

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 (this may however be allowed in certain limited circumstances where, for example, the Irish resident is employed by a company established outside of Ireland or the vehicle is of a commercial nature, etc.).
- The vehicle may not be disposed of or hired out in Ireland or lent to an Irish resident.

- The period of time that the vehicle is in Ireland does not exceed 12 months.
- 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 cars, the tax is charged on the open market selling price (OMSP) in Ireland, which equates to the retail price of the car, i.e. the price at which it is actually sold. Since July 1, 2008, the rate of VRT chargeable is determined by the level of CO2 emissions. The rates range from 14% to 36%, as determined by an eleven-band CO2 emissions rating system. Where the rating is unknown, the maximum rate of 36% will apply. A detailed breakdown of the rates is provided in the table below:

CO2 Emissions (g CO2/km)	VRT Rates	Minimum VRT payable
0–80g	14% of OMSP	280 EUR
81 – 100g	15% of OMSP	300 EUR
101 – 110g	16% of OMSP	320 EUR
111 – 120g	17% of OMSP	340 EUR
121–130g	18% of OMSP	360 EUR
131 – 140g	19% of OMSP	380 EUR
141–155g	23% of OMSP	460 EUR
156–170g	27% of OMSP	540 EUR
171–190g	30% of OMSP	600 EUR
191–225g	34% of OMSP	680 EUR
226g and over	36% of OMSP	720 EUR

A partial relief from VRT exists for certain series production electric vehicles, up to a maximum of 5,000 EUR. For certain series production hybrid electric vehicles registered from January 1, 2011 to December 31, 2014, VRT relief based on the age of the vehicle is available up to a maximum of 1,500 EUR. From January 1st 2011 to December 31, 2014, a VRT remission/rebate will be available for certain plug-in hybrid electric vehicles first registered during that period. The remission/rebate will be based on the age of the vehicle being registered, up to a maximum of 2,500 EUR.

2.2.3. Tax period

VRT is only payable on the first-time registration 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 vehicles permanently exported from the Irish State. The only vehicles eligible for the Export Repayment Scheme are passenger vehicles (EU Vehicle Category M1), 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, the vehicle will not qualify for a repayment under the Export Repayment Scheme.

The refund of VRT is conditional on the vehicle being exported from Ireland and its re-registration 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 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 EUR 500 administration charge is payable to the Irish Revenue Commissioners, which will be deducted from the amount of VRT that is repayable

2.3. Motor tax

2.3.1. Taxable event

The payment of 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 (a tax disc is issued by the relevant authority for display on the motor vehicle when payment of the motor tax is made).

2.3.2. Tax due

For private cars registered since July 1, 2008, motor tax ranges from 120 EUR to 2,350 EUR. See table below for details:

Band	CO2 emissions-gm per km	Annual €	Half-year €	Quarterly €
A0	0	120	66	33
A1	1-80g	170	94	48
A2	More than 80g/km up to and including 100g/km	180	99	50
A3	More than 100g/km up to and including 110g/km	190	105	53
A4	More than 110g/km up to and including 120g/km	200	111	56
B1	More than 120g/km up to and including 130g/km	270	149	76

Band	CO2 emissions-gm per km	Annual €	Half-year €	Quarterly €
B2	More than 130g/km up to and including 140g/km	280	155	79
C	More than 140g/km up to and including 155g/km	390	216	110
D	More than 155g/km up to and including 170g/km	570	316	161
E	More than 170g/km up to and including 190g/km	750	416	211
F	More than 190g/km up to and including 225g/km	1,200	666	339
G	More than 225g/km	2,350	1,304	663

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 greater than 3,001cc engines. A special rate of 120 EUR typically applies to electric-powered cars.

2.3.3. Tax period

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 will be linked to the car's CO2 emissions. The 24,000 EUR cost limit will continue to apply for cars with CO2 emissions below 156g/km; however, this limit will be restricted to 50% for cars between 156g/km and 190g/km. No relief will be available for cars with emissions above 190g/km.

What this provision means is that if you have a car provided by an employer and the cost (as opposed to the open market value) of the vehicle exceeds the threshold or the CO2 emissions are over the limit, the employer's allowable leasing and wear and tear deduction will be restricted accordingly. Previous restrictions regarding motor running costs no longer apply.

To illustrate, if a car provided 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 will be restricted in the adjusted profit computation of the business or company.

The employer/business/company will be entitled to a deduction in its tax computation of only 2,308 EUR instead of 5,000 EUR. This would however increase to 4,615 EUR if the CO2 emissions were below 156g/km.

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 January 1, 2012, previously 21% – is generally chargeable on the sale or leasing of motor vehicles - other than short term hire (see below).

VAT at the standard rate 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).

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 not exceeding a cumulative total of five weeks in any 12-month period.

In relation to the sale of second-hand or used vehicles, since 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. In contrast, the scheme would not generally be applied to "commercial" vehicles where VAT would typically have been charged on the disposal to the dealer.

4.2. Deduction

VAT may be deducted on the purchase or hire of commercial vehicles insofar as the vehicles are used for the purposes of the business's taxable supplies.

Other than "passenger" vehicles acquired as stock in trade, for hire or for use in a driving school business for giving driving instruction, VAT arising on the purchase or hire of such motor vehicles is generally not deductible. However a partial deduction of 20% of the VAT charged on the purchase of passenger vehicles first registered from January 1, 2009 is allowed if they are used primarily for business purposes (being at least 60% of the total use) and the CO2 emissions of the vehicle are less than 156g/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.

In relation to "margin scheme" motor vehicles purchased or acquired from July 1, 2010, no VAT deduction may be claimed by motor dealers or any other businesses.

In order to identify whether a vehicle is within the scope of the scheme, invoices issued for their sale should indicate that they are sold subject to the margin scheme and should be marked “Margin scheme – this invoice does not give rise to an input credit for VAT”.

5. Accounting

5.1. General

Irish company law requires companies to prepare annual accounts that give a true and fair view using either Irish GAAP or International Financial Reporting Standards (IFRS). Listed companies are required to use IFRS in preparing their consolidated accounts. Other companies may choose to use either Irish GAAP or IFRS.

Irish GAAP is based on the Accounting Standards issued in the UK. The UK standard that deals with leases is Statement of Standard Accounting Practice No. 21 “Accounting for leases and hire- purchase contracts” (SSAP 21). The International Financial Reporting Standard that deals with leases is IAS 17 “Leases”. The accounting for leases required by SSAP 21 and IAS 17 is similar but not identical.

5.2. Hire purchase

SSAP 21 regards most hire purchase contracts as being of a financing nature as the option to purchase the asset is usually exercisable at below market value. Where cars are purchased under a hire-purchase contract of a financing nature, the purchase price and the associated hire-purchase financing are recognised as an asset and a liability in the balance sheet, and accounted for on a basis similar to that set out below for a finance lease. Where cars are obtained under a hire-purchase contract that is not of a financing nature, the cars are accounted for on a basis similar to that set out below for an operating lease.

5.3. Distinction between Finance lease and Operating lease

A finance lease is defined in SSAP 21 as a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. If the present value of the minimum lease payments amounts to 90% or more of the fair value of the leased asset, then the lease is presumed to be a finance lease, subject to considering all the terms of the lease. An operating lease is defined as a lease other than a finance lease.

5.4. Operating lease

5.4.1. Lessee

The lease payments are expensed in the profit and loss account, usually on a straight-line basis over the lease term.

Consequently, the balance sheet is affected only when the timing of the lease payments does not match the expensing to the profit and loss account, in which case an accrual or prepayment will arise.

5.4.2. Lessor

The cars are recognised as a fixed asset in the lessor’s balance sheet and depreciated over their useful economic life.

5.5. Finance lease

5.5.1. Lessee

For a finance lease, the cars are recognised in the balance sheet of the lessee that is as if they had been purchased outright, with a corresponding lease liability also recognised in the balance sheet. The presentation of the transaction in the accounts does not, therefore, match its legal form, where the cars are not actually owned by the lessee.

The cars are included in the balance sheet at the present value of the minimum lease payments and are then depreciated over the shorter of the lease term or the useful economic life of the cars.

The lease liability is also included in the balance sheet at the present value of the minimum lease payments. The principal element of the lease payments is treated as a repayment of the lease liability and the interest element of the lease payments is expensed in the profit and loss account so as to produce a constant rate of charge on the amount of the outstanding liability.

5.5.2. Lessor

The amount due from the lessee under a finance lease is recognised in the lessor's balance sheet as a receivable which is reduced as the lease payments are received. Interest income is recognised in the profit and loss account at a constant rate of return on the carrying amount of the receivable.

5.6. Current developments

A revised Accounting Standard on Leases under Irish GAAP will become mandatory for years commencing on or after January 1, 2015. While the revised standard is similar to SSAP 21, it provides more detailed guidance on distinguishing between operating and finance leases. In addition, a revised International Financial Reporting Standard on Leases is under consideration and it proposes that all leases would be accounted for in a manner similar to that outlined above for finance leases. Advice should be sought on these matters, where relevant.

6. Company car

6.1. VAT due on private use of company cars

In general, the private use by an employee of a company-provided passenger vehicle provided as part of their employment terms, will not trigger any VAT repayment consequences. In the case of a passenger vehicle qualifying for a VAT deduction (per para 4.2 above), no adjustment will be required for private use, provided the vehicle is used primarily for business purposes, being at least 60 % of the overall use of the vehicle.

This 60% test is assessed for each VAT return period (generally two months), with a (partial) clawback of VAT triggered where business use drops below the requisite 60% level within two years following the purchase or acquisition of the vehicle

6.2. Company car – income taxes

Where a company car is available for the private use of an employee, the employee is liable for tax, Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) for any use that 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 February 17, 2015, this Ministerial Order has not yet been implemented. Existing benefit in kind (BIK) provisions will continue to apply.

6.2.1. Existing BIK company car rules

Where BIK is charged on a company car provided for use by an employee, the BIK is calculated on 30% of the open market value of the car less any amounts which the employee is required to reimburse to the employer in respect of any part of the cost of running the car.

However, the BIK charge can be reduced depending on the amount of business mileage completed by an employee (see table below). The reduction is applied to the open market value of the car.

Income tax is payable at the employee's marginal rate of tax which is currently either 20% or 40%. The Universal Social Charge and Pay Related Social Insurance (PRSI) are also due.

Example – calculation of car benefit	For cars provided
Open market value	15,000
EUR Business mileage	> 30,000
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

As an alternative to the business mileage-based reduction, the BIK charge may be reduced by 20% where certain other conditions are fulfilled.

These include spending 70% of working time away from the office, working at least a 20-hour week, travelling at least 8,000 business kilometres per annum and keeping a logbook of the mileage covered. Revenue approval should be obtained if using this alternative method.

Finally, the BIK rules in relation to company vans made available for private use require that BIK is calculated at 5% of the original market value of the vehicle (inclusive of VAT). 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 can be reduced accordingly. Exemption from the 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 his or her 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.

6.2.2. New BIK company car rules – post-2009

Subject to a commencement order (not yet issued as of January 2015), revised BIK rules are intended to be effective for cars first provided from 2009. Existing BIK provisions will continue to apply to cars until further legislative changes are implemented. For cars registered after 31 December 2008 the new BIK rates are intended to apply based on the vehicle emissions categories set out in the table below.

Vehicle emission categories	BIK %
A, B, C (0 – 155G)	30
D, E (155 – 190G)	35
F, G (over 190g)	40

All cars with emission levels above 155g/km will pay higher BIK under the revised BIK rules, which currently applies under the current system. Tapering relief is still available for high business mileage drivers as follows:

	A, B & C BIK %	D & E BIK %	F & G BIK %
24,000 or less	30	35	40
24,001 to 32,000	24	28	32
32,001 to 40,000	18	21	24
40,001 to 48,000	12	14	16
over 48,000	6	7	8

7. Income taxes – drivers' personal taxation

Please see section 6.2.

8. Future developments

As part of their ongoing objective to reduce CO2 emissions, the government is continuing its 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.

9. Legal background

- Income and Corporation Tax – Taxes Consolidation Act 1997
- VAT – Value-Added Tax Consolidation Act 2010
- VRT – Finance Act 1992 (as amended)

Italy

Gianni Colucci
Automotive Tax Leader
p: +39 2 91605500
e: gianni.colucci@it.pwc.com

Alessio Rolando
p: +39 11 5922740
e: alessio.rolando@it.pwc.com

Pietro Bertolotti
p: +39 2 91605705
e: pietro.bertolotti@it.pwc.com

Davide Accorsi
p: +39 2 91605708
e: davide.accorsi@it.pwc.com

Federica Panzeri
p: +39 2 91605721
e: f.panzeri@it.pwc.com

Italy

1. Car registration

1.1. When does a car need to be registered?

As a general rule, 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 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.

According to the interpretation of the Italian Ministry of Transport, entities incorporated in an EU member state can register a vehicle even if they only have a local unit in Italy and not a branch.

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 and
- 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 kind 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.

2.3.4. Tax period

Yearly.

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 re-fuelling 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 car 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.

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 the following:

- Car expenses qualifying as labour costs for the company
- 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.

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-IVA immatricolazione auto UE) must be used to pay VAT.

Furthermore, the VAT payment made via the F24-IVA immatricolazione auto UE form has to be indicated in a special section of the VAT annual return (section 2, box VH).

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.

5. Accounting

5.1. General

From the perspective of a company acquiring a car, the accounting treatment of car-related expenditure varies in accordance with the underlying contract used.

5.2. Hire purchase

The purchasing company has to book a fixed asset for the value of the purchase price of the car. This fixed asset shall be depreciated on a straight-line basis, in relation to its economic lifetime (in practice, companies usually refer to the ordinary depreciation period allowed for tax purposes, which for cars is four years). Furthermore, in principle, the depreciation is allowed up to the residual estimated market value of the vehicle.

5.3. Hiring, renting and leasing contracts

As far as the renter/lessee is concerned, the renter/hiring/leasing (either financial or operating) charges/instalments are treated as operating expenses to be recorded in the profit and loss account of the lessee on an accrual basis.

The so-called maxicanone, i.e., the first higher leasing instalment (if any), shall be deferred over the duration of the leasing contract.

According to Italian GAAP, currently it is always the lessor, not the lessee that books the depreciable fixed asset in their balance sheet (this does not apply for Italian companies that have adopted IFRS).

6. Company car

6.1. 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".

7. Income taxes – drivers' personal taxation

7.1. Private use

The vehicle costs incurred through private use of a vehicle are not deductible in the employee's personal tax return.

7.2. 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 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).

8. Electric vehicles

The Italian Authorities provide for some incentives for the purchasing or leasing of electric vehicle.

The incentives are granted for purchase or lease carried out until December 31, 2015 and if certain conditions are met.

9. 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)
- D.L. 83/2012 (Electric vehicles)

Japan

Japan

1. Importation of cars

1.1. Customs duties

Passenger automobiles and their parts classified under Chapter 87 [8]of the Customs Tariff Schedules of Japan are duty free. For details, please refer to attachment 1. 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. For example, certain cables classified under Heading 85.44 are dutiable. For details, please refer to attachment 2.

1.2. Import VAT/sales tax

On April 1, 2014, the Import Consumption Tax rate has been raised from 5% to 8% of customs value plus customs duty payable, if any. The rate will be increased to 10% from April 1, 2017.

2. Car registration

2.1. When does a car need to be registered?

Before driving a car on public road 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 instalment 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 around 90 signatory countries listed in the Convention on Road Traffic before entering into Japan.

[8] Within Chapter 87, “Tanks and other armoured fighting vehicles and their parts” are the only dutiable items. The duty rate for products classified as such is 8.4% when originating in WTO member countries, or 12.8% when originating in other countries (provided that the Generalized System of Preference or Economic Partnership Agreement is not utilized).

3. Car taxation

3.1. What are the different car taxes?

The different car taxes in Japan are as follows:

- Automobile tax (prefectural)
- Light vehicle tax (municipal)
- Automobile tonnage tax (national)
- Automobile acquisition tax (prefectural)

3.2. Automobile tax

3.2.1. Taxable event

Automobile tax is levied on those who own the car as of April 1.

Automobile tax is also levied upon new automobile registration by monthly instalments.

3.2.2. Taxable person

Automobile tax is due by the following persons:

- The car owner as of April 1
- The buyer of a new car
- The user of a car as of April 1st in case of instalment sales contract with reservation of ownership

3.2.3. Tax due

Please find hereafter an overview table.

Automobile tax rate (annual amount)

Types of motor vehicles	Private car (before eco-car tax break)	Business (before eco-car tax break)
Passenger vehicles (engine swept volume)		
• Up to 1,000cc	29,500 JPY	7,500 JPY
• Over 1,000cc and up to 1,500cc	34,500 JPY	8,500 JPY
• Over 1,500cc and up to 2,000cc	39,500 JPY	9,500 JPY
• Over 2,000cc and up to 2,500cc	45,000 JPY	13,800 JPY
• Over 2,500cc and up to 3,000cc	51,000 JPY	15,700 JPY
• Over 3,000cc and up to 3,500cc	58,000 JPY	17,900 JPY
• Over 3,500cc and up to 4,000cc	66,500 JPY	20,500 JPY
• Over 4,000cc and up to 4,500cc	76,500 JPY	23,600 JPY
• Over 4,500cc and up to 6,000cc	88,000 JPY	27,200 JPY
• Over 6,000cc	111,000 JPY	40,700 JPY

Automobile tax rate (annual amount)

Types of motor vehicles	Private car (before eco-car tax break)	Business (before eco-car tax break)
Passenger-freight vehicles (maximum payload and engine swept volume)		
Maximum capacity of 4 passengers or more		
• Up to 1t		
• 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		
• 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		
• 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
Trucks (maximum payload)		
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 of automobile tax will be given to certain low pollution new vehicles. Generally, a 15% or 10% increase of automobile tax will be assessed to certain high-pollution old vehicles.

3.2.4. Tax period

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.

3.3. Light vehicle tax

3.3.1. Taxable event

Light vehicle tax is levied on those who own motor bicycles and small cars as of April 1.

3.3.2. Taxable person

Light vehicle tax is due by the persons who own motor bicycles and small cars as of April 1st.

3.3.3. Tax due

Please find hereafter an overview table.

Light vehicle tax rate (annual amount)	
Types of motor bicycles and small cars	Tax Due
Bicycles with a small engine	
Total displacement	
• 0.05L or less	1,000 JPY (2,000 JPY from FY 2016)
• 0.09L or less	1,200 JPY (2,000 JPY from FY 2016)
• Over 0.09L and up to 0.125L	1,600 JPY (2,400 JPY from FY 2016)
• Mini car	2,500 JPY (3,700 JPY from FY 2016)
Motor bicycle (Total displacement over 0.25L)	4,000 JPY (6,000 JPY from FY 2016)
Light car	
• With two wheels (Total displacement over 0.125L and up to 0.25L) 2,400 JPY (3,600 JPY from FY 2016)	
• With three wheels • 3,100 JPY (3,900 JPY from FY 2016 for new car purchased on or after April 1, 2015)	
• With four or more wheels – For passengers ○ Business use 5,500 JPY (6,900 JPY from FY 2016 for new car purchased on or after April 1, 2015) ○ Private use 7,200 JPY (10,800 JPY from FY 2016 for new car purchased on or after April 1, 2015) – For cargo ○ Business use 3,000 JPY (3,800 JPY from FY 2016 for new car purchased on or after April 1, 2015) ○ Private use 4,000 JPY (5,000 JPY from FY 2016 for new car purchased on or after April 1, 2015)	

Note 1: Tax Reform Plan. Each amount of Tax Due in the above parenthesis shows the tax amount after the planned tax reform.

Also, as from the fiscal year starting from April 1, 2016, the applicable tax due will be 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. Certain reduction of light vehicle tax will be given to certain low pollution new light car with three, four or more wheels.

3.3.4. Tax period

Once a year on April 1.

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)
Passenger motor			
Vehicles	3 years per 0.5 t of weight	12,300 JPY	–
	2 years 〃	8,200 JPY	
	1 year 〃	4,100 JPY	2,600 JPY
Buses	1 year per 1 t of gross weight	4,100 JPY	2,600 JPY

Types of motor vehicle	Inspection period	Private car (before eco-car tax break)	Business (before eco-car tax break)
Trucks			
Gross vehicle weight			
• 8t or more	1 year 〃	4,100 JPY	2,600 JPY
• More than 2.5t	2 years 〃	8,200 JPY	5,200 JPY
	1 year 〃	4,100 JPY	2,600 JPY
• 2.5t or less	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

3.5.1. Taxable event

Automobile acquisition tax is levied on those who acquire the car.

3.5.2. Taxable person

Automobile tax is due by the following persons:

- The buyer of a standard-sized car, a compact car or a light vehicle with three or more wheels (excluding special-purpose vehicles)
- The new user of a car in case of instalment sales contract with reservation of ownership

3.5.3. Tax due

- Car for private use: 3% of the acquisition value of the car
- Car for business use and light vehicle: 2% of the acquisition value of the car

Note 1: The eco-car tax break applies for certain low-emission cars.

Note 2: Cars acquired at the price of 500,000 JPY or less are exempt from automobile acquisition tax.

Note 3: Under the planned tax reform, automobile acquisition tax will be abolished on April 1, 2017 when the consumption tax rate will be increased to 10%.

3.5.4. Tax period

Every time a car is acquired by a new owner of that car.

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 car is capitalised as a fixed tangible asset and should be depreciated over its useful economic life.

5. Accounting

5.1. Accounting standards

In Japan, generally accepted accounting principles (GAAP) are established by Financial Accounting Standards Foundation and Accounting Standards Board of Japan.

For accounting purposes, a distinction needs to be made between an operating lease and a financial lease. An agreement qualifies as a financial lease only to the extent that the contract between the lessor and the lessee has been established on a full-payout and non-cancellable basis. This means that 1) the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property to the lessor at the inception of the lease and 2) the lease term is equal to 75% or more of the estimated economic life of the leased property.

Further, IAS 17 deals with the accounting for leases under International Financial Reporting Standards (IFRS). The objective of this standard is to prescribe for both lessors and lessees the appropriate accounting policies in relation to lease agreements.

Under IAS 17, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. Financial leases are leases for which the risk and rewards incidental to the ownership of an asset are substantially transferred to the lessee. If this criterion is not respected, the lease will be classified as an operating lease.

Under IAS 17, options are treated differently than under Japanese accounting standards. Purchase options, as defined by IAS 17, are added to the contractual lease payments and are therefore part of the minimum lease payments. Under Japanese accounting standards, purchase options are accounted at the time options were exercised.

The basic principle for qualifying as a financial lease in Japanese GAAP is similar to IAS 17. Substantially all the risks and rewards should be transferred to the lessee based on the substance of the transaction rather than on the legal form. However, as mentioned above, Japanese accounting standards have different criteria to assess and, in some cases, strict application of these criteria could result in a different accounting treatment under Japanese accounting standards and under IFRS.

Currently the International Accounting Standards Board (IASB) in cooperation with the Financial Accounting Standards Board (FASB) is reconsidering the accounting model under IFRS and US GAAP. The objective is to eliminate the notion of an operational lease and a financial lease. All contracts would have to be looked at from its obligations and rights point of view and accounted for accordingly. This would bring more lease contracts on the balance sheet than under current accounting principles. In general, this would improve the accounting of lease contracts as the proposed new accounting model would bring more transparency, more neutrality and more relevance to the financial statements, which are the key drivers of high-quality financial reporting standards.

Below a short overview will be given of the accounting treatment under Japanese accounting standards of different possibilities to acquire/lease a car.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over its useful economic life.

The purchaser will have to disclose the accounting policies with regards to the car in the notes to the accounts.

5.2.2. Vendor

The sold car is derecognised when risks and rewards of ownership are transferred to the buyer. The amounts receivable should be recorded on the balance as a receivable.

5.3. Operational lease

5.3.1. Lessee

An operating lease or renting agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. If the lease contract has a significant effect on the results of the enterprise, the lessee has to disclose future minimum rental payments in the notes to the annual accounts.

5.3.2. Lessor

In case of an operating lease of a renting agreement, the car will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated as economically justifiable with respect to the nature of the asset (the useful economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account. The lessor has to disclose future minimum rental payments to be received in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, ie, the capital portion of the minimum lease payments. In case the title would be transferred to the lessee at the end of the lease period, the depreciation method should be the same as other properties the lessee owns. In case the title wouldn't be transferred to the lessee at the end of the lease period, the car should be depreciated over the lease period.

The lessee carries as a liability the minimum lease payments, which is divided into an amount payable after one year and an amount payable within one year.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, if the lease contract has a significant effect on the results of the enterprise, the depreciation method has to be disclosed in the notes to the accounts.

5.4.2. Lessor

The leased car is derecognised from the lessor's balance sheet. The lease payments received should be recorded on the balance as a receivable or a lease investment. This amount consists of the total of the minimum lease payments less finance income allocated to the future period and any unguaranteed residual value accruing to the lessor.

The financial charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period. If the lease contract has a significant effect on the results of the enterprise, the lessor has to disclose 1) future minimum lease payments to be received, 2) the estimated residual values and 3) imputed interest in the notes to the accounts.

6. VAT/sales tax

6.1. General

Japanese consumption tax (JCT) at the flat rate of 8% (effective from April 1, 2014, as increased from 5%) 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%. The JCT rate will be increased to 10% from April 1, 2017.

6.2. 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 itemised 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 (ie, from 2013 if its fiscal year-end is December 31).

6.3. Hire purchase: Supply of goods?

For JCT purposes a hire purchase in Japan (ie, purchasing goods by instalment payments) is a supply of goods whereby the taxable amount is, in principle, the total sum of instalment payments over time.

However, on the condition that three instalments or more are scheduled for two months or more and the amount of interest is explicitly stated on the contract of a hire purchase, 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 hire purchase.

If a lessor adopts “Instalment Method” for revenue recognition of long-term instalment sales (ie, three instalments or more are scheduled for two years or more and the down payment is two-third or less of the total sum of instalment payments) for corporate tax purposes, the output JCT due can be paid by the seller to the tax authorities either when the instalment payment is due or when the car is put at the disposal of the hirer/purchaser. In other cases, the output JCT due must be paid to the tax authorities when the car is put at the disposal of the hirer/purchaser.

6.4. Leasing: Supply of services?

6.4.1. 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 1st 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.

Also, if a lessor adopts “Instalment Method” for corporate tax purposes, it can adopt the same method for JCT purposes as well, recognising 8% output JCT on instalment revenue only which was given a due date and was already received in cash before the due date.

For a lessee, 8% 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.

6.4.2. 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 8% JCT as leasing of the goods (not supply of services).

7. Company car

7.1. 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.

7.2. 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.

7.3. 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.

8. Income taxes – Drivers’ personal taxation

In Japan, the deduction of private car costs is not allowed in the personal tax return.

8.1. 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.

8.2. 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

9. Selling a car

9.1. 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.

9.2. 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.

10. Future developments

According to the Weekly Keidanren Times dated February 19, 2015 (No.3212), the Japanese automotive industry is actively working on reduction of CO2 emissions both in industrial sector and transport sector in light of global warming countermeasures as follows;

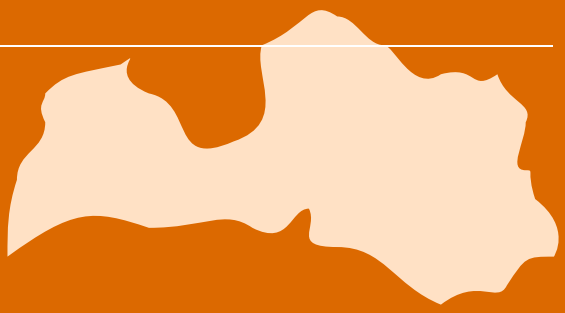
- Japan Automobile Manufacturers Association, Inc. (JAMA) is working with Japan Auto-Body Industries Association Inc. (JABIA) to achieve the target of CO2 emissions of 7.09 million t-CO2 in fiscal year 2020 (ie, 28% reduction as compared with fiscal year 1990) for automobile production under action plan for low-carbon society.

- CO_2 emissions was 7.25 million t-CO_2 in fiscal year 2013 which could be reduced by 100,000 tons as compared with the previous year, despite the increase in production volume.

11. 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 4514
e: zlata.elksnina@lv.pwc.com

Ilze Rauza
p: +371 6709 4400
e: ilze.rauza@lv.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 vehicle registered in a foreign state is used by a person whose permanent place of residence (location for a legal entity) is Latvia, under an authorisation issued in Latvia or a contract entered into in Latvia, the period of five days should be counted from the day of issue of the authorisation or the day of entering into the contract. There is a state owned company that provides registration and technical supervision of road vehicles (see *http://www.csdd.lv/lat/registracija/transportlidzeklu_registracija/vispareja_informacija/?doc=674*

1.2. Who can register a car?

A vehicle needs to be registered in the name of its owner (individual or legal entity). If a vehicle has several owners, it shall be registered in the name of a co-owner – an individual or legal entity – upon mutual agreement of all co-owners.

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

A foreign individual (EU citizen or non-EU citizen with a temporary residence permit) is allowed to register his vehicle in Latvia.

A foreign legal entity (for example, leasing company) is allowed to register its vehicle in Latvia if the actual user (for example, 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 temporary brought in, and which remain in Latvia for more than three months and participate in road traffic, should be registered in 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):

- Car and motorcycle tax
- Vehicle exploitation tax
- Natural resource tax
- Value-added tax
- Enterprise light vehicles tax

2.2. Car and motorcycle tax

2.2.1. Taxable event

The tax should be paid for passenger cars or motorcycles registered in Latvia for the first time.

2.2.2. Taxable person

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

2.2.3. Tax due

For unregistered passenger cars and passenger cars that were first registered abroad after January 1, 2009, the tax is calculated at a rate depending on CO2 emissions per kilometre:

Emission of CO2 per km	Tax per g of CO2	Approximate tax value
Up to 120g	0.43 EUR	Up to 52 EUR
121g–170g	1.42 EUR	172EUR–241EUR
171g–220g	2.13 EUR	364 EUR–469 EUR
221g–250g	3.56EUR	787 EUR–890 EUR
251g–300g	4.27 EUR	1072 EUR–1281 EUR
301g–350g	5.69 EUR	1713 EUR–1992 EUR
Above 351g	7.11EUR	Over 2496 EUR

For passenger cars that were first registered abroad before January 1, 2009, tax is calculated by adding together the amounts that are computed by applying the rate depending on the age of the car (counting from the year of first registration abroad) and the rate depending on the engine volume of the car (if above 3,001cc):

	Engine volume				
Age of the car[9]	*Up to 3,001cc*	*3,001cc–3,500cc*	*3,501cc–4,000cc*	*4,001cc–4,500cc*	*Over 4,500cc*
5–7 years	107 EUR	534 EUR	676 EUR	818 EUR	960 EUR
8 years	114 EUR	541 EUR	683 EUR	825 EUR	968 EUR
9 years	121 EUR	548 EUR	690 EUR	832 EUR	975 EUR
10 years	128 EUR	555 EUR	697 EUR	840 EUR	982 EUR
11 years	142 EUR	569 EUR	711 EUR	854 EUR	996 EUR
12 years	157 EUR	583 EUR	726 EUR	868 EUR	1,010 EUR
13 years	185 EUR	612 EUR	754 EUR	896 EUR	1,039 EUR
14 years	213 EUR	640 EUR	783 EUR	925 EUR	1,067 EUR
15 years	242 EUR	669 EUR	811 EUR	953 EUR	1,096 EUR
16 years	270 EUR	697 EUR	840 EUR	982 EUR	1,124 EUR
17 years	299 EUR	726 EUR	868 EUR	1,010 EUR	1,153 EUR
18 years	327 EUR	754 EUR	896 EUR	1,039 EUR	1,181 EUR

[9] Car age is calculated from the car's first registration abroad.

Engine volume					
Age of the car[9]	*Up to 3,001cc*	*3,001cc–3,500cc*	*3,501cc–4,000cc*	*4,001cc–4,500cc*	*Over 4,500cc*
19–25 years	356 EUR	783 EUR	925 EUR	1,067 EUR	1,209 EUR

Tax is calculated according to the engine volume of the motorcycle for previously unregistered motorcycles and motorcycles that were first registered abroad after January 1, 2009. The duty is 0.14 EUR per cubic centimetre of engine volume.

The tax for motorcycles that were first registered before January 1, 2009 is calculated taking into account the age of the motorcycle. The tax rates are:

Age of motorcycle [10]	Tax due
5–7 years	27 EUR
8 years	28 EUR
9 years	30 EUR
10 years	32 EUR
11 years	36 EUR
12 years	39 EUR
13 years	46 EUR
14 years	53 EUR
15 years	60 EUR
16 years	68 EUR
17 years	75 EUR
18 years	82 EUR
19–25 years	89 EUR

Some vehicles are exempt from car and motorcycle tax. These vehicles are

- cars and motorcycles older than 25 years;
- electric vehicles (cars with an electric engine);
- special-purpose cars (e.g., ambulances, caravans, hearses);
- vehicles for disabled persons;
- specially adjusted sports cars and motorcycles;
- executive cars for the Ministry of Internal Affairs, the Ministry of Finance or National Armed Forces.

[10] Car age is calculated from the car's first registration abroad.

2.3. Vehicle exploitation tax

2.3.1. Taxable event

Vehicle exploitation tax is payable annually before the roadworthiness test.

2.3.2. Taxable person

Vehicle exploitation tax is payable by any individual or legal entity that has a registered vehicle in Latvia and is its holder or owner.

2.3.3. Tax due

Vehicle exploitation tax for motorcycles, tricycles and quad bikes that were first registered after January 1, 2005, and for which the vehicle registration certificate contains information on the engine volume, is paid according to its engine volume in cubic centimetres in the following amount:

- Up to 500cc – 17.07 EUR
- From 501cc to 1,000cc – 34.15 EUR
- From 1,001cc to 1,500cc – 51.22 EUR
- More than 1,500cc – 68.30 EUR

Road tax for motorcycles, tricycles and quad bikes that were first registered before January 1, 2005 is 35.57 EUR.

Vehicle exploitation tax for cars that were first registered after January 1, 2005 is calculated by adding together the amounts that are computed by applying the rates according to the laden weight, engine volume and maximum power of the car.

The following tax rates apply based on laden weight:

- Up to 1,500kg – 14.23 EUR
- From 1,501kg to 1,800kg – 29.88 EUR
- From 1,801kg to 2,100kg – 51.22 EUR
- From 2,101kg to 2,600kg – 65.45 EUR
- From 2,601kg to 3,000kg – 78.26 EUR
- From 3,001kg to 3,500kg – 91.06 EUR
- More than 3,501kg – 102.45 EUR

The following tax rates apply based on the engine volume:

- Up to 1,500cc – 8.54 EUR
- From 1,501cc to 2,000cc – 21.34 EUR
- From 2,001cc to 2,500cc – 34.15 EUR
- From 2,501cc to 3,000cc – 51.22 EUR
- From 3,001cc to 3,500cc – 85.37 EUR
- From 3,501cc to 4,000cc – 149.40 EUR

- From 4,001cc to 5,000cc – 213.43 EUR
- More than 5,000cc – 277.46 EUR

The following tax rates apply based on the maximal engine power:

- Up to 55kW – 8.54 EUR
- From 56kW to 92kW – 21.34 EUR
- From 93kW to 129kW – 34.15 EUR
- From 130kW to 166kW – 51.22 EUR
- From 167kW to 203kW – 85.37 EUR
- From 204kW to 240kW – 149.40 EUR
- From 241kW to 300kW – 213.43 EUR
- More than 300kW – 277.46 EUR

Vehicle exploitation tax for buses is paid according to its laden weight in the following amount:

- Up to 1,500kg – 35.57 EUR
- From 1,501kg to 1,800kg – 75.41 EUR
- From 1,801kg to 2,100kg – 128.06 EUR
- From 2,101kg to 2,600kg – 162.21 EUR
- From 2,601kg to 3,000kg – 196.36 EUR
- From 3,001kg to 3,500kg – 226.24 EUR
- More than 3,501kg – 256.12 EUR

Vehicle exploitation tax for buses is paid according to its laden weight in the following amount:

- Up to 1,500kg – 17.07 EUR
- From 1,501kg to 1,800kg – 34.15 EUR
- From 1,801kg to 2,100kg – 64.03 EUR
- From 2,101kg to 2,600kg – 76.84 EUR
- From 2,601kg to 3,500kg – 102.45 EUR
- From 3,501kg to 12,000kg – 110.98 EUR
- More than 12,001kg – 145.13 EUR

Vehicle exploitation tax for trucks whose laden weight is less than 12,000kg is paid according to its laden weight in the following amount:

- Up to 1,500kg – 17.07 EUR
- From 1,501kg to 1,800kg – 34.15 EUR

- From 1,801kg to 2,100kg – 64.03 EUR
- From 2,101kg to 2,600kg – 76.84 EUR
- From 2,601kg to 3,500kg – 102.45 EUR
- From 3,501kg to 12,000kg – 145.13 EUR

Vehicle exploitation tax for trucks whose laden weight is more than 12,000kg (excluding towing vehicles) is paid according to the number of axles and their suspension type. The rates are set out in appendix 1 of the laws "On vehicle exploitation tax" and "On enterprise light vehicle tax".

Vehicle exploitation tax for towing vehicles is calculated depending on the vehicle's driving axle suspension form:

- Axles with air suspension – 170.74 EUR
- Axles with mechanical suspension – 256.12 EUR

Vehicle exploitation tax for sidecars and semi sidecars is set out in appendices 2 and 3 of the laws "On vehicle exploitation tax" and "On enterprise light vehicle tax".

There are several exemptions from tax that are set in the laws "On vehicle exploitation tax" and "On enterprise light vehicle tax".

2.4. Natural resource tax

2.4.1. Taxable event

This tax should be paid for cars that have been registered for the first time in Latvia and to which the Management of End-of-Life Vehicles Law applies.

2.4.2. Taxable person

All individuals and legal entities in whose name the cars and motorcycles are registered in Latvia.

2.4.3. Tax due

The amount of tax is 40 EUR.

2.5. Value-added tax

See section 4.

2.6. Enterprise light vehicles tax

See section 6.

3. Income taxes – Taxable persons

For company income taxes see section 6. For personal income taxes see Section 7.

4. VAT

4.1. General

Latvian VAT at the standard rate of 21% is, in principle, due on most supplies of goods and/or 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 6,000km.

4.2. Deduction

The Latvian VAT Act states that 20% of input VAT is not deductible for taxable persons for the purchase and lease of passenger cars with up to eight seats apart from the driver's seat value of which without value-added tax do not exceed 50,000 EUR. For the cars value of which without value-added tax does exceed 50,000 EUR no input VAT is deductible.

The same applies to maintenance-related expenses.

However, there are exemptions when input VAT can be deducted in full for taxable persons with a right to deduct VAT. The exemptions are when

- a taxable person purchases, rents or imports passenger cars for such taxable transactions 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 emergency vehicle;
- a passenger car is used as an authorised vehicle dealer's demonstrations car.

4.3. Leasing

Latvian VAT law defines two types of transactions: hire purchase (financial lease) and operating lease.

4.3.1. Financial lease

A financial 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 the ownership passes to the lessee only when he has made all payments specified by the agreement (close ended contract).

Latvian VAT law requires automatic transfer of ownership at the end of financial lease. Thus, a specific transaction may not qualify as a financial 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 equipment but ownership will not automatically pass to the lessee after he has paid all agreed payments, the agreement does not qualify as financial lease.

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 financial lease.

The VAT due on the market value of the lease object must be paid to the VAT authorities when the car is put at the disposal of the lessee.

4.3.2. Operating lease

An operating lease (a lease agreement for VAT purposes) is an agreement that does not provide for automatic transfer of ownership. As a result, there may be a different treatment for VAT and accounting purposes (see the accounting section). An operating lease is treated as a supply of service.

According to Latvian VAT law, 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 put at the disposal of the customer.

The VAT due on a lease in which the supplier is obliged to account for VAT must be paid to the VAT authorities when the service is supplied and an invoice issued.

5. Accounting

5.1. General

Latvia has not yet adopted a local accounting standard for leases, and therefore general accounting law as well as IAS 17 "Leases" should be used as guidance in classifying leases as financial leases and operating leases. There is no consistent approach between the VAT and the accounting treatment of leases. Consequently, even if the transaction qualifies as a financial lease under IAS, it may still be treated as an operating lease for Latvian VAT purposes.

5.2. Financial lease/hire purchase

5.2.1. Lessee

In a financial lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, i.e., the capital portion of the minimum lease payments. The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice this means that the car is depreciated linearly over the lease period.

The lessee carries as a liability the minimum lease payments, which is divided into an amount payable after one year and an amount payable within one year.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, it will have to disclose the valuation rules in the notes to the accounts.

5.2.2. Lessor

The leased car is not capitalised in the lessor's balance sheet and consequently there is no provision for depreciation. The lease payments received should be recorded on the balance sheet as a receivable and equals the net investment in the lease. This amount consists of the total of the minimum lease payments less finance income allocated to the future period.

The finance charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period.

5.3. Operational lease

5.3.1. Lessee

An operating lease is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. In principle, the lessee has to disclose nothing, unless the lease contract has a significant effect on the results of the enterprise. In the latter case the lessee is obliged to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In case of an operating lease the car will be recorded as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognized as income in the profit and loss account. The lessor is obligated to disclose its valuation rules in the notes to the annual accounts

6. *Company car*

6.1. VAT due on private use of company cars

Latvian VAT law limits input tax recovery to 80%. Input tax can be recovered as long as a taxable person can support the use of car for business purposes, e.g., with route sheets. In general Latvian taxable persons treat any cost associated with the acquisitions or use of cars as business cost. The only exemption is if the employer (a taxable person) itself sets a limit on use of cars and withholds the amount in excess from the employee's salary. In this case the excess amount is treated as private use and the VAT incurred on it is not deductible as input tax.

6.2. Company car – Income taxes

6.2.1. Luxury cars

There are restrictions for luxury cars in Latvia – the cost incurred of some luxury cars are not deductible (are not treated as business cost), for example

- the expenditures (including input VAT), which are associated with the operation and maintenance of luxury cars;
- lease or hire-purchase payments, which are associated with the lease of luxury cars;
- interest payments, which are associated with the acquisition or lease of luxury cars.

A luxury car is a passenger car in which the number of seats not counting the driver's seat does not exceed eight seats, the value of which without value-added tax exceeds 50,000 EUR and which is not an operational means of transport or a special passenger car (ambulance, caravan or hearse), or a passenger car which is specially equipped in order to transport disabled persons in wheelchairs, or a new passenger car which is utilised as a demonstration car for an authorised car dealer.

6.2.2. Private use

Generally, when an employer puts a company car at the disposal of an employee for business purposes, such costs are deductible for company income tax and are not subject to payroll taxes in the hands of the employees. Business kilometres must be supported with route sheets.

Costs associated with the acquisition of a car (excluding a luxury car) and its maintenance are fully deductible for CIT purposes, providing the company has paid enterprise light vehicle tax.

6.3. Enterprise light vehicles tax

6.3.1. Taxable event

This tax should be paid annually before the roadworthiness test for passenger cars whose seating capacity, excluding the driver's seat, is not more than eight seats and that are registered in a company's name, or for which company is registered as holder, or which are used on a contract basis or borrowed.

6.3.2. Taxable person

All legal entities (including Latvian branches of foreign entities) in whose name cars are registered.

6.3.3. Tax due

Enterprise light vehicles tax for cars which are first registered after January 1, 2005 is calculated at a rate depending on car engine volume:

- Up to 2,000cc –27.03 EUR per month;
- From 2,001cc to 2,500cc –42.69 EUR per month;
- More than 2,500cc –56.91 EUR per month.

Enterprise light vehicles tax for cars which are first registered before January 1, 2005 is 42.69 EUR per month.

If cars are used only for business needs (income from car leasing and selling is not less than 90% of total company turnover) they are exempt from this tax

7. Income taxes – Drivers' personal taxation

The costs incurred in respect of the private use of a vehicle are not deductible in the personal income tax return.

8. Electric vehicles

Vehicles with electric engines do not need to pay car and motorcycle tax.

9. Future developments

No amendments planned.

10. Legal background

- Law "On Car and Motorcycle Tax"
- "Vehicle exploitation tax and enterprise light vehicle tax" law
- Natural Resource Tax law

- Law “On Value-Added Tax”
- Law “On Company Income Tax”
- Law “On Personal Income Tax”

Lithuania

Kristina Kriščiūnaitė
Automotive Tax Leader
p: +370 5239 2365
e: kristina.krisciunaite@lt.pwc.com

Egidijus Kundelis
p: +370 5239 2357
e: egidijus.kundelis@lt.pwc.com

Lithuania

1. Car registration

1.1. When does a car need to be registered?

Any car which is used in Lithuania by a resident individual or Lithuanian legal entity should be registered before the actual usage of the car.

1.2. Who can register a car?

- A vehicle may be registered in the name of the vehicle owners or operators listed below:
- An individual operator of a vehicle whose permanent place of residence is Lithuania or a legal person which is registered in Lithuania. Under certain conditions a vehicle can be registered in the name of the foreign individual or a legal person who is registered in a foreign country.
- A representative office of the foreign company when the owner of the vehicle is the company which is registered in the foreign country and has the representative office established in Lithuania.
- An individual or legal person who is entitled to operate a vehicle on the basis of a lease, operational lease, hire-purchase agreement, etc., whose permanent place of residence is Lithuania when the owner of the vehicle is a foreign individual or a company registered in a foreign country.
- The Lithuanian state or municipality institutions that are entitled to operate a vehicle on the basis of the right of trust when the owner of the vehicle is a Lithuanian state or municipality institution.

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

Yes. The registration of the vehicle in the name of a foreign owner is possible only if he has obtained a temporary residence certificate and declared a place of residence.

A non-resident individual whose permanent place of residence is other than EU or EEA country has to register a vehicle when he stays (or is planning to stay) in Lithuania for more than 90 days during a calendar year.

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

Yes, if a car is used by a person not resident in Lithuania and who stays for not more than 90 days during a calendar year within the country.

2. Car taxation

2.1. What are the different car taxes?

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

- Vehicle tax
- Vehicle user tax

2.2. Vehicle tax

2.2.1. Taxable event

Registration and operation of heavy vehicles (with total weight exceeding 12t dedicated solely for freight transport) and trailers registered and operated in Lithuania

2.2.2. Taxable person

The owner or the user of the vehicle.

2.2.3. Tax due and period

The tax depends on the maximum allowed weight, category and class of a vehicle as well as its axle suspension system.

The tax should be paid directly to the account of the Lithuanian Tax authorities before the date of compulsory maintenance inspection.

Category and class of a vehicle	Type of axle suspension system	Maximum allowed weight, t	Threshold tariff, EUR
N2 and N3 - heavy vehicles, O4 - trailers	Pneumatic	12 – 15	86 – 179
		15 – 23	127 – 301
		23 – 29	237 – 474
		29 – 33	376 – 753
		33 – 40	535 – 1 071
	Other	12 – 15	127 – 254
		15 – 23	286 – 573
		23 – 29	376 – 753
		29 – 33	558 – 1 120
		33 – 40	735 – 1 471
N3+O4 - combined trailers	Pneumatic	40 – 44	654 – 1 309
	Other	40 – 44	967 – 1 937

Moreover, there are additional fees for the vehicles exceeding the maximum authorised axle load and for vehicles exceeding the maximum dimensions. The fee depends on the centimetres and tonnes exceeded and the period and place where cargo is transported.

The fees for the vehicles exceeding the maximum authorised axle load and for vehicles exceeding the maximum dimensions are provided in the tables below.

Maximum allowed overweight, t	Threshold tariffs, EUR		
	One-time, 10 km	*Monthly*	
		Municipal territory	*State territory*
0.6 – 1.0	0.69 – 0.97	48 – 68	121 – 170
1.1 – 1.5	1.39 – 1.52	97 – 107	243 – 267
1.6 – 2.0	1.94 – 2.22	136 – 155	340 – 389
2.1 – 3.0	3.47 – 3.85	243 – 269	608 – 675
3.1 – 4.0	5.56 – 6.25	389 – 437	973 – 1 094

Maximum allowed over-measure, cm			Threshold tariffs, EUR				
				Monthly		*Yearly*	
Height	*Width*	*Length*	*One-time, 10 km*	*Municipal territory*	*State territory*	*Municipal territory*	*State territory*
-	10 - 20	-	1.4 – 1.7	67 - 81	168 - 185	337 - 405	844 - 929
11 - 30	21 - 60	101 – 300	1.7 – 2.0	82 - 94	206 - 236	412 - 473	1 031 - 1 183
31 - 50	61 - 100	301 - 500	2.0 – 2.1	95 - 101	239 - 253	480 - 506	1 199 - 1 267
-	101 - 145*	501 - 750*	2.3 – 2.4	109 - 114	273 - 287	547 - 574	1 368 – 1 436
4.1 – 5.0		**7.64 – 9.03**		-		-	
5.1 – 6.0		9.73 – 11.12		-		-	
6.1 – 7.0		11.81 – 13.20		-		-	

*On the roads of state importance (category I) with a central reservation.

Additionally, there are fees for the vehicles exceeding the maximum authorised total load

Maximum allowed overweight, t	One-time tariff for each ton in excess for 10 km	Monthly threshold tariffs, EUR (state territory)
1.0 – 20.0	1.01 – 1.30	115 – 173
21.0 – 40.0	1.30 – 1.44	-
> 40	1.59 – 1.88	-

2.3. Vehicle user tax

2.3.1. Taxable event

Operation of vehicles (registered in Lithuania and in other countries) with more than eight passenger seats, excluding the driver (including microbuses and buses), vehicles used for freight transport, and other special vehicles used for other special functions on the main roads of Lithuania

2.3.2. Taxable person

The owner or the user of the vehicle.

2.3.3. Tax due and period

The tax depends on the type of vehicle and the period of driving on main roads.

The tax is paid by purchasing a vignette, which is valid for one day, one week, one month or one year.

Vehicle type, category (class and group), maximum allowed weight, emission class*			Threshold tariffs, EUR			
			Yearly	*Monthly*	*Weekly*	*Daily*
Buses	M2	More than 8 passenger seats, maximum allowable weight <5 t	289 – 579	28 – 57	14 – 23	5 – 11
	M3 (A, B)	More than 8, less than 22 passenger seats, maximum allowable weight >5 t	434 – 868	43 – 86	17 – 40	5 – 11
	M3 (I-III)	More than 22 passenger seats	463 – 926	46 – 92	23 – 46	5 – 11
Freight vehicles and their combinations	N1	Maximum allowable weight up to 3.5 t	289 – 579	28 – 57	14 – 23	5 – 11
	N2	Maximum allowable weight from 3.5 t to 12 t	463 – 1 158	46 – 115	23 – 49	5 – 11
	N3	Maximum allowable weight from 12 t	521 – 1 158	49 – 115	26 – 49	5 – 11
	N1-N3	Maximum allowable weight up to 16 t,	231 – 579	23 – 57	11 – 23	5 – 11

Vehicle type, category (class and group), maximum allowed weight, emission class*			Threshold tariffs, EUR			
			Yearly	*Monthly*	*Weekly*	*Daily*
		when owner is an agribusiness entity				
Vehicles of special purpose	M2-M3 bus N1-N3 freight vehicle	Vehicle used to perform special functions with certain equipment	231 – 579	23 – 57	11 – 23	5 – 11

*Vehicles conform to Euro norm emission standards from EURO 0 to IV, or are less polluting.

3. Income taxes – taxable persons

For direct tax purposes, all costs relating to all types of vehicles are 100% deductible provided that the vehicles are used only for business purposes.

4. VAT

4.1. General

The Lithuanian standard VAT rate is 21%.

4.2. Deduction

Input or import VAT is not deductible on a passenger car designed for the transportation of not more than eight persons (excluding the driver), or a motor vehicle of the said class attributed to the category of off-road vehicles, provided this car is not supplied (re-sold) or leased, or it is not used to provide services of passenger transport for reward. However, the non-deductible VAT is deductible for profit tax purposes.

The same limitations shall apply to the deduction of input VAT on the lease of cars of the specified categories. These limitations shall not apply to motor vehicles subject to specific classification.

4.3. Leasing

The financial lease is deemed to be a supply of goods. The taxable moment is the transfer of a vehicle.

The operational lease is deemed to be a supply of services. The taxable moment is the time of issue of the monthly VAT invoice.

5. Accounting

5.1. General

According to the Lithuanian Accounting Law, Lithuanian entities have the right to decide which accounting methods and principles to use – either Lithuanian Business Accounting Standards (LBAS) or International Financial Reporting Standards (IFRS). A company has to inform the tax authorities about their option. This option is valid for five financial years.

In general, LBAS are very similar to IFRS, but they are simplified and in some cases allow fewer alternative treatments than do IFRS.

Under LBAS, a lease is classified as a financial lease when at least one of the following criteria is met:

- The ownership of the asset is transferred to the lessee by the end of the lease term.
- The lessee has the option to purchase the asset at the end of the lease term at a price which is expected to be sufficiently lower than its fair value and at the commencement of the lease it is reasonably certain that the option will be exercised.
- The lease term is for the major part of the economic life of the asset, if the title is not transferred. The term should account for at least 75% of the economic life of the asset.
- At the commencement of the lease the present value of the minimum lease payments is equal to the fair value of the leased asset or amounts to at least 90% of its fair value.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

5.2. Hire purchase

5.2.1. Purchaser

In the case of hire purchase, a company will capitalise the car as a fixed tangible asset in its balance sheet and depreciate it with respect to the nature of the asset (economic life). For tax purposes the depreciation of a new car (up to five years old) is six years (straight line), for older cars ten years (straight line). Depreciation of a new car used for short-term lease, provision of driving instructions or transportation services (up to five years old) is four years (straight line or double declining balance). Depreciation of transportation vehicles is four years (up to five years old; straight line or double balance, for others straight line).

5.2.2. Vendor

The sold vehicle is not capitalised in the vendor's balance sheet and consequently there is no asset to depreciate. The revenue from the sale should be recorded on the balance sheet as a receivable.

5.3. Operational lease

5.3.1. Lessee

Lease payments under an operational lease agreement should be recognised as an expense on a straight-line basis over the lease term. The exploitation, repair and maintenance costs if not compensated by a lessor are recognised as operating expenses.

Depreciation of assets used under the operating lease is calculated and recognised as expenses by the owner of such assets.

5.3.2. Lessor

Lease payments under an operational lease agreement should be recognised as an expense on a straight-line basis over the lease term. The exploitation, repair and

maintenance costs if not compensated by a lessor are recognised as operating expenses.

Depreciation of assets used under the operating lease is calculated and recognised as expenses by the owner of such assets.

5.4. Financial lease

5.4.1. Lessee

Upon the receipt of assets under the financial lease agreement, the lessee records non-current assets and non-current liabilities at the amount of asset value coverage. The depreciation is calculated as for fixed non-current assets. Practically, the car is depreciated linearly over the lease period, taking into consideration the contractual residual value of the car.

Lease payments recorded in accounting shall be differentiated specifying the amount of asset value coverage, interest and other payments (recoverable fees, contingent rent). Interest is included into expenses for financial activities on the accrual basis. The amount of asset value coverage is subtracted from amounts payable under the financial lease agreement, and recoverable fees and contingent rent are included into operating expenses of the reporting period.

5.4.2. Lessor

Upon transferring the assets under the financial lease agreement, the lessor records in accounting amounts receivable after one year at an amount equal to the net investment in the lease. The lessor recognises payments received according to the financial lease agreement as the repayment of debt (at the amount of asset value coverage) and sales revenue (at the amount of interest) or income from other activities when finance leasing is not the primary activity of the lessor.

6. Company car

6.1. VAT due on private use of company cars

Provided that the input Value-Added Tax (VAT) on a company car is non-deductible, a company has no obligation to calculate output VAT on its private use

6.2. Company car – income taxes

Expenses related to depreciation, maintenance and repair, fuel, etc., for private use of company cars may be treated as deductible for profit tax purposes provided that such expenses are treated as benefit in kind and taxed with payroll-related taxes.

7. Income taxes – drivers' personal taxation

7.1. Private car in the personal tax return

If an employee is using his car for business purposes, the company is obliged to sign a rent agreement with the employee. The payment should correspond to the market price and should be indicated in the company's and the employee's agreement. The payment is subject to personal income tax of 15%. The taxes should be withheld from the payment. The payment is deductible for profit tax purposes.

7.2. Company car used for personal purposes

According to Lithuanian legislation, if a company car is used not only for business purposes but also for private purposes, benefit in kind should be recognised and taxed with payroll taxes. The companies are liable to approve internal policies/rules regulating the usage of company cars, e.g., “Rules on Usage of Company Cars”.

There are two options for the recognition of benefit in kind related to private usage of company car.

Option I

Monthly benefit in kind will be equal to the monthly car rent/lease fee (established at arm's length) apportioned for the period when the car is used for private purposes. The amount of benefit in kind recognised includes car maintenance, wash, repair, insurance, etc., expenses but excludes fuel expenses.

Option II

Monthly benefit in kind is fixed and equal to 0.75% of the car’s market value irrespective of the actual time the car is used for private needs. The amount of benefit in kind recognised includes car maintenance, wash, repair, insurance, etc., expenses including fuel expenses. If a company does not compensate for fuel consumed for private use, benefit in kind may be recognised applying 0.7% of the car’s market value instead of the mentioned 0.75% and such amount would include car maintenance, wash, repair, insurance, etc., expenses but exclude fuel expenses.

Moreover, the tax authorities explained that use of a company car for ordinary travel from and to work is not treated as benefit in kind and therefore not subject to the payroll taxes.

VAT implication – recognition of private use of goods

In the case that the 0.75% rule is applicable for the determination of the monthly benefit in kind, 0.05% of the car’s market value should be treated as fuel expenses. Such fuel should be treated as consumed for private use for VAT purposes and output VAT must be applied on this value. However, if the actual usage of fuel consumed for private purposes of employees can be determined, output VAT should be calculated on the whole value of the fuel.

The private use of company cars will be subject to personal income tax (15%), social security contributions (3%) and health insurance tax (6%) to be paid on behalf of an employee, as well as social security contributions (30.98%) and guarantee fund tax (0.2%) to be paid on behalf of an employer.

8. Electric vehicles

No special tax reliefs are applicable for electric vehicles.

9. Future developments

The Lithuanian authorities are in process of changing the car taxation system to be better aligned with the EU as well as worldwide initiatives on the reduction of pollution including CO2 emission. The developments in the area are expected to focus on the following:

- taxes will mainly be based on the CO2 emission level;
- taxation of cars owned by individuals shall be introduced;
- there will likely be incentives for the use of environmentally friendly cars (electric, hybrid vehicles, etc.).

It is not known when the new regulations will take effect yet.

10. Legal background

- Rules on registration of motor vehicles and trailers
- Lithuanian VAT Law
- Lithuanian Corporate Income Tax Law
- Lithuanian Personal Income Tax Law
- Law on financing of road maintenance and development program

Luxembourg

Anthony Husianycia
Automotive Tax Leader
p: +352 49 48 48 3239
e: anthony.husianycia@lu.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.

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 personalised 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 case of the acquisition of a used vehicle, which was originally covered by personalised number plates.

1.2. 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?

- Road tax
- Stamp tax upon registration (in principle 50EUR).

2.2. Road tax

2.2.1. Taxable event

This tax is levied on all vehicles registered in Luxembourg, i.e., vehicles that are in use on public roads.

2.2.2. Taxable person

The tax is in principle due by the person mentioned on the registration form.

In case of a personalised number plate, the tax is in principle due by the person to which 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.

2.2.3. Tax due

Note that the table mentioned 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 (before or after January 1, 2001). For registrations before January 1, 2001, the tax computation is made according to the engine capacity while for registrations after January 1, 2001 the computation is made according to the CO2 output.

Tax computation according to the engine capacity (first registration before January 1, 2001)

The Grand Ducal regulation dated December 21, 2012 provides scales for the tax computation – these scales should be used for calculations as from February 1, 2013.

You can consult the latest scales at:

http://www.legilux.public.lu/leg/a/archives/2012/0270/a270.pdf

Tax computation according to the CO2 output (first registration before 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 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 of CO2 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

2.2.4. 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.

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).

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 therefore should be reported in the employee's payroll slip as a taxable fringe benefit (see section 6.2).

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. Refer to section 6.2 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 credit available for:

- the investment in enterprises with commercial profit
- the investment managed by establishment situated 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 (7% for the first tranche not exceeding EUR 150,000 and 2% for the tranche exceeding EUR 150,000).

3.3.2. Tax credit for additional investment

It amounts to 12% 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 values of the qualifying assets at the end of the 5 prior accounting periods

(minimum of EUR 1,850) 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.

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 a lease of a car, the lessor has to define the following in order to determine the VA treatment applicable to the leasing of cars:

- 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).

	Place of supply
Long Term leasing (>30 days)	Country where the customer is established*
Short term leasing (≤30 days)	Country where the car is actually put at the disposal of the client*

** If the lessor is not established in Luxembourg, he will have to register for VAT in Luxembourg, if the place of taxation is Luxembourg.*

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, in so far 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.

4.4. Lease without purchase option

If the leasing agreement does not provide the 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 services are 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 exempt from Luxembourg VAT when the car is transported outside of Luxembourg.

4.6. Obligation to use the standard audit file for tax (SAF-T) for VAT in Luxembourg

The tax authorities may now require taxpayers to provide all the information necessary for their audit on an electronic file under a structured format (xml file), i.e., the so-called "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 2011 and following years as of now. Failure to comply with this obligation could trigger penalties either on a lump sum basis (up to EUR 5,000 per infraction) or as daily penalties ranging from EUR 50 to EUR 1,000.

5. *Accounting*

5.1. General

In Luxembourg, the generally accepted accounting principles (“Luxembourg GAAP” or “LuxGAAP”) derives from the Law of December 19, 2002 (the “Accounting Law”) as amended by the Law of December 10, 2010 (the “Modernization Law”) and the law of July 30, 2013 (the “New Law”). The New Law clarifies the provisions introduced by the Modernization Law and introduces new provisions.

Luxembourg companies have the possibility to prepare their annual accounts using either:

LuxGAAP under the historical cost convention or IFRS as endorsed by the European Union.

To be noted that we will not deal with the accounting treatment under IFRS here.

LuxGAAP does not provide for specific rules regarding the accounting for leased car fleet.

Based on the article 29(3) of the Accounting Law: "*The presentation of amounts within the profit and loss account and the balance sheet may have regard to the substance of the reported transaction or arrangement*". Therefore, under LuxGAAP, companies may decide to record their leased car fleets by reference to the legal approach or using the substance over form principle.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the purchasing company – having legal title in the asset – will register the car as a tangible fixed asset on its balance sheet at the purchase price (including the expenses incidental thereto) and will for subsequent measurement depreciate it over its useful economic life.

The purchaser will have to disclose the valuation rules with regard to the cars (or to the category of assets in which the cars are included) in the notes to the accounts.

5.2.2. Vendor

The sold car is derecognized in the vendor's balance sheet since the vendor no longer has legal title to the asset. The amounts recoverable should be recorded on the balance sheet as a receivable and the difference between the net book value and the sale price be recognized as a gain/loss in the profit and loss account.

5.3. Operational lease

5.3.1. Lessee

A lessee will not be allowed to recognize a leased asset as an asset. As a consequence, the lessee will recognize the expenses incurred under the lease agreement as "other external charges".

If material in aggregate, the commitments related to future payments due under the lease agreements of the car fleet should be disclosed in the notes to the accounts.

5.3.2. Lessor

Under an operational lease agreement, the lessor keeps the legal ownership of the car. As a consequence, the lessor must book it in accordance with part 5.2.1 above.

The income generated under the lease agreement would be recognized as either "turnover" or "other operating income" depending on whether leasing cars and motor vehicles is the core business of the lessor.

5.4. Financial lease

Luxembourg companies have the possibility to record their financial leases based on the legal approach or based on the substance over form approach. Financial leases generally qualify for the substance over form principle and depending on the approach used, the cars fleet may be recorded in the accounts of the lessee or in the accounts of the lessor.

5.4.1. Lessee

Under the legal approach, the lessee is not the legal owner of the cars. As a consequence, the accounting treatment will be similar with the one described in part 5.3.1 above.

Under the substance over form approach, the car is capitalized in the accounts of the lessee to reflect the economic substance of the transaction. The lessee can be considered as the economic owner of the car and then record it in its balance sheet if under the lease agreement, all risks and rewards are substantially transferred to the lessee and the lessee has the obligation to buy the car at the end of the lease agreement (or the option to buy the car at the end, considering that the option is almost certain to be exercised). The car will then be valued similarly as described in part 5.3.1 (towards a liability for the same amount). The instalments paid to the lessor will be split into the portion of reimbursement value to be deducted from the liability towards the lessor and the financial interest charges to be accounted for in the profit and loss account.

LuxGAAP does not provide for calculation methods to determine the value of the asset to be recognized or the breakdown between the debt and the interest expense. Therefore, IFRS can be used as a benchmark.

5.4.2. Lessor

Under the legal approach, the lessor is the legal owner of the car and will account it in accordance with the rules defined in the part 5.2.1.

Under the substance over form approach, the car should not be recognized in the accounts of the lessor. The lessor should record the amount due by the lessee under the lease agreement as a receivable. The instalments paid by the lessee will be split into the portion of reimbursement value to be deducted from the receivable from the lessee and the financial interest income to be accounted for in the profit and loss account.

5.5. Expected developments

The current accounting treatment is not expected to change. In addition, the modification of the European Accounting Directive which must be implemented by Member States before July 2015 should not change the Luxembourg accounting treatment applicable to leased car fleets.

6. *Company car*

6.1. VAT due on private use of company cars

Where a company puts vehicles at the disposal of its employees and the employees use them for their private needs, the company is deemed to supply services for consideration for VAT purposes except if the company did not deduct VAT borne on the acquisition or lease of the car.

In principle, VAT is due on the amount charged by the company to the employee for the private use.

If 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 kilometres covered for his private needs (logbook).
- The company uses a lump-sum valuation method accepted by the VAT authorities. Although various lump-sum methods can be used, the monthly taxable basis is often equal to 1.5% of the purchase price of the vehicle (no guidelines state whether this purchase price includes VAT or not). This amount will be taxed at 17%. However, please note that the VAT authorities can impose another calculation method to assess the VAT due on private use of a company car.

6.2. 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.

6.2.1. 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 kilometre of the car on the basis of the cost of the car. The monthly benefit is then determined by multiplying the private mileage per month by the said cost per kilometre.

6.2.2. Lump-sum valuation method

As it may be tedious to keep track of the kilometres 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 cash gross remuneration).

The monthly lump-sum taxable benefit corresponds to 1.5% of the purchase price of the car (including options and VAT). Lump-sum contributions made by the employer in relation with the company car do not increase the taxable base of the benefit in kind (e.g. allocation of a fuel card to the employee).

6.2.2.1. 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 kilometre of private mileage, the mileage must be justified on the basis of a logbook, in order for the employee's contribution to be deductible. A lump-sum valuation of the total mileage for private use is not allowed.

6.2.2.2. 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.

6.3. 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 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.

6.4. 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.

6.5. 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).

6.5.1. 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).

6.5.2. 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. 0.40 EUR per kilometre) and provided that such payments are separated from the ordinary salary payment.

6.5.3. Electric vehicles and hybrid vehicles with low CO2 output

For the purchase of new electric vehicles or new hybrid vehicles with a low CO2 output, that will be registered in Luxembourg, a one-off bonus (PRIMe CAR-e) can be obtained from the Luxembourg Government.

The amount of the bonus is 1,000€ for a quadricycle and 5,000€ for an automotive (car or van) registered in Luxembourg between 1 January 2013 and 31 December 2014.

This measure is not extended in 2015.

7. 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 5, 2007 concerning the granting of financial subsidies to individuals for the promotion of cars with low CO2 emissions
- 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
- Circular Letter of November 20, 2014 concerning the assessment of certain benefit granted by the employer to its employees

Malta

Kevin Valenzia
Automotive Tax Leader
p: +356 21 247 000
e: kevin.valenzia@mt.pwc.com

Neville Gatt
p: +356 21 247 000
e: neville.gatt@mt.pwc.com

Steve Gingell
p: +356 21 247 000
e: steve.gingell@mt.pwc.com

Malta

1. Importation of cars

1.1. Customs duties

Upon the importation of motor vehicles into the European Union (EU), an import duty of 10%, 16% or 22% is generally due depending on the nature of the motor vehicle being imported (other rates may also apply in respect of certain other vehicles). If the motor vehicles enter Malta from countries with which the EU has trade agreements, preferential tariffs may be applicable.

Furthermore, import duties can be optimised depending on the underlying business set-up, e.g., by implementing an outward processing arrangement for brake systems that are being exported from the EU to be incorporated in a vehicle assembled in a third country. In doing so, one may reduce the taxable basis (i.e., the customs value) with the value of items originating in the EU, thus reducing the customs duty cost on the vehicle finally imported into the EU.

1.2. Import VAT/sales tax

The importation of motor vehicles into the EU is a taxable event and import VAT should be due in the member state in which such importation takes place and should be applied on the taxable amount of the motor vehicle on importation.

Generally, the taxable amount is the customs value including the customs duties, and the cost of transport and import up to first point of destination in the EU. The standard Maltese VAT rate is 18%.

The import VAT that is paid on the importation of the motor vehicle is generally not deductible/creditable.

As set out in Section 6 below, certain exceptions to this rule apply if the person that is importing the motor vehicle is a taxable person and such person uses the motor vehicle for the purposes of making taxable or exempt with credit (zero-rated) supplies.

In such cases where

- the motor vehicle is used for the purpose of the carriage of goods or passengers for a consideration,
- the vehicle is used for the purpose of being provided by the taxable person for hire with a driver or for self-drive hire or used for driving instructions or
- the motor vehicle is designed for the carriage of goods or with seating accommodation for nine persons or more,
- the input tax incurred on the motor vehicle should be deductible/creditable for such taxable person.

2. Motor vehicle registration

2.1. When does a motor vehicle need to be registered?

As a general principle, registration tax and an annual circulation licence fee are payable in respect of every motor vehicle imported or brought into Malta and every motor vehicle manufactured in Malta.

In this regard, the person who is subject to the payment of registration tax as a result of an importation, bringing in or manufacture of a motor vehicle in Malta, must notify Transport Malta (being the Maltese authority vested with the administration of the Act – "the Authority") within the first working day following arrival or manufacture of the motor vehicle in Malta. With certain exceptions, the registration tax and circulation fee are payable before the motor vehicle is released for circulation on Maltese roads.

There may however be circumstances where an exemption from the payment of registration tax is given in particular circumstances.

Where a vehicle is registered in another country, the vehicle may be used temporarily on the roads in Malta in accordance with the provisions of the Motor Vehicles Registration and Licensing Act ("the Act").

In this regard, the Act states that the following vehicles may, subject to certain conditions and restrictions, be used on the road without payment of the vehicle registration tax and without the need to be registered with Transport Malta:

31. Any private motor vehicle which is registered in another country, and which satisfies various conditions, the main ones being:

    – It is brought temporarily into Malta for a period not exceeding seven months in any twelve-month period (although certain exceptions to this condition could apply)

    – It is held by a person who has his normal residence outside Malta

    – The person in possession of the motor vehicle does not have an identity card in terms of the Maltese Identity Card Act or a residence permit

    – The vehicle is for private use or for business use (with certain restrictions including that the vehicle is not hired out in Malta)

    – The vehicle is not sold, given away in Malta or lent to a person residing in Malta

32. Any M1 motor vehicle (a vehicle which is used for the carriage of passengers and comprising no more than eight seats in addition to the driver's seat) or N1 motor vehicle (a vehicle used for the carriage of goods and having a maximum mass not exceeding 3.5 tonnes) registered in another country which is brought into Malta by a person who has been residing outside Malta for at least 185 days and who comes to Malta under a contract of employment (in such a case, the exemption applies for the period of 12 months from the date of the vehicle's arrival in Malta).

33. Any M1/N1 motor vehicle imported or brought temporarily into Malta by a student who has his normal residence outside Malta for his own use and who is residing in Malta for the sole purpose of pursuing his studies in an authorised educational institution.

34. Any motor vehicle brought into Malta by a licensed motor vehicle trader as a representative sample to be displayed or used for demonstration. In this regard, the law imposes certain restrictions on the use of the vehicle (i.e., that it is used exclusively for the purpose of demonstration)

35. Any motor vehicle registered in another member state and operated by a haulier established and licensed in that member state, brought into Malta to carry out international carriage of goods.

36. Any passenger motor vehicle registered in another member state and operated by a carrier established and licensed in that member state, brought into Malta to carry out international carriage of passengers.

37. Any motor vehicle registered in another country brought into Malta by a person who has his normal residence in Malta for a period not exceeding 30 consecutive days, subject to certain conditions and restrictions.

38. Any M1 motor vehicle or a motorcycle which is the personal property of a private individual and is being brought permanently into Malta by the individual when he is transferring his normal residence from a place outside Malta to a place in Malta. The said exemption is subject to a number of conditions including, but not limited to, the following:

    i. the vehicle was owned for a period of at least two years before the change in residence,

    ii. the person resided outside of Malta for at least two years,

    iii. the vehicle was not subject to any exemption or relief in another country on the basis that it was to be exported out of the country.

Furthermore, other exemptions may also apply (even if the motor vehicle is not brought into Malta for a temporary purpose) in certain circumstances, such as the following:

- Any vehicles which are supplied to the Government of Malta for the public service.
- Any vehicles which are supplied to the Armed Forces of Malta.
- Any vehicles to be used by institutions of the European Union.
- Any vehicles supplied to any international organisation recognised as such by the minister responsible for foreign affairs for official use in Malta.
- Any vehicles supplied under diplomatic, consular or similar arrangements in virtue of the Diplomatic Immunities and Privileges Act. 6..
- Any motor vehicle having been classified as a vintage vehicle in terms of the Act, which is older than 50 years.

In the above circumstances, the vehicles shall also be exempt from the payment of any circulation licence fees.

Finally, the legislation also grants the Minister responsible for finance the power to exempt any person from the payment of any registration tax or from any obligation imposed by the Act. Such exemption may be made subject to any conditions, restrictions or limitations.

2.2. Who can register a motor vehicle?

The law is silent on who can register a motor vehicle except that it makes reference to the owner, importer or person bringing the vehicle into Malta as being obliged to register the motor vehicle.

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

Yes, a foreign owner should be able to register a motor vehicle in Malta as long as it is physically brought into Malta.

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

In general, given that every motor vehicle which is imported into Malta must be registered with the Authority, all such vehicles must display a Maltese number plate.

That having been said, the law states that where the motor vehicle is imported into Malta in circumstances listed in paragraphs 1 to 7 in section 2.1, those vehicles are exempt from being registered with the Authority and therefore should not be required to display Maltese license plates.

3. *Motor vehicle taxation*

3.1. What are the different motor vehicle taxes?

Malta imposes the following motor vehicle taxes:

- Registration tax
- Annual circulation tax

3.2. Registration tax

3.2.1. Taxable event

As noted in section 2.1 above, where a motor vehicle is imported into Malta, registration tax is payable before the motor vehicle is released from bond. On the other hand, where a motor vehicle is brought into Malta (without importation formalities), the owner/person bringing the motor vehicle into Malta generally has 30 days from the date of arrival in Malta to register the vehicle.

3.2.2. Taxable person

In principle, registration tax is due by the person who has registered the vehicle in his name.

3.2.3. Tax due

The law applies different registration taxes for (1) vehicles intended to be used for private purposes (typically vehicles that can carry up to 8 passengers – M1 vehicles) and (2) vehicles that are intended for generally more commercial purposes (i.e., to carry more than 8 passengers or designed to carry goods, special-purpose vehicles, tractor units and light- weight three wheeled vehicles (hereinafter referred to as “commercial vehicles”).

3.2.3.1. Motor vehicles designed to carry up to 8 passengers (M1 vehicles)

In the case of M1 vehicles, registration tax is calculated by taking account of the registration value (RV) (generally being the price quoted on the invoice including, where applicable, insurance and freight as well as appropriate depreciation), the CO_2 emissions, the fuel type of the engine, the Euro Standard of the engine (as from January 1, 2012), the length of the vehicle and in the case of diesel engines, the particulate matter (PM).

The registration tax is calculated by applying the following formula.

Registration tax = [(RV x CO_2 x %) + (RV x Length (mm) x %)]

From 1 March 2015,vehicles which are hired or leased from a vehicle hire undertaking licensed in a Member State of the EU (save for Malta) which are brought into Malta under a contract of lease or hire, and which satisfy certain conditions, are entitled to a reduced rate of registration tax.

Tab. 1 Petrol Engines – CO_2

CO_2	*Latest Euro Standard*	*Latest Euro Standard minus 1*	*Latest Euro Standard minus 2*	*Latest Euro Standard minus 3*
0g/km up to 100g/km	CO_2 x 0.07% x RV	CO_2 x 0.15% x RV	CO_2 x 0.20% x RV	CO_2 x 0.23% x RV
More than 100g/km upto 130g/km	CO_2 x 0.09% x RV	CO_2 x 0.17% x RV	CO_2 x 0.23% x RV	CO_2 x 0.26% x RV
More than 130g/km upto 140g/km	CO_2 x 0.10% x RV	CO_2 x 0.19% x RV	CO_2 x 0.26% x RV	CO_2 x 0.30% x RV
More than 140g/km upto 150g/km	CO_2 x 0.11% x RV	CO_2 x 0.22% x RV	CO_2 x 0.29% x RV	CO_2 x 0.33% x RV
More than 150g/km upto 180g/km	CO_2 x 0.16% x RV	CO_2 x 0.24% x RV	CO_2 x 0.32% x RV	CO_2 x 0.37% x RV
More than 180g/km upto 220g/km	CO_2 x 0.18% x RV	CO_2 x 0.26% x RV	CO_2 x 0.35% x RV	CO_2 x 0.40% x RV
More than 220g/km upto 250g/km	CO_2 x 0.21% x RV	CO_2 x 0.29% x RV	CO_2 x 0.38% x RV	CO_2 x 0.44% x RV
More than 250g/km	CO_2 x 0.23% x RV	CO_2 x 0.31% x RV	CO_2 x 0.41% x RV	CO_2 x 0.47% x RV

Tab. 2 Diesel engines with PM of 0g/km up to and including 0.005g/km – CO2

CO2	*Latest Euro Standard*	*Latest Euro Standard minus 1*	*Latest Euro Standard minus 2*	*Latest Euro Standard minus 3*
0g/km up to 100g/km	CO_2 x 0.07% x RV	CO_2 x 0.15% x RV	CO_2 x 0.20% x RV	CO_2 x 0.23% x RV
More than 100g/km upto 130g/km	CO_2 x 0.09% x RV	CO_2 x 0.17% x RV	CO_2 x 0.23% x RV	CO_2 x 0.26% x RV
More than 130g/km upto 140g/km	CO_2 x 0.10% x RV	CO_2 x 0.19% x RV	CO_2 x 0.26% x RV	CO_2 x 0.30% x RV
More than 140g/km upto 150g/km	CO_2 x 0.11% x RV	CO_2 x 0.22% x RV	CO_2 x 0.29% x RV	CO_2 x 0.33% x RV
More than 150g/km upto 180g/km	CO_2 x 0.16% x RV	CO_2 x 0.24% x RV	CO_2 x 0.32% x RV	CO_2 x 0.37% x RV
More than 180g/km upto 220g/km	CO_2 x 0.18% x RV	CO_2 x 0.26% x RV	CO_2 x 0.35% x RV	CO_2 x 0.40% x RV
More than 220g/km upto 250g/km	CO_2 x 0.21% x RV	CO_2 x 0.29% x RV	CO_2 x 0.38% x RV	CO_2 x 0.44% x RV
More than 250g/km	CO_2 x 0.23% x RV	CO_2 x 0.31% x RV	CO_2 x 0.41% x RV	CO_2 x 0.47% x RV

Tab. 3 Diesel engines with PM of over 0.005g/km – CO_2

CO_2	*Latest Euro Standard*	*Latest Euro Standard minus 1*	*Latest Euro Standard minus 2*	*Latest Euro Standard minus 3*
0g/km up to 100g/km	-	CO_2 x 0.21% x RV	CO_2 x 0.32% x RV	CO_2 x 0.37% x RV
More than 100g/km upto 130g/km	-	CO_2 x 0.24% x RV	CO_2 x 0.36% x RV	CO_2 x 0.42% x RV
More than 130g/km upto 140g/km	-	CO_2 x 0.27% x RV	CO_2 x 0.41% x RV	CO_2 x 0.47% x RV
More than 140g/km upto 150g/km	-	CO_2 x 0.31% x RV	CO_2 x 0.45% x RV	CO_2 x 0.53% x RV
More than 150g/km upto 180g/km	-	CO_2 x 0.33% x RV	CO_2 x 0.51% x RV	CO_2 x 0.60% x RV
More than 180g/km upto 220g/km	-	CO_2 x 0.36% x RV	CO_2 x 0.56% x RV	CO_2 x 0.65% x RV
More than 220g/km upto 250g/km	-	CO_2 x 0.40% x RV	CO_2 x 0.60% x RV	CO_2 x 0.70% x RV
More than 250g/km	-	CO_2 x 0.43% x RV	CO_2 x 0.65% x RV	CO_2 x 0.75% x RV

Tab. 4 Length

Length	*Rate*
0 up to and including 3450mm	Length x 0.0020% x RV
More than 3450mm up to and including 3640mm	Length x 0.0022% x RV
More than 3640mm up to and including 3770mm	Length x 0.0024% x RV
More than 3770mm up to and including 4030mm	Length x 0.0026% x RV
More than 4030mm up to and including 4370mm	Length x 0.0028% x RV
More than 4370mm up to and including 4570mm	Length x 0.0030% x RV
More than 4570mm up to and including 4770mm	Length x 0.0032% x RV
More than 4770mm	Length x 0.0034% x RV

On the basis of the application of tables 1, 2, 3 and 4, the total amount of the registration tax is equal to the sum total of the CO2 value (g/km) multiplied by the registration value multiplied by the indicated percentage value shown in table 1, 2 or 3, and the total of the length (mm) multiplied by the registration value multiplied by the indicated percentage value as shown in table 4.

Notwithstanding the above, registration tax payable in respect of a used motor vehicle that is at least five years old and that is imported from third countries (see below), the amount of registration tax payable cannot be less than the minimum set out in the table below.

Tab. 5 Minimum tax applicable to used M1 vehicles imported from a third country

Age in yrs	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
	EUR	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*
0g/km up to 100g/km	800	900	1,000	2,107	2,360	2,644	2,961	3,316	3,714	4,160
More than 100g/km upto 130g/km	1,000	1,100	1,200	2,529	2,832	3,172	3,553	3,979	4,457	4,992
More than 130g/km upto 140g/km	1,200	1,300	1,400	2,801	3,147	3,525	3,948	4,421	4,952	5,546
More than 140g/km upto 150g/km	3,500	3,920	4,390	4,917	5,507	6,168	6,908	7,737	8,666	9,706
More than 150g/km upto 180g/km	4,000	4,480	5,018	5,620	6,294	7,049	7,895	8,843	9,904	11,092
More than 180g/km upto 220g/km	7,000	7,840	8,781	9,834	11,015	12,336	13,817	15,475	17,332	19,412
More than 220g/km upto 250g/km	12,000	13,440	15,053	16,858	18,882	21,148	23,686	26,528	29,712	33,277
More than 250g/km	13,500	15,120	16,934	18,967	21,243	23,792	26,647	29,844	33,426	37,437

The minimum tax applies to used M1 vehicles imported from third countries which are considered to be countries other than EU Member States and countries other than:

- the Channel Islands (Guernsey and Jersey),
- the Isle of Man,
- Monaco,
- Andorra and
- San Marino.

In the case of hybrid vehicles, the rate of registration tax payable on such vehicles is based on the tables relating to the M1 vehicles; however, the CO_2 value as provided in the certificate of conformity is reduced by 30%.

Motor vehicles classified as vintage vehicles in terms of the Act, which are older than 30 years but less than 50 years are subject to the following (lower) rates of registration tax:

Engine capacity	Rate of tax % of RV
Not exceeding 1000cc	25.5%

Engine capacity	Rate of tax % of RV
Exceeding 1000cc but not exceeding 1300cc	25.5%
Exceeding 1300cc but not exceeding 1500cc	26.5%
Exceeding 1500cc but not exceeding 1800cc	30%
Exceeding 1800cc but not exceeding 2000cc	32.5%
Exceeding 2000cc but not exceeding 2500cc	37.5%
Exceeding 2500cc but not exceeding 3000cc	37.5%
Exceeding 3000cc	37.5%

3.2.3.2. Commercial motor vehicles

The registration tax for commercial motor vehicles is calculated according to the Euro Standard, the maximum authorised mass, engine capacity and mileage depreciation.

From 1 March 2015,vehicles which are hired or leased from a vehicle hire undertaking licensed in a Member State of the EU (save for Malta) which are brought into Malta under a contract of lease or hire, and which satisfy certain conditions, are entitled to a reduced rate of registration tax.

The registration tax for ***new*** vehicles is calculated by means of the following formula:

Registration tax = (kg x Y) + (cc x Z) x 1 EUR;

Where
kg = the total of the maximum authorised mass of the motor vehicle,
cc = the cubic capacity of the engine of the motor vehicle and
Y and Z = the factors indicated in the tables below.

Certain specific types of motor vehicles are however exempt from paying registration tax (e.g. motor route buses, ambulances, used motor hearses, etc.)

Tab. 6 Determination of Y and Z

Category	*Class*	*Latest Euro Standard*		*Latest Euro Standard minus 1*		*Latest Euro Standard minus 2*		*Latest Euro Standard minus 3 and older*	
		Y	*Z*	*Y*	*Z*	*Y*	*Z*	*Y*	*Z*
M2		-	-	-	-	1.50	2.40	12.00	15.00
M3		-	-	-	-	2.20	2.60	10.00	12.00
N1	Vehicles with a maximum authorised mass of up to 1,305 kg	0.35	0.39	1.00	1.10	6.00	6.00	25.00	25.00
	Vehicles with a maximum authorised mass exceeding 1,305 kg up to 1,760 kg	0.39	0.43	1.10	1.20	7.00	7.00	27.00	27.00
	Vehicles with a maximum authorised mass exceeding 1,760 kg up to 3,500kg	0.43	0.48	1.20	1.30	8.00	8.00	30.00	30.00
N2	Vehicles with a maximum authorised mass exceeding 3,500 kg up to 12,000 kg	0	0	0	0	5.00	7.00	12.00	15.00
N3	Vehicles with a maximum authorised mass exceeding 12,000 kg	0	0	0	0				

Tab. 6 Determination of Y and Z

Category	*Class*	*Latest Euro Standard*		*Latest Euro Standard minus 1*		*Latest Euro Standard minus 2*		*Latest Euro Standard minus 3 and older*	
		Y	*Z*	*Y*	*Z*	*Y*	*Z*	*Y*	*Z*
	Vehicles with a maximum authorised mass exceeding 12,000kg up to 25,000 kg					2.10	2.50	9.00	12.00
	Vehicles with a maximum authorised mass exceeding 25,000 kg					2.70	3.50	10.00	13.00

The following is an example of calculating the motor vehicle registration tax for a new commercial vehicle:

Euro Standard:	Euro V
Authorised mass:	3,400kg
Motor vehicle classification:	N1
Engine capacity:	2,400cc

(kg x Y) + (cc x Z) x 1 EUR
(3,400 x 0.43) + (2,400 x 0.48) x €1
(1,462 + 1,152) x €1 = €2,614

In the case of ***used*** category N commercial vehicles, the registration tax formula below is adjusted to take into consideration the depreciation of the motor vehicle.

Accordingly, the registration tax formula is as follows:

Registration tax = {registration tax applicable to vehicle as if were new} x (100% - [Y% of total annual depreciation + 0.5% for each 10,000km])

Tab. 8 Determination of depreciation for used vehicles according to date of registration

Year	*Annual depreciation*	*Total depreciation*
0	12%	12%
1	14%	26%
2	19%	45%
3	5%	50%
4	5%	55%
5	5%	60%
6	5%	65%
7	5%	70%
8	5%	75%
9	5%	80%
10	5%	85%
11	5%	90%
12	5%	95%
13	N/A	95%

The following is an example of calculating the motor vehicle registration tax for a used commercial vehicle:

Year of manufacture:	2006
Euro Standard:	Euro IV
Maximum authorised mass:	7,800kg
Motor vehicle classification:	N2
Engine capacity:	2,188cc
Mileage:	152,000km
Depreciation:	75%

(kg x Y) + (cc x Z) x €1
(7,800 x 5.00) + (2,188 x 7.00) x €1
(39,000 + 15,316) x €1 = €54,316

0.5% for each 10,000km
10,000 = 0.5
152,000 = ?
152,000 x 0.5 ÷ 10000 = 7.6%

Depreciation = €54,316 x {100% - [75% + 7.6%]}

{100% - [75% + 7.6%]} = 100% - 82.6% = 17.4%

Registration tax due = €54,316 x 17.4% = €9,450.98

3.2.4. Tax period

Registration tax is a one-off tax payment payable on registration, and thus is not attributable to a particular tax period.

3.3. Annual circulation tax

3.3.1. Taxable event

An annual circulation tax is levied annually in respect of every vehicle registered in Malta.

3.3.2. Taxable person

The annual circulation tax is, in principle, due by the person in whose name the motor vehicle is registered.

3.3.3. Tax due

3.3.3.1. Motor vehicles designed to carry up to 8 passengers (M1 vehicles)

The amount of annual circulation tax payable each year by owners of M1 vehicles depends on whether the vehicle runs on petrol or diesel, CO_2 emissions, and the age of the motor vehicle.

The fees payable for vehicles registered on or after 1 January 2009[11] are set out in the tables below:

Tab. 9 – Petrol-engined

Age in years	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14+
CO_2	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*
0g/km up to and including 100g/km	100	100	100	100	100	125	138	151	166	183	201	221	244	268	295
More than 100g/km up to and including 130g/km	125	125	125	125	125	153	166	181	198	216	236	259	283	310	339
More than 130g/km up to and including 140g/km	140	140	140	140	140	170	185	202	220	240	262	286	312	342	374
More than 140g/km up to and including 150g/km	160	160	160	160	160	195	213	232	253	276	302	330	361	395	433
More than 150g/km up to and including 180g/km	205	205	205	205	205	250	273	297	324	354	387	424	463	507	556
More than 180g/km up to and	275	275	275	275	275	338	369	403	441	483	528	579	634	695	762

[11] Different rates apply for M1 vehicles registered prior to 1 January 2009 (i.e. before the legislation was changed)

Tab. 9 – Petrol-engined

Age in years	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14+
CO_2	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€
including 220g/km															
More than 220g/km up to and including 250g/km	375	375	375	375	375	463	506	554	607	666	730	800	878	963	1057
More than 250g/km	525	525	525	525	525	650	713	781	857	940	1,032	1,125	1,125	1,125	1,125

The annual circulation tax payable by diesel motor vehicle owners also takes into account the value of the particulate matter.

Table 10 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0–0.005g/km)

Age in years	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14+
CO_2	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€
0g/km up to and including 100g/km	100	100	100	100	100	125	138	151	166	183	201	221	244	268	295
More than 100g/km up to and including 130g/km	125	125	125	125	125	153	166	181	198	216	236	259	283	310	339
More than 130g/km up to and including 140g/km	140	140	140	140	140	170	185	202	220	240	262	286	312	342	374
More than 140g/km up to and including 150g/km	160	160	160	160	160	195	213	232	253	276	302	330	361	395	433
More than 150g/km up to and including 180g/km	205	205	205	205	205	250	273	297	324	354	387	424	463	507	556
More than 180g/km up to and	275	275	275	275	275	338	369	403	441	483	528	579	634	695	762

Table 10 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0–0.005g/km)

Age in years	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14+
CO_2	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€
including 220g/km															
More than 220g/km up to and including 250g/km	375	375	375	375	375	463	506	554	607	666	730	800	878	963	1,057
More than 250g/km	525	525	525	525	525	650	713	781	857	940	1,032	1,125	1,125	1,125	1,125

Table 11 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0.006–0.025g/km)

Age in years	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
CO2	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€
0g/km up to and including 100g/km	105	105	105	105	105	131	144	159	175	192	211	233	256	281	309
More than 100g/km up to and including 130g/km	131	131	131	131	131	159	174	190	207	226	248	271	296	324	355
More than 130g/km up to and including 140g/km	146	146	146	146	146	178	193	211	230	251	274	299	327	358	391
More than 140g/km up to and including 150g/km	167	167	167	167	167	204	222	242	265	289	316	346	378	414	453
More than 150g/km up to and including 180g/km	214	214	214	214	214	261	285	311	339	371	405	444	485	531	582
More than 180g/km up to and including 220g/km	288	288	288	288	288	353	386	422	462	505	553	606	664	728	799
More than 220g/km up to and including 250g/km	393	393	393	393	393	484	530	581	636	698	765	839	920	1,010	1,108

Table 11 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0.006–0.025g/km)

Age in years	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
CO2	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*
More than 250g/km	550	550	550	550	550	681	747	819	898	986	1,082	1,150	1,150	1,150	1,150

Table 12 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0.026–0.035g/km)

Age in years	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
CO_2	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*
0g/km up to and including 100g/km	110	110	110	110	110	138	152	167	183	202	222	244	269	295	325
More than 100g/km up to and including 130g/km	136	136	136	136	136	167	182	198	217	237	259	284	310	340	372
More than 130g/km up to and including 140g/km	152	152	152	152	152	185	202	220	240	262	286	313	342	374	410
More than 140g/km up to and including 150g/km	174	174	174	174	174	213	232	253	277	302	331	362	396	434	475
More than 150g/km up to and including 180g/km	223	223	223	223	223	273	298	325	355	388	425	464	508	557	610
More than 180g/km up to and including 220g/km	301	301	301	301	301	370	404	442	484	529	580	635	696	764	837
More than 220g/km up to and including 250g/km	411	411	411	411	411	507	556	609	667	731	802	880	965	1,059	1,162
More than 250g/km	576	576	576	576	576	714	783	859	942	1,034	1,135	1,175	1,175	1,175	1,175

Table 13 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0.036+g/km)

Age in years	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
CO_2	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*
0g/km up to and	116	116	116	116	116	145	159	175	193	212	233	256	282	310	341

Table 13 - Annual Circulation Tax for diesel-based private motor vehicles (PM 0.036+g/km)

Age in years	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
CO_2	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*	*€*
including 100g/km															
More than 100g/km up to and including 130g/km	142	142	142	142	142	174	190	208	227	248	271	297	325	356	390
More than 130g/km up to and including 140g/km	159	159	159	159	159	194	211	230	251	274	300	328	358	392	429
More than 140g/km up to and including 150g/km	182	182	182	182	182	223	243	265	290	317	346	379	415	454	498
More than 150g/km up to and including 180g/km	233	233	233	233	233	285	312	340	372	406	444	486	533	583	639
More than 180g/km up to and including 220g/km	314	314	314	314	314	387	423	463	506	555	608	666	730	800	878
More than 220g/km up to and including 250g/km	430	430	430	430	430	531	582	638	699	767	841	922	1,012	1,111	1,219
More than 250g/km	604	604	604	604	604	749	821	900	988	1,084	1,190	1,225	1,225	1,225	1,225

3.3.3.2. Commercial motor vehicles

The annual circulation tax for vehicles designed to carry more than 8 passengers, goods-carrying vehicles, special-purpose vehicles, tractor units and lightweight three-wheeled vehicles depends on whether the vehicle contains an air suspension system or any other form of suspensions system.

Furthermore, in the case of N category vehicles factors such as the number of axles and mass of the vehicle also play a role in determining the amount of annual circulation tax.

Table 14 – Annual circulation tax for M2 and M3 vehicles and route buses (excluding articulated vehicles12 and road trains) with an air suspension system or a recognised equivalent.

	Year							
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
M2	€80	€80	€80	€80	€80	€85	€90	€95
M3	€150	€150	€150	€150	€150	€200	€250	€300
Route buses	€23	€23	€23	€23	€23	€23	€23	€23

	Year						
Vehicles	*9*	*10*	*11*	*12*	*13*	*14*	*15*
M2	€100	€105	€110	€120	€130	€140	€150
M3	€350	€400	€450	€450	€450	€450	€450
Route buses	€23	€23	€23	€23	€23	€23	€23

[12] An articulated vehicle is a vehicle which has a permanent or semi-permanent pivoting joint in its construction, allowing the vehicle to turn more sharply.

Table 15 – Annual circulation tax for N category commercial vehicles (excluding articulated vehicles and road trains) with an air suspension system or a recognised equivalent.

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
2	Up to 3,500	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 3,500 up to 5,000	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 5,000 up to 11,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 11,999 up to 12,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 12,999 up to 13,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 13,999 up to 14,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 14,999	126	126	126	126	126	157	173	190	209	230	253	278	306	337	370
3	From 15,000 up to 16,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 16,999 up to 18,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 18,999 up to 20,999	115	115	115	115	115	143	158	174	191	210	231	254	280	307	338
	Over 20,999 up to 22,999	144	144	144	144	144	157	170	184	197	210	231	254	280	307	338
	Over 22,999 up to 24,999	222	222	222	222	222	237	251	266	280	295	325	357	393	432	475
	Over 24,999	222	222	222	222	222	237	251	266	280	295	325	357	393	432	475
4	From 23,000 up to 24,999	144	144	144	144	144	156	168	181	193	205	226	248	273	300	330
	Over 24,999 up to 26,999	146	146	146	146	146	158	170	181	193	205	226	248	273	300	330
	Over 26,999 up to 28,999	228	228	228	228	228	246	265	283	302	320	352	387	426	469	515
	Over 28,999 up to 30,999	362	362	362	362	362	392	421	451	480	510	561	617	679	747	821
	Over 30,999	362	362	362	362	362	392	421	451	480	510	561	617	679	747	821
5	32,000 and over	362	362	362	362	362	392	421	451	480	510	561	617	679	747	821

Table 16 – Annual circulation tax for N category vehicles (excluding articulated vehicles and road trains) with a suspension system other than an air suspension unit

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
2	Up to 3,500	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 3,500 up to 5,000	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 5,000 up to 11,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 11,999 up to 12,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 12,999 up to 13,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 13,999 up to 14,999	121	121	121	121	121	134	147	159	172	185	204	224	246	271	298
	Over 14,999	274	274	274	274	274	293	312	332	351	370	407	448	492	542	596
3	From 15,000 up to 16,999	101	101	101	101	101	126	139	153	168	185	204	224	246	271	298
	Over 16,999 up to 18,999	101	101	101	101	101	126	141	155	170	185	204	224	246	271	298
	Over 18,999 up to 20,999	144	144	144	144	144	157	170	184	197	210	231	254	280	307	338
	Over 20,999 up to 22,999	222	222	222	222	222	238	253	269	284	300	330	363	399	439	483
	Over 22,999 up to 24,999	345	345	345	345	345	368	391	414	437	460	506	557	612	673	741
	Over 24,999	345	345	345	345	345	368	391	414	437	460	506	557	612	673	741
4	From 23,000 up to 24,999	146	146	146	146	146	159	172	184	197	210	231	254	280	307	338
	Over 24,999 up to 26,999	228	228	228	228	228	246	265	283	302	320	352	387	426	469	515
	Over 26,999 up to 28,999	362	362	362	362	362	392	421	451	480	510	561	617	679	747	821
	Over 28,999 up to 0,999	537	537	537	537	537	578	618	659	699	740	814	895	985	1083	1192

Table 16 – Annual circulation tax for N category vehicles (excluding articulated vehicles and road trains) with a suspension system other than an air suspension unit

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
	Over 30,999	537	537	537	537	537	578	618	659	699	740	814	895	985	1083	1192
5	32,000 and over	537	537	537	537	537	578	618	659	699	740	814	895	985	1083	1192

Table 17 - Annual circulation tax for N category articulated vehicles and road trains with an air suspension system or a recognised equivalent

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
2 + 1	Up to 11,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 11,999 up to 13,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 13,999 up to 15,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 15,999 up to 17,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 17,999 up to 19,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 19,999 up to 21,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 21,999 up to 22,999	75	75	75	75	75	79	82	86	90	93	102	113	124	136	150
	Over 22,999 up to 24,999	97	97	97	97	97	97	97	97	97	97	107	117	129	142	156
	Over 24,999	175	175	175	175	175	175	176	176	177	177	195	214	236	259	285
2+2	From 23,000 up to 24,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 24,999 up to 25,999	70	70	70	70	70	75	79	84	89	93	102	113	124	136	150
	Over 25,999 up to 27,999	115	115	115	115	115	115	116	116	116	116	128	141	155	170	188
	Over 27,999 up to 28,999	169	169	169	169	169	169	169	170	170	170	187	206	226	249	274
	Over 28,999 up to 30,999	204	204	204	204	204	204	204	205	205	205	225	248	273	300	330
	Over 30,999 up to 32,999	335	335	335	335	335	335	335	335	335	335	369	406	446	491	540
	Over 32,999 up to 35,999	465	465	465	465	465	465	465	466	466	466	512	564	620	682	750
	Over 35,999	465	465	465	465	465	465	465	466	466	466	512	564	620	682	750
2+3	From 36,000 up to 37,999	370	370	370	370	370	370	370	370	370	370	407	448	493	542	596
	Over 37,999	515	515	515	515	515	515	516	516	517	517	569	626	688	757	833

Table 17 - Annual circulation tax for N category articulated vehicles and road trains with an air suspension system or a recognised equivalent

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
3+2	From 36,000 up to 37,999	327	327	327	327	327	327	328	328	328	328	361	397	437	481	529
	Over 37,999 to 39,999	454	454	454	454	454	454	454	454	454	454	500	550	605	665	731
	Over 39,999	628	628	628	628	628	628	628	629	629	629	692	761	837	921	1013
3+3	From 36,000 up to 37,999	186	186	186	186	186	186	186	186	186	186	205	225	248	273	300
	Over 37,999 to 39,999	225	225	225	225	225	225	225	226	226	226	249	273	301	331	364
	Over 39,999	336	336	336	336	336	336	337	337	337	338	372	409	450	494	544
3+4	40,000 and over	336	336	336	336	336	336	337	337	337	338	372	409	450	494	544
4+3	40,000 and over	336	336	336	336	336	336	337	337	337	338	372	409	450	494	544

Table 18 – Annual circulation tax for N category articulated vehicles and road trains with a suspension system other than an air suspension unit

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
2 + 1	Up to 11,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 11,999 up to 13,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 13,999 up to 15,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 15,999 up to 17,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 17,999 up to 19,999	51	51	51	51	51	64	70	77	85	93	102	113	124	136	150
	Over 19,999 up to 21,999	51	51	51	51	51	64	70	77	90	93	102	113	124	136	150
	Over 21,999 up to 22,999	75	75	75	75	75	79	82	86	98	98	108	118	130	143	158

Table 18 – Annual circulation tax for N category articulated vehicles and road trains with a suspension system other than an air suspension unit

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
	Over 22,999 up to 24,999	97	97	97	97	97	97	97	97	177	177	195	214	236	259	285
	Over 24,999	175	175	175	175	175	175	176	176	307	307	338	372	409	450	495
2+2	From 23,000 up to 24,999	70	70	70	70	70	75	79	84	89	93	102	113	124	136	150
	Over 24,999 up to 25,999	115	115	115	115	115	115	116	116	116	116	128	141	155	170	188
	Over 25,999 up to 27,999	169	169	169	169	169	169	169	170	170	170	187	206	226	249	274
	Over 27,999 up to 28,999	204	204	204	204	204	204	204	205	205	205	225	248	273	300	330
	Over 28,999 up to 30,999	335	335	335	335	335	335	335	335	335	335	369	406	446	491	540
	Over 30,999 up to 32,999	465	465	465	465	465	465	465	466	466	466	512	564	620	682	750
	Over 32,999 up to 35,999	706	706	706	706	706	706	707	707	708	708	779	857	942	1037	1140
	Over 35,999	706	706	706	706	706	706	707	707	708	708	779	857	942	1037	1140
2+3	From 36,000 up to 37,999	515	515	515	515	515	515	516	516	517	517	569	626	688	757	833
	Over 37,999	700	700	700	700	700	700	700	701	701	701	771	848	933	1026	1129
3+2	From 36,000 up to 37,999	454	454	454	454	454	454	454	454	454	454	500	550	605	665	731
	Over 37,999 to 39,999	628	628	628	628	628	628	628	629	629	629	692	761	837	921	1013
	Over 39,999	929	929	929	929	929	929	929	929	929	929	1022	1125	1237	1361	1497

Table 18 – Annual circulation tax for N category articulated vehicles and road trains with a suspension system other than an air suspension unit

		Year														
No. of axles	*Mass (kgs)*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14+*
3+3	From 36,000 up to 37,999	225	225	225	225	225	225	225	226	226	226	249	273	301	331	364
	Over 37,999 to 39,999	336	336	336	336	336	336	337	337	337	338	372	409	450	494	544
	Over 39,999	535	535	535	535	535	535	535	535	536	536	589	648	713	784	863
3+4	40,000 and over	535	535	535	535	535	535	535	535	536	536	589	648	713	784	863
4+3	40,000 and over	535	535	535	535	535	535	535	535	536	536	589	648	713	784	863

3.3.4. Tax period

Annual circulation tax is payable annually.

4. Income taxes – taxable persons

In terms of Maltese income tax legislation, a taxpayer is not allowed to claim accounting depreciation as a deduction but may claim the statutory capital allowances on fixed assets used in the production of the income.

Capital allowances on motor vehicles are calculated at 20% of the cost of the asset.

However, in the case of a vehicle that is designed for the carriage of passengers, (excluding a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used), if the cost of the said vehicle is in excess of €14,000, the cost of the vehicle for calculating the deduction for wear and tear is limited to €14,000.

This limitation does not apply in the case of vehicles designed for the carriage of goods or vehicles used by a person wholly or mainly for the purpose of hire to or the carriage of members of the public in the ordinary course of his trade or business (e.g. a taxi) or for the purposes of providing driving instruction. Such vehicles are typically referred to as “commercial vehicles”.

Leasing costs are normally fully deductible, except in the case of leased non-commercial motor vehicles.

Similarly to the limitation on capital allowances as outlined above, deductions for lease payments on non-commercial vehicles are restricted when the listed value[14] of the said motor vehicle exceeds 14,000 EUR.

In such cases, the allowable lease payment is calculated by using the following formula:

Deductible lease payment = lease payment x 14,000 EUR/listed value of vehicle

5. Accounting

5.1. Accounting standards

Maltese accounting standards are International Financial Reporting Standards (IFRS) as approved by the EU.

Certain smaller qualifying entities may apply to Maltese General Accounting Principles for Smaller Entities although these standards are broadly modelled on IFRS.

In terms of IAS 17, a lease is defined as "…an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time."

Under the said standard, leases are divided into two categories – operational leases and financial leases.

A financial lease is defined as "a lease that transfers substantially all the risks and rewards incidental to ownership of an asset". The definition also states that the title of the asset that is being leased may or may not eventually be transferred. An operational lease is in turn defined as a lease which is not a financial lease.

IAS 17 does not provide for a definition of when such a transfer of substantially all the risks and rewards incidental to ownership is deemed to occur. The standard, however, states that whether a lease is a financial lease or an operational lease "depends on the substance of the transaction rather than the form of the contract". The standard also provides a non-exhaustive list of characteristics which typically would be found in a financial lease.

[14] The listed value is that assigned by the Inland Revenue Department for fringe benefits purposes, increased by the cost of accessories.

Such characteristics include

- the transfer of ownership at the end of the lease from the lessor to the lessee,
- the existence of a purchase option in favour of the lessee to purchase the asset for a value that is sufficiently below the fair value of the asset at the end of the lease,
- the lease term is for the major part of the economic life of the asset even if the title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset and
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

5.2. Hire purchase

IFRS do not contain the concept of hire purchase. Such an arrangement would typically be considered to be a financial lease.

5.3. Operational lease

5.3.1. Lessee

Under an operational lease, the asset being leased is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the income statement.

5.3.2. Lessor

In the case of an operational lease, the vehicle will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is generally equal to the purchase price and directly attributable costs) and depreciated over the asset's useful economic life. The depreciation is treated as an operating expense in the income statement. The receipt of lease payments from the lessee under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the income statement.

5.4. Finance lease

5.4.1. Lessee

In a finance lease agreement the vehicle will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, i.e., the capital portion of the minimum lease payments. Depreciation is claimed over the economic life of the asset. In practice, this means that the vehicle is depreciated linearly over the lease period.

The operating (depreciation) and finance (interest portion of the lease payments) charges are accounted for with other charges in the income statement.

5.4.2. Lessor

The leased vehicle would not be recognised from the lessor's balance sheet. The lease payments received should be recorded on the balance as a receivable and should equal the net investment in the lease. This amount consists of the total of the minimum lease payments less finance income allocated to future periods and any unguaranteed residual value accruing to the lessor.

The finance income should normally be allocated to accounting periods so as to give an effective interest rate that the lessor would derive on its net cash investment (i.e., the amount of funds invested in the lease by the lessor) in each period.

6. *VAT/sales tax*

6.1. General

Maltese VAT at the standard rate of 18% is, in principle, due on supplies of goods and/or services that take place in Malta, intra-community acquisitions and importations.

6.2. Deduction

The VAT that is paid by a taxable person in respect of a motor vehicle is generally not deductible/creditable.

Certain exceptions to this rule apply if the person that is purchasing/importing the motor vehicle is a taxable person and such person uses the motor vehicle for the purposes of making taxable or exempt with credit (zero-rated) supplies.

In such cases where:

- the motor vehicle is used for the purpose of the carriage of goods or passengers for a consideration,
- the vehicle is used for the purpose of being provided by the taxable person for hire with a driver or for self-drive hire or used for driving instructions or
- the motor vehicle is designed for the carriage of goods or with seating accommodation for nine persons or more,
- the input tax incurred on the motor vehicle should be deductible/creditable for such taxable person.

6.3. Hire purchase: Supply of goods?

In terms of item 5 of the Second Schedule to the VAT Act, the delivery of the possession of goods pursuant to an agreement for the hire of those goods for a certain period where the agreement expressly stipulates that the ownership of those goods will be transferred at a time not later than the date on which an agreed price has been paid in full should be regarded as a supply of those goods.

6.4. Leasing: Supply of services?

As a general rule, the transfer of the right to dispose of tangible property as owner is considered to be a supply of goods. When a supply is not a supply of goods, it is considered to be a supply of services. Accordingly, if the leasing arrangement does not provide the lessee with the right to dispose of the vehicle as owner, then the lease should constitute a supply of a service.

7. Company motor vehicle

7.1. VAT/sales tax due on private use of company motor vehicles

The use of a good that forms part of the economic activity of a taxable person that is registered in terms of article 10 of the VAT Act by that person or any other person other than for the purpose of the economic activity is deemed to constitute a supply of services for consideration. Accordingly, Maltese VAT should be chargeable on the said deemed supply.

7.2. Company motor vehicles in personal tax returns – benefit in kind

The private use by an individual of a vehicle that is owned or held under a title of lease by another person is generally deemed to be a taxable fringe benefit.

The annual value of the fringe benefit, except when it relates to a van, is arrived at by means of the following formula:

Value of fringe benefit = (Vehicle use value + maintenance value + fuel value) x private use %

- Vehicle use value: 17% of the vehicle value[15] if the vehicle is not more than 6 years old, and 10% of the vehicle value in any other case.
- Maintenance value: This is deemed to represent all the costs incurred by the provider of the benefit relating to the use of the vehicle, including the road license, the driving licence, insurance cover, and repairs and servicing. It is calculated as 3% of the vehicle value if the vehicle does not exceed EUR28,000 and 5% of the vehicle value in any other case.

- Fuel value: The fuel value of a vehicle represents the costs incurred by the provider of the benefit relating to the fuel consumed in the use of the vehicle. It is calculated in a similar manner as for the maintenance value above, i.e., as 3% of the vehicle value if the vehicle does not exceed EUR28,000, and 5% of the vehicle value in any other case. However, when the fuel costs are fully borne by the beneficiary and are not reimbursed, the fuel value of the vehicle is taken as being nil. At the same time, where the person is provided with a fixed fuel allowance without reference to the actual amount of fuel consumed, such allowance is considered to be part of the vehicle allowance as set out in section 8.1 below and taxed accordingly.
- Private use %: The private use percentage of a vehicle is determined by reference to the vehicle value as follows:

Motor vehicle value (EUR)	Private use percentage (%)
Not exceeding 16,310 EUR	30%
Exceeding 16,310 EUR but not 21,000 EUR	40%
Exceeding 21,000 EUR but not 32,620 EUR	50%
Exceeding 32,620 EUR but not 46,600 EUR	55%
Exceeding 46,600 EUR	60%

[15]The vehicle value means the aggregate of the price of the vehicle and the cost of any accessories that may be fitted in the vehicle and not included in the price of the vehicle.

The provision of a vehicle is not considered to constitute a fringe benefit where,

i. the vehicle value does not exceed 16,310 EUR, and

ii. the said vehicle is used wholly or mainly for point-to-point services by an employee who is a salesman or a support person in the performance of his duties and

iii. the Commissioner of Inland Revenue approves in writing the applicability of this rule.

Furthermore, the provision of a van is also not considered to constitute a fringe benefit.

8. *Income taxes – drivers' personal taxation*

8.1. Vehicle allowance

Where an employee receives a vehicle allowance from his employer for use of his personal vehicle for the purposes of his employer's business, the vehicle allowance is generally taxable.

However, when certain basic conditions are satisfied, the taxable portion of the vehicle allowance is reduced by 50% up to a maximum reduction of 1,170 EUR per annum.

8.2. Business kilometres

Where the vehicle allowance referred to in section 8.1 consists of a reimbursement of costs incurred by the employee in the use of his vehicle for the purposes of his employer's business, such an allowance is generally taxable.

However, where

- such reimbursement is made by reference to the distance actually covered at a rate of not more than 0.35 EUR per kilometre and
- the employer has logged the details to which any such reimbursement refers, including the purpose, destination and distance of each journey, such reimbursement is not deemed to constitute a fringe benefit and is thus not taxable.

9. Selling a car

9.1. Taxable persons

When a motor vehicle that qualified for capital allowances is sold, a balancing statement is prepared to calculate the balancing allowance or balancing charge. If the tax written-down value of the vehicle is higher than the proceeds received on disposal, the difference (referred to as a balancing allowance) is deemed to constitute a further capital allowance.

Conversely, should the tax written-down value be lower than the proceeds received, the difference represents a balancing charge. The balancing charge is added to the taxpayer's chargeable income.

Certain adjustments to the balancing adjustment calculation apply when the vehicle being sold is a non-commercial motor vehicle.

From a VAT perspective, no VAT is chargeable on the sale of the motor vehicle if the transferor did not have a right to claim input tax on the purchase/importation of the vehicle. In all other cases, VAT should generally be chargeable.

9.2. Private individuals

In the case of private individuals, the sale of a motor vehicle is not taxable since it does not constitute a taxable capital gain. From a VAT perspective, no VAT should be chargeable given that such person would not have been entitled to claim back the VAT on the purchase/importation of the vehicle.

10. Future developments

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

11. Legal background

- Motor Vehicles Registration and Licensing Act
- Exemption from Motor Vehicles Registration Tax Rules
- Registration and Licensing of Motor Vehicles Regulations
- Income Tax Act
- Fringe Benefit Rules
- Income Tax Deductions Rules
- Value Added Tax Act

Mexico

Luis Lozano

Automotive Country Leader
Corporate Tax Partner

p: +52 55 5263 8648
e: luis.lozano@mx.pwc.com

Jesus Morquecho

p: +52 55 5263 6643
e: jesus.morquecho@mx.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 to import goods under preferential duty rates. Nowadays this network includes 10 treaties with 45 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 1st of 2007, Bulgaria and Romania became a part of the EU

** As of November 19 of 2006, Venezuela is no longer a part of the TLC del G-3

*** Economic Complementary Agreements (ECA)

The importation of vehicles/cars, triggers duties (50%), NAT (New vehicle tax) *; and VAT (16%). Nonetheless if vehicles are origin in the countries where Mexico has a commercial treaty in place (FTA), is possible to reduce the duty up to 0%. To apply duty prefential rates derived form the FTA a certificate of origin must be presented when crossing customs.

*NAT is imposed to New Vehicles rates depends on the car's price, ranging from 2% to 17%. (please refer to section 3.2 for more details)

1.2. Import VAT

Importation of goods is an activity subject to 16% VAT in Mexico.

The tax is payable at the time the goods are introduce into the country. The general rate is applied to the customs value of the goods, plus customs duties and any other taxes paid on importation.

Importation taxes can be credited as per the procedure established in the tax provisions, provided the respective requirements are met.

Mexico has a numer of available programs, such as IMMEX (Section 11.1.1), to provide specific VAT treatment which in some cases would provide tax benefits. Please refer to Section 11. Tax Incentives for more details.

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 number of requirements based on the type of vehicle and the driver.

2.2. Who can register a car?

The owner or user 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 document[13] 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?

A number of different taxes and dues must be paid in order to circulate a vehicle in Mexico, some of which depend on the city 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)
- Circulation dues:
  - Vehicular circulation card (car registration)
  - Number plates
  - Vehicular emissions

It is important to point 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.

[13] The official forms FM2 or FM3 are issued according to the migratory status of the foreign resident (visitor, tourist, visitant, student etc) and allow foreign residents to leave and return to the country at any time.

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 trigger 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	$233,343.40.87	$0.00	2.0%
$233,343.41	$280,012.02	$4,666.79	5.0%
$280,012.03	$326,680.83	$7,000.33	10.0%
$326,680.84	$420,017.94	$11,667.19	15.0%
$420,017.95	onwards	$25,667.73	17.0%

Certain rules apply to tax payment on imported cars, based on the type of car and other factors.

However, consumers are exempted of this tax when the sales price (including optional equipment, regular or luxury) does not exceed MX 217,231.38 pesos. Furthermore, when the price goes fromMX 217,231.39 pesos to MX275,159.75 pesos, the exemption would apply to 50% on tax payment.

If the price of the car is greater than MX 644,340.50 pesos, the amount resulting from applying the 7% on the difference between the price of the unit and the MX 644,340.50 pesos will be reduced from the amount of the determined tax.

3.2.4. Tax period

It is paid only once when 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, on the basis of 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:

- Chihuahua
- Colima
- Durango
- Guanajuato
- Jalisco
- Michoacán
- Morelos
- Puebla
- Quintana Roo
- San Luis Potosí
- Sinaloa
- Sonora

3.3.3. Taxable person

Individuals 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.

It is important to point out that the tax is gradually reduced according to the vehicle ages, and no tax is payable on vehicles when ten years or more have passed since they were manufactured.

3.3.5. Tax period

Payment must be made on a yearly basis starting when the car was acquired by final consumer.

3.4. Circulation dues

3.4.1. Vehicular circulation card

The federal government requires all states to update its vehicle fleet registry every three years, which usually takes place through the change of number plates; this situation could be a long process with high costs, so recently 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 valid for a three-year period and the cost is related to the type of car and use.

3.4.2. Number plates

Number plates are part of the registration dues and are calculated on the basis of the features of the vehicle and characteristics of users: model, make, year, version, type of user, vehicles driven by the handicapped etc.

Payments are made when the new or used vehicle is registered or any change to the situation occurs (user, type of license 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 on 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.
- Certificate 0: Allows free circulation on all days and the emissions inspection must be performed every year.
- Certificate 1: Emissions inspection must be performed every year and vehicles are not allowed to circulate one day a week. In addition, depending on the plate, those are not allowed to circulate on Saturdays:
- 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 year 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 car must be strictly indispensable for the company's activities.
- The price of the car must not exceed MX 130,000 pesos.

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 130,000 pesos limit would not be deductible for income tax purposes.

4.2. Level of deduction of car-related expenses

Entities are able to take different deductions regarding cars acquisitions, provided they comply with the requirements established in the ITL provisions.

On the basis of 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 deducted 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. Accounting

5.1. General

For over 30 years, the Accounting Principles Commission (APC) of the Mexican Institute of Public Accountants (CCP for its acronym in Spanish) was in charge of issuing accounting standards, bulletins and circulars in our country and set down in the basic principles of financial accounting.

In line with global trends, the Mexican Council of Financial Reporting Standards (CINIF for its acronym in Spanish), an independent organization, assumed the role and responsibility of issuing the accounting standards in Mexico as of June 1, 2004.

The CINIF is an independent organization in its assets and operation, incorporated in 2002 by leading institutions of public and private sectors; the main objective was to develop financial standards (NIF for its acronym in Spanish) with a high degree of transparency, objectivity and reliability that are useful for both issuers and users of financial information.

The NIF comprise a group of general concepts and specific rules for the preparation and presentation of the information contained in the financial statement generally accepted in place and date.

The importance of the aforementioned NIF is that they structure accounting theory by establishing limits and conditions for the operation of the accounting information system. In general terms they serve as a regulatory framework forthe issuance of financial statements, streamlining the process of preparing and presenting financial information for economic organization; they reduce, as much as possible, discrepancies of opinion on the information shown on the financial statements.

The structure of the NIF is similar to that of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as these standards are also integrated by conceptual and particular rules.

NIF C-6 – "Property, Plant and Equipment" – establishes certain rules for lessee accounting purposes, but it does not consider these transactions from the lessor perspective.

On the basis of the foregoing, provided that there are a variety of leasing options for the lessee who needs financing or operation, CINIF has considered it essential to establish particular standards for the accounting treatment and presentation rules for leasing transactions.

In relation with the above mentioned, there are two important groups of leasing transactions:

- Capital leasing
- Operational leasing

It is important to mention that financial leasing is included in capital leasing transactions.

For this purposes, NIF D-5 "Leasing" establishes specific rules for valuation, recognition, presentation and disclosure of information in the financial statements of each type of leasing as follows:

5.2. Hire purchase

5.2.1. Purchaser

A component that meets the definition of property (including vehicles), plant and equipment initially should be recognized as an asset if:

- Future economic benefits attributable to the asset will flow to the entity,
- The acquisition cost of the component can be valued reliably to meet the assumption of valuation.

Each component has a significant acquisition cost related to the total acquisition cost of property, plant and equipment and usually those have a useful life distinctly different from the rest of the parts of the consignment; for this purposes those must be depreciated separately, except in the case of a component subject to depreciation.

5.2.2. Vendor

The net book value of a component would be cancelled:

- For their disposal or
- When no future economic benefits are expected from its use or disposal.

The gain or loss arising on component cancellation should be included in profit or loss when it is cancelled, except in the case of a sale and capital leases (see section 5.4).

When a component is discharged, it must be cancelled from the net book value and should be recognized in the income statement as profit or loss, which is determined as the difference between the fair value of the consideration received and the net book value plus removal and disposal costs.

5.3. Operational lease

5.3.1. Lessee

Income from leasing must be charged to expense during the leasing period in a systematic manner; it could be the straight-line method, although the payments are not on the same basis. Another systematic method can be used representing more benefit for the lessee on the use of the leased car.

Variable income for the rent must be recorded as an expense when they are accrued.

5.3.2. Lessor

Rents are reported as an income during the leasing period in a systematic way; it could be straight-line method although the income collection is not in the same basis.

Variables rent is reported as revenue when it is accrued (depends on future events such as sales volume, inflationary effects etc).

Leased cars must be depreciated according to the general depreciation policy applied by the lessor.

Initial direct costs could be deferred during the period of leasing and recognized in proportion to revenue Initial direct costs could be deferred during the period of leasing and recognized in proportion to revenue recognition. Other costs associated with the leasing activity are applied as an expense when they are incurred.

The leased cars must be presented in the balance sheet as part of fixed assets or next to said item.

5.4. Financial lease

5.4.1. Lessee

The lessee shall record a financial lease as an asset and the corresponding obligation to the lesser value between the present value of minimum lease payments and the fair market value of the leased asset at the date in which the lease started. The difference between the nominal value of minimum lease payments and the recorded liability represents the financial cost to apply to financial results during the lease term.

For the purposes of calculating the present value of minimum lease payments, the lessee must use the interest rate implicit in the lease agreement when it is practical, otherwise it must use the incremental interest rate. Any initial direct costs of tenant should be included as part of the cost of the leased asset.

Operating costs of the leased asset payable by the lessor and included in the rent amount must be excluded by the lessee in the present value of minimum payments calculation. If such costs are not known, there must be estimation.

The lessee must depreciate the asset recorded in the same way as their other assets in property. However, if there is no reasonable certainty that there would be transfer of ownership of the asset at the conclusion date, the depreciation of the asset must be calculated during the duration of the contract length.

The income earned shall be prorated to interest payments and decreasing the recorded liability, so as to produce a constant interest rate on the unpaid balance of the recorded liability.

5.4.2. Lessor

The sum of the minimum lease payments plus the unguaranteed residual value accrued on benefit of the lessor should be recorded as gross investment in the leasing, equivalent to an account receivable. The difference between gross investment and the present value of its components would be recorded as financial income to be accrued.

The discount rate utilized for the present value determination should be the interest rate expressed in the leasing agreement and capitalized when the lessor is a manufacturer or commercial distributor of the leased asset; the present value of the minimum lease payments should be recorded as the sale price.

The financial income to be accrued should be applied to results so as to produce a rate of return on outstanding balances.

The cost of the rental property or value registered, if it is different, less the present value of the unguaranteed residual value that accrues to the benefit of the lessor, plus any initial direct costs, must be charged to cost of sales in the same period in which revenue is recognized.

In the case of lessor entities who are not manufacturers or commercial agents of the leased asset, should not recognize any income or cost is provided that it is essentially a financial transaction and does not have substantial difference between the present value of minimum payments and the market value of the leased asset. In this case, the initial direct costs should be charged to the gross investment income and recognized in the financial income accrued in the result.

The estimated residual value shall be revised at least once a year. If such review results in a lower permanent residual value, decrease should be recorded against the determined year. In case the estimation results in a higher residual value, no adjustment should be made.

6. VAT/sales tax

6.1. 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

6.2. 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 establish 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

6.3. 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.

6.4. 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 stand out that in the event that the vehicle is fixed assets of a company, the difference between the value of the car and MX 130,000 pesos will be not 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.

6.5. 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.

6.6. 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.

7. Company car

7.1. 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 purposes 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).

7.2. 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 on section 4.2 of this document must be complied in order to be able to credit the corresponding VAT.

8. *Income taxes – drivers' personal taxation*

8.1. 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, provided they are required to carry out the work.

On the basis of the foregoing, company vehicles provided to employees for their private use in 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 company vehicle.

It should me mentioned that in most of the cases, employees are not required to accrue this income in their annual tax return.

As mentioned in section 4.1, 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.

8.2. 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 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.

9. Selling a car

9.1. 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 purposes we should consider the limit of deduction which is MX 130,000 pesos).

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 such tax, shall be computed with reference to the value of the price or compensation paid thereof 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.

9.2. Private individuals

In principle, individuals do not need to charge VAT and consider as taxable income the amount obtained from the sale of a used car.

10. Tax incentives

10.1. For production and promoting exports of vehicles and parts; Mexico has a number of specific programs such as:

10.1.1. Decree to promote manufacturing, maquila and export services companies (IMMEX)

IMMEX was enforced in November 2006. This decree consolidate the maquila and PITEX programs (the previous temporary import programs), nullifying the PITEX program. In order to enroll entities must export at least 500,000 USD or 10% of their production. Such progam 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 dutieson fuels, lubricants, 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 program may be performed upon the payment of the suspended import duties over the foreign contents thereof.
- VAT will be returned within 20 days if there is a credit balance.

Note: as of January 2015, VAT must be pay when importing the goods. There is a possibility to obtain a certification to grant an automatic tax credit for the VAT trigger when importing goods under temporary basis thoughout the IMMEX program.

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 merchandise 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).

10.1.2. Maquila (tool 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.

10.1.3. 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.

10.1.4. 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 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 trigger only if goods are extracted to domestic market, via a definitive import.

10.1.5. 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.

10.2. Companies contracting special needs or blind persons

Employers may deduct IT withheld from employees with physical disabilities (which is refunded to them).

10.3. Incentive for employing persons 65 and over

The March 18th 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 or
- 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.

10.4. Tax incentive for investments in Mexican motion picture production

Taxpayers may apply a tax credit of the amount contributed to investments in Mexican motion picture productions (EFICINE for its acronym in Spanish), against IT for the period.

That credit is not subject to IT, and may not exceed 10% of IT payable in the period immediately preceding that in which it is applied.

Investments in Mexican motion picture projects are considered to be only those made in Mexico, as well as the human, material and financial resources necessary for the project.

10.5. Tax incentive for investments in Mexican theatre production

A tax incentive is provided to IT taxpayer equivalent to the amount contributed to investments in Mexican theatre production projects; that incentive is applied to IT for the period and provisional payments for that same period.

That credit is not subject to IT and may not exceed 10% of the taxpayer's IT for the immediately preceding period.

10.6. New truck and bus tax incentive

Another tax incentive makes it possible to replace vehicles used to provide federal freight and passenger transportation service with new vehicles.

That incentive is applicable to authorized manufacturers, assemblers or distributors resident in Mexico that sell:

- Tractor-trailers,
- Unit buses or
- Buses.

The tax incentive consists of a credit equivalent to the lowest of the price paid for used vehicles, 15% of the price of a new vehicle and the amount specified in the decree; the ceiling is MX 250,000 pesos for fifth-wheel trucks, MX 160,000 pesos for three-axle minibuses, MX 107,000 pesos for two-axle minibuses, MX 250,000 pesos for full-sized buses factory-outfitted with more than 30 seats, MX 145,000

pesos for conventional buses factory-outfitted with more than 30 seats, MX 150,000 pesos for platforms or chassis for full-sized buses where more than 30 seats can be installed and MX 87,000 pesos for platforms or chassis for conventional buses where more than 30 seats can be installed.

The decree establishes that the tax incentive determined may be credited against IT, against IT withheld from third parties, and against VAT payable in provisional payments, definitive payments or in the annual return, as the case may be.

10.7. Promotion of the national economical development (Promexico)

The *Promexico* fund was created by presidential decree in June 2007, and focuses on contributing to the attraction of direct foreign investment, through the granting of support to projects that promote the national economical development.

The fund is run by a trust fund which is operated by the National Bank of Foreign Commerce (BANCOMEXT) and is integrated by resources provided within the federal budget to the Ministry of Economy.

The fund supports companies that provide the following within their business activities:

- Infrastructure
  - Physical (civil engineer works and equipment)
  - Technological (installation of laboratories, design and test centers)
- Buildings and constructions
- Equipment (purchase and installation of machinery and equipment)
- Innovation and technological development (payment of royalties, licenses and intellectual property)
- Technological transfer (expenses involved for the transfer of technology required for the development of the project)
- Development of human capital (training employees in Mexico and abroad)

Of course, we have an excellent relationship and coordinate with *Promexico*, we are willing to share with you.

10.8. 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 in the creation of specialized jobs, green ideas, competitiveness, innovation and added value.

The most important issues to consider related to this Program are:

- Due dates to file the applications.
- The companies will be able to request a complementary financial support for the projects developed during the current business year.
- Maximum amount of support per company MX $36,000,000 pesos (US $2,234,235 dollars approximately).
- Additionally to the information requested in the application, the companies shall have a feasibility study, a plan of activities and a annual and total budget per project, a strategy for the appropriation of the intellectual property and copyright, a description of the impacts and benefits derived from the project, as well as an action plan for the exploitation of its results.

Schemes and characteristics

The applications could be filed under three schemes:

INNOVAPYME: Focused in the technological innovation of high added value for the projects of research, development of technology and innovation (IDTI) filed by micro, little and medium companies (MIPYMES), with an important impact in its competitiveness. Such projects which demonstrate connection with Centers of Research and/or Universities, will have right of priority; thus, it shall be evidenced that at least 10% of the project's budget is assigned to this connection.

PROINNOVA: Focused to the development and innovation of precursory technologies for IDTI projects which are filed by MIPYMES o by big companies in a network, that is, integrated at least by one company and two research centers and/or universities; thus, it shall be evidenced that at least 25% of the project's budget is assigned to this connection.

INNOVATEC: Technological innovation for the competitiveness of IDTI projects which are filed by big companies which cause productive chains regarding research and development of technology's activities, and which bring about the investment in infrastructure (foundations and human resources) as well as the creation of new employment. Such projects which demonstrate connection with Centers of Research and/or Universities, will have right of priority; thus, it shall be evidenced that at least 10% of the project's budget is assigned to this connection.

11. Legal background

- MITL
- VAT Law
- NAT Law
- Science and Technology Law
- Customs Law
- Decrees
- Local laws

Moldova

Ionut Simion
Automotive Tax Leader
P: +402 12253702
e: ionut. simion@ro.pwc.com

Alexandru Munteanu
P: +373 22251741
e: alexandru.munteanu@ro.pwc.com

Constantin Barbaros
P: +373 22251758
e: constantin.barbaros@ro.pwc.com

Lilia Tapu
P: +373 22251723
e: lilia.tapu@ro.pwc.com

Moldova

1. Importation of cars

1.1. Customs duties

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 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.

Exemptions from customs duties are applicable on cars imported in Moldova by temporary admission regime, but these cars cannot be sold, rended or sublet, or given in bailment, pledged or transferred to other persons.

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

Motor vehicles are also subject to excise duties upon importation into Moldova. The excise duty rates depend on the type and cylindrical capacity of engine and apply per cubic centimeter, as follows:

- For vehicles with gasoline engines, it ranges from 0.43 EUR to 3.72 EUR;
- For vehicles with diesel or half-diesel engines, it ranges from 0.55 EUR to 3.72 EUR.

The above excise duty rates increase for cars for which the exploitation period is

- from three to five years – by 0.02 EUR per cubic centimeter;
- from five to seven years – by 0.03 EUR per cubic centimeter;
- from seven to eight years – by 0.04 EUR per cubic centimeter;
- from eight to nine years – by 0.05 EUR per cubic centimeter;
- from nine to ten years – by 0.06 EUR per cubic centimeter;
- over ten years – by 0.07 EUR per cubic centimeter.

As an exception to the general rule, the excise duty for an imported antique car (i.e. car older than 30 years, where cultural-historical value is confirmed by the competent state authority) is 10,000 EUR per vehicle.

Moldovan customs law provides for a general prohibition on the import of means of transport, engines and bodyworks, classified under the tariff heading 8703, with an exploitation period exceeding ten years.

As regards the cars vehicles designed to carry up to 20 persons classified under the tariff heading 8702 (including engines and bodyworks for them), the import into Moldova is prohibited if their exploitation period exceeds seven years. There are, also, other limitations for importation in Moldova of the used vehicles (e.g. trucks classified under specific tariff headings, vehicles designed to carry more than 20 persons, etc.).

1.2. 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 of the Moldovan Nomenclature of goods, for which VAT exemption is applicable. Agriculture trucks classified under specific tarrif 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).

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, 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 Ministry of Information Technology and Communications.

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, if they have a residency permit in Moldova.

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

A vehicle with a foreign number plate can be temporary used on the territory of Moldova, subject to specific conditions being met and payment of 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:
  - For vehicles registered in the Republic of Moldova
  - For vehicles not registered in the Republic of Moldova, with some exceptions
  - Vignette
  - 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 be refunded 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 object 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.

3.2.3. Tax due

Road tax is 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, 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

No.	Object of taxation	Unit	Tax (MDL)
	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

3.3.1. Taxable event

The road tax is charged when the vehicle (not registered in Republic of Moldova) enters or is transiting the territory of the Republic of Moldova.

An exemption from the road tax are the vehicles of foreign military equipment.

The tax is computed by the customs authority and is paid at state border.

The vehicle (not registered in the Republic of Moldova) which is transiting through the territory of the Republic of Moldova pays only the road tax for transit.

3.3.2. Taxable person

The road tax is due by individuals and legal entities possessing ovehicles not registered in the Republic of Moldova that enter or transit Republic of Moldova territory.

The following persons are not subject to tax:

- Resident individuals or legal entities who place vehicles under import customs regime;
- Possessors of vehicles registered in other states having available international road transport authorization "Exempted from payment of taxes".

3.3.3. Tax due

Please find below an overview table.

No.	Object of taxation	Tax rate (EUR)	
		For entrance	For transit
1	Minibuses and buses with the capacity[1]		
	of 9 seats	25	40
	from 10 to 16 seats inclusive	40	50
	from 17 to 24 seats inclusive	45	60
	from 25 to 40 seats inclusive	70	80
	over 40 seats	85	100
2	Trailers for minibuses	20	30
3	Trailers for buses	40	50
4	Trucks with or without a trailer (not exceeding the admitted axle load weight), with a total weight		

No.	Object of taxation	Tax rate (EUR) For entrance	For transit
	up to 3.6t inclusive	25	40
	from 3.6t to 10t inclusive	40	50
	from 10t to 40t inclusive	75	85

[1]For minibuses and buses, the number of seats was calculated not taking into account the driver's seat

3.4. Road tax for vehicles not registered in Moldova classified under the tariff heading 8703 and its trailers classified under the tariff heading 8716 (vignette)

3.4.1. Taxable event

The road tax is charged when the vehicle classified under the tariff heading 8703 and trailers attached to it classified under the tariff heading 8716 (not registered in Republic of Moldova and registered in other states) enter or is transiting the territory of the Republic of Moldova.

An exemption from the road tax is the vehicles of foreign military equipment.

The tax is computed by the authorized points appointed by the responsible authority of central public administration and is paid at state border.

The vignette is paid for a period of 7 days, 15 days, 30 days, 90 days, and 180 days within twelve months (see the table enclosed below).

3.4.2. Taxable person

The road tax is due by individuals and legal entities possessing or that have the right to use vehicles classified under the tariff heading 8703 and trailers attached to them classified under the tariff heading 8716 not registered in Republic of Moldova but in other states, 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
- The diplomatic missions, consular offices, and its personnel.

3.4.3. Tax due

Please find below an overview table.

Object of taxation	Period, days	Tax, EURO
Vehicles classified under the tariff heading 8703 and trailers attached to them classified under the tariff heading 8716	7	4
	15	8
	30	14
	90	30
	180	50

For vehicles not registered in the Republic of Moldova that have exceeded the legal period of staying in Moldova, it is permited to have available certificates confirming the vignette payment for a cummulative period exceeding 180 days within a period of twelve months.

3.5. The road tax for the vehicles with total weight, axle load or dimensions exceeding the admitted limits

3.5.1. Taxable event

The respective tax is levied when a vehicle which is using the roads of Republic of Moldova has a total weight, axle load or dimensions exceeding the admitted limits.

The tax is calculated by:

- Central public administration authorities for vehicles registered in Republic of Moldova;
- Customs authorities for vehicles not registered in the Republic of Moldova.

3.5.2. 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 own vehicles whose total weight, axle load or dimensions exceed the admitted limits.

3.5.3. Tax due

Please find below an overview table.

No	Object of taxation	Tax rate (MDL)
1.	Issue upon request of the preliminary notification and special authorisation	43.2
2.	The excess of the admitted limits of axle load:	
	up to 2 t inclusively	1.1 for each t in excess x km
	over 2t	2.2 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)	3.2 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	4.3 for each kilometre x km
	the width or height between 50cm–100cm or the length between 100cm–200cm	8.6 for each kilometre x km
	the width or height between 101cm–150cm or the length between 201cm–350cm	13.0 for each kilometre x km
	the width or height between 151cm–200cm or the length between 351cm–600cm	17.3 for each kilometre x km
	the width or height between 201cm–250cm or the length between 601cm–900cm	21.6 for each kilometre x km
	the width or height between 251 cm–300cm or the length between 901cm–1200cm	25.9 for each kilometre x km

No	Object of taxation	Tax rate (MDL)
	he width or height over 301cm or the length over 1201cm	32.4 for each kilometre x km
5.	Re-weighing or re-measurement of the vehicle dimensions after rearranging the cargo	21.6 for one operation

3.5.4. Tax period

The taxable person pays the entire tax amount before obtaining documents allowing the use of the respective vehicles.

3.6. Local car-related taxes

3.6.1. 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

3.6.2. 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 posesss vehicles and use parking lot

3.6.3. 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	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	

3.6.4. 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 one. Parking lot tax should be paid considering the reporting conditions established by each local public administration.

4. *Income taxes – taxable persons*

4.1. Level of deduction of car-related expenses

Vehicle depreciation, fuel costs or operational rent expenses are fully deductible for corporate income tax (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 consume, etc.).

The deduction of expenses related to the calculation of depreciation, repair, and maintenance of automobiles used by general, executive, and other similar directors or by administrative managers is limited to one automobile per company subdivision (including the headquarters).

4.2. Tax depreciation

According to the fiscal law, fixed assets are divided into five categories, each with different depreciation rate. The allocation to a specific category depends on the period during which the fixed asset is used in accordance with the Catalogue of fixed and intangible assets.

Generally, vehicles are included in the fifth category. Therefore, vehicles are subject to annual CIT depreciation under the diminishing balance method at the rate of 30%.

Specific depreciation rules apply for cars, with certain exception mentioned at point 4.1 above:

- If the value of the car is up to 200,000 MDL, the depreciation will be fully deducted.
- If the value of the car exceeds 200,000 MDL, tax depreciation will be computed from car's value of 200,000 MDL.

This limitation does not apply for cars used for rendering services and whose depreciation is included in the cost of sales.

4.3. Repair expenses

Repair expenses of vehicles recorded on the balance sheet are deducted within the limit of 15% of the fiscal value of the category of property (to which vehicles belong to) at the beginning of the fiscal year, with certain exception mentioned at point 4.1 above. Expenses exceeding the threshold above are capitalised to the fiscal value of the category of property upon year- end and, therefore, subject to annual CIT depreciation.

Repair expenses of leased vehicles under an operational leasing arrangement up to the limit of 15% of the lease calculated payment amount. Expenses exceeding

the threshold above are recognised, for tax purposes, as a depreciating fixed asset attributable to the category of property (with the correspondent CIT depreciation rate) similarly to the respective vehicle.

4.4. Expenses related to the technical maintenance of cars

Expenses related to the technical maintenance of cars are fully CIT deductible, with certain exception mentioned at point 4.1 above, and such expenses refer to measures aimed at ensuring the security of road traffic; outdoor maintenance; refilling fuel, oil, and other cooling liquids and substances; while for certain means of transport they refer to coachwork disinfection, checking and adjustment (diagnostic), elements fixation insurance, and other types of work aimed at defect prevention.

4.5. Expenses related to interest

There are no thin cap rules in Moldova (i.e., no debt to equity ratio is applicable for deductibility of interest expenses).

Still, the following provisions should be considered:

- Interest expenses incurred by legal entities, based on a loan contract, given to individuals and legal entities (except financial institutions, micro-finance organisations and leasing companies) 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 until they are commissioned. The deductibility of this expense would be capped at the above limit. The exceeding difference is treated as a tax non-deductible expense for the respective fiscal year.

4.6. 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. *Accounting*

5.1. Accounting standards

In Moldova generally accepted accounting principles are established by the law of 27 April 2007 and implemented by Parliament.

The Moldovan Ministry of Finance has approved new National Accounting Standards (NAS), which are optionally applicable during 2014 and are mandatory starting with 01 January 2015.

Thus, starting 1 Jan 2015 the reporting of leasing transactions is guided by NAS Leasing Contracts.

The objective of this standard is to prescribe for both lessors and lessees the appropriate accounting policies in relation to lease agreements.

Under IAS 17 and NAS Leasing Contracts, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. Financial leases are leases for which the

risk and rewards incidental to the ownership of an asset are substantially transferred to the lessee. If this criteria is not respected, the lease will be classified as an operational lease.

There are some differences between the NAS Leasing Contracts and IFRS:

- Under IAS 17, options are treated differently than under NAS Leasing Contracts. No differences of the fair value at the date of exercise of the option to purchase assets are considered under NAS leasing Contracts when, as defined by IAS 17, these are added to the contractual lease payments and are therefore part of the minimum lease payments.
- Unlike IAS 17, which has five main criteria for a distinction between finance lease and/or operational lease, NAS Leasing Contracts has only three main criteria, which also includes some quantification limits. NAS is clear that only one of the criteria needs to fulfilled for the leasing to be classified as a finance lease. In addition, the NAS criteria have clear limits: for example, when the lease term is 75% of the economic life of the asset or at the inception of the lease, the present value of minimum lease payments amounts to not less than 90% of the fair value of the leased asset.
- The initial recognition of a financial lease by lessors is based on gross investment in the lease.
- Net investments in the lease are to be discounted at the interest rate implicit in the lease, but under NAS Leasing Contracts at the rate included in the lease contract.

Below, a short overview will be given of the accounting treatment under Moldovan accounting law of different possibilities to acquire/lease a car.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) including all directly attributable costs and depreciate it over its useful economic life.

The purchaser will have to disclose the accounting policies with regards to the car in the notes to the accounts.

5.2.2. Vendor

The sold car is derecognised when risks and rewards of ownership are transferred to the buyer. The amounts receivable should be recorded on the balance as a receivable.

5.3. Operational lease

5.3.1. Lessee

An operational lease or renting agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. If the lease contract has a significant effect on the results of the enterprise, the lessee has to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In the case of an operational lease or a rental agreement, the car will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated as economically justifiable with respect to the nature of the asset (the useful economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account. The lessor is obliged to disclose its valuation rules in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement, the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price including all directly attributable costs, i.e., the capital portion of the minimum lease payments. The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice, this means that the car is depreciated linearly over the lease period.

The lessee carries as a liability the minimum lease payments, which is divided into an amount payable after one year and an amount payable within one year.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, the valuation rules will have to be disclosed in the notes to the accounts.

5.4.2. Lessor

The leased car is derecognised from the lessor's balance sheet. The lease payments received should be recorded on the balance as a receivable and deferred investment income, which are equal to each other at the recognition date and represent future gross investment in the lease. From the over side, the cost of the derecognised assets is recorded as a deferred investment expense and written off of the initial cost. Investment income/expense are initially deferred and then recognised in profit and loss gradually throughout the period of the leasing contract (based on the repayment schedule from the contract signed by the client).

The financial charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period.

6. *VAT/sales tax*

6.1. 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 1.2 above) and agriculture trucks are VAT exempted.

All kinds of international transportation of passengers and goods are subject to a zero VAT rate. This type of supply is considered VAT-able with the VAT deductable.

Taxable persons are:

- legal entities, individuals and non-residents performing entrepreneurial activity through permanent establishment conducting economic activities and 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 vehicles, provided that no VAT exemptions apply;
- legal entities, individuals and non-residents performing entrepreneurial activity through permanent establishment importing services, regardless of whether or not registered as VAT payers.

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.

6.2. Deduction

Under the current VAT legislation, input VAT incurred in relation to acquisitions of goods and services may be deducted 100%, provided it is incurred by a VAT-payer (registered in due course) for trading in VAT-able supplies within its business activity.

No VAT can be deducted for acquisitions made before registering as a VAT taxpayer. As an exception to this rule, input VAT may be deducted only if incurred on the acquisition of vehicles for agricultural purposes.

Input VAT on acquisitions of goods/services used for performing VAT- exempted operations (e.g., passenger transport on the territory of the Republic of Moldova) or used outside of a business will not be deducted for VAT purposes.

Input VAT incurred on acquisitions destined for performing both VAT-able and VAT-exempt operations is deducted on a pro-rata basis.

Additionally, VAT deduction is allowed for all kinds of international transportation of passengers and goods, which are subject to a zero VAT rate.

It is allowed to deduct input VAT paid or to be paid for maintenance, operation and repair expenses for a single car used by general, executive and other similar directors or by administrative managers per company subdivision, 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.

6.3. 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 Republic of Moldova, hire purchase transaction could be assimilated with financial leasing. For more details, please see our comments below.

6.4. Leasing: Supply of services?

According to the tax law in force, for VAT purposes, a lease agreement is considered:

- a supply of goods for vehicles transferred based on a financial leasing or
- a supply of services for vehicles sold based on an 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 tenant under a leasing contract is considered out of VAT scope.

Leasing payments according to the operational lease agreement are VAT-able at the standard VAT rate.

7. Company car

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

The private use of a company car is a VAT-able supply of services, irrespective as to whether the employee pays or does not pay a 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 contribution: the VAT-able amount of the respective supply of service represents the value paid or payable (i.e. lease fee contribution of employee), except VAT, or the market price value depending on which value is higher. In practice, the calculation is done as follows:
  - Contribution value > Car rental market price
    Contribution: 180 EUR
    Car rental market price: 120 EUR VAT rate: 20%
    VAT due: 180 EUR x 20/120 = 30.00 EUR
  - Contribution value < Car rental market price
    Contribution: 50 EUR
    Car rental market price: 120 EUR VAT rate: 20%
    VAT due: 120 EUR x 20/120 = 20.00 EUR

7.2. Company car in personal tax returns – benefit in kind

When an employer puts a company car at the disposal of an employee and the employee uses the company car for professional and private purposes, tax on the value of the private use is due to the Moldovan budget.

If the employee pays no contribution to the employer for the private use of the car, a benefit in kind is considered granted to the employee. Such a benefit is taxable for personal tax purposes and a non-deductible expense for CIT purposes.

According to Moldovan tax law, the benefit in kind for the private use of a company car is determined to be 0.0822% of the vehicle's value per each day of use.

The following taxes are withheld from employee's remuneration:

- Personal income tax with progressive tax rates: 7% and 18%
- Social security contributions at a rate of 6%;
- Health insurance contributions at a rate of 4.5%

Additionally, the company pays health insurance contributions of 4.5 % and social security contributions of 23% of the benefit-in-kind amount and the depreciation of a car is non-deductible for CIT purposes.

7.3. Other taxes on company cars

Payments for emission of polluting substances are due by legal entities and individuals who dispose of vehicles (except vehicle/car owners not performing entrepreneurship activities)

- consuming liquefied petroleum gas – 0.9 MDL per tonne (1000 cubic meters) – or
- consuming compressed natural gas –0.75 MDL per tonne (1000 cubic meters).

8. Income taxes – drivers' personal taxation

According to Moldovan tax law, expenses incurred with private cars are not deductible for personal income tax purposes.

9. Selling a car

9.1. Taxable persons

9.1.1. VAT

When a taxable person, sells that vehicle, which are not subject to VAT exemption, VAT needs to be charged on the selling price. Upon the supply of the vehicle, the VAT has to be charged from the highest of the balance sheet value and the market price. In case the respective taxable person sells a car listed under specific tariff headings, the supply is exempted from VAT.

9.1.2. CIT

Upon the sale of vehicles, a legal entity shall determine its taxable income or loss derived from such alienation (such a taxable result differs from the accounting one). Generally, the taxable result is calculated by taking into consideration the car sale revenue and the tax value at the beginning of the year of the category to which the car was allocated.

Also, certain complex fiscal provisions are applicable for the taxable result recognition in terms of sale of cars, whose initial book value exceeded 200,000 MDL[14]. The respective tax result is determined by taking into account the car sale revenue and the adjusted value of the vehicle calculated for tax purposes (i.e. the difference between the car intial accounting value and the accumulated tax depreciation).

[14] This limit is applicable for cars, acquired by the legal entities, since January 1, 2008. For the cars purchased before this date the limit constitutes MDL 100,000.

9.1.3. Personal income tax treatment applicable to individuals selling cars

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 income earned from the vehicles 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 based on the general rule.

Also, withholding tax applies to income obtained by a non-resident for vehicles sold to a resident of Moldova.

The car rental incomes obtained on the territory of the Republic of Moldova are subject to final withholding tax of:

- 10%, if the incomes are received by a Moldovan resident individual;
- 12 %, if the incomes are received by a Moldovan non resident from a Moldovan resident company. More advantageous provisions of Double tax treaties could be applicable, if certain conditions are met.

9.2. Private individuals

In principle, the sale of cars by individuals is not subject to VAT, unless it is performed on an on-going basis.

10. 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 Tax and Customs Code
- Other

Netherlands

Ruud Tusveld
Automotive Tax Leader
P: +31 88 7923473
e: ruud.tusveld@nl.pwc.com

Bart van der Stoep
P: +31 88 7923253
e: bart.van.der.stoep@nl.pwc.com

Jos Verstraten
P: +31 88 7923474
e: jos.verstraten @nl.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, who is old enough to drive a vehicle (at the age of 18), 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 registration 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 is to sign for the registration in its name.

Once a vehicle is registered in your name – or you are registered as user of the vehicle (vehicle itself owned by fleet owner) - you will be provided a vehicle data card 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 the registration tax (BPM) – not to road tax (see below). For 2014, 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 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. 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 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 BPM used to be calculated on the net list price of the vehicle, but since 2013 is fully based on CO_2 emission. 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, we have listed below some background on this.

When it concerns a new motor vehicle, the applicable list price is the list price of the date on which a registration number is assigned to the motor vehicle. When it concerns a used motor vehicle, the applicable list price is the Dutch list price of the date on which the motor vehicle was first put into use (e.g., in the country where the car came from).

Please note that the automobile and motorcycle industry and price lists often use the term consumer price. This is the list price including VAT and BPM. The consumer price is therefore not the same as the list price.

Extra options, accessories and special versions are part of the net list price in case these are installed by the manufacturer or importer and are therefore subject to BPM as well. As from 2006 accessories that are installed by the dealers are no longer part of the taxable base for BPM.

Information about the various prices (list price, net list price and consumer price) and about the prices of extra options, accessories and special versions can be obtained from the

- importer,
- dealer,
- Bovag,
- RAI or
- ANWB.

As of January 1, 2013, the calculation of the BPM has been based entirely on the CO_2 emissions of the car or the motor vehicle. In previous years, the BPM was still partly calculated on the basis of the net list price. This means that the BPM will be higher than in previous years.

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 CO_2 - 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 CO_2 emission (grams per kilometre) has increased gradually.

For import of used cars in general the following procedure is applicable. Once Customs has determined the net list price of the motor vehicle, the BPM rate will be applied to this price. The outcome of this calculation is the gross BPM amount. For imported cars, the net BPM amount is the gross BPM amount minus the discount based on the age or the rebuttal scheme. Under the rebuttal scheme, the actual depreciation on the motor vehicle will determine the discount you receive against the gross BPM amount.

If someone buys and registers a new motor vehicle, this gross BPM amount will be the final amount he has to pay.

As a result of the preceding, a transfer from BPM to road tax is also taking place, which means a substantial increase of road tax rates (please note that this transition was stopped in 2011 temporarily).

As from 2010 the energy efficiency label of the motor vehicle is no longer relevant, since from that moment on the BPM is calculated based on the absolute CO_2 emission of a car. The calculation is based on a three-graded system based on absolute CO_2 emission in grams per kilometre and was increased by a percentage of the pre-tax list price.

As of January 1, 2013, the calculation of BPM has been based entirely on the CO_2 emissions of the car or motor vehicle.

As of January 1, 2015, the calculation of BPM is no longer distinguished by type of engine. This means that for BPM calculation for cars whether driven by compression ignition engines or by non-compression ignition engine, the same calculation table is being used, as is reflected in the table below. Furthermore, as of January 1, 2015, only zero-emission cars are exempt from BPM.

With CO2 emissions more than	But not more than	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	*II*	*III*	*IV*
0 g/km	82	€ 175	€ 6
82 g/km	110	€ 667	€ 69
110 g/km	160	€ 2.599	€ 112
160 g/km	180	€ 8.199	€ 217
180 g/km	–	€ 12.539	€ 434

For cars with a diesel engine, the amount calculated on the basis of the table above is increased by 86 EUR for each g/km that exceeds 70g/km. The reduction, that used to be in place for diesel-engines that met the Euro 6 criteria, has expired per 2014.

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 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 follows[15]:

Period as from first use	But less than	But less than reduction	For every month passed partially or completely since the period mentioned in the first column, add the following %
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%

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.

[15] 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.

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 to more than 90% as a taxi, the BPM is refunded annually over a three-year period.

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 is charged on holding a vehicle, which generally means having a vehicle registered to one's name.

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 amount of road tax due for passenger cars is amongst others based on its weight (in kilograms).

Passenger cars: 2015

Weight	*Amount*	*Additional*	*For each 100 kg exceeding*
500 or less	16,87 EUR		
600	22,87 EUR		
700	29,06 EUR		
800	37,94 EUR		
900 – 3200	50,46 EUR	13,57 EUR	900 kg
3300 or more	372,54 EUR	9,43 EUR	3300 kg

The road tax amount is increased with an additional fuel tax for diesel cars and cars with dual fuel capacity.

Diesel 2015

Weight	*Amount*
500 or less	64,32 EUR
600	76,14 EUR
700	87,93 EUR
800	99,96 EUR
900 or more	116,98 EUR
Each additional 100 kg above 900 kg	12,68 EUR

Dual fuel use 2015

Weight	*Amount*
500 or less	75,46 EUR
600	90,46 EUR
700	105,45 EUR
800	120,44 EUR
900 or more	131,55 EUR
Each additional 100 kg above 900 kg	13,94 EUR

Each province in the Netherlands adds a percentage as a mark-up to the amount of road tax due, a provincial surcharge. In 2014, the average provincial surcharge was approximately 80% of the amount of the road tax due.

Please note that various initiatives have been, are and become in place to stimulate energy efficient cars via a slightly lower(ed) road-tax. These measures, however, tend to change regularly.

An example of this is a road tax exemption (i.e., zero-rated) that applies for extremely emission efficient cars and electric cars introduced in 2010. This is expected to remain in place during 2014 for electric cars. As of 2014, the exemption is only based on the emission (and not depending on type of engine) of the car.

Extremely emission efficient cars

Petrol Emission	*Road tax*
<50 g/km	0 EUR

In 2014, it was announced that this particular exemption will cease to apply per January 1, 2016. Instead, such cars will be subject to the half rate for road tax. The road tax exemption will only remain for cars with an electric motor that are fuelled exclusively by a hydrogen-based fuel cell, and for cars with a combustion engine that can be fuelled by hydrogen.

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 uplift.

2.3.4. Taxable period

The road tax is due on a quarterly basis.

Please note that during the period that your vehicle is noted as disused 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 revenue 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 effected. 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.

2.4. 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 or one week. 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 costs.

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 – taxable persons*

For Dutch corporate income tax purposes, the applicable rate is 20% for profits up to 200,000 EUR and 25% for profits exceeding this amount. The depreciation of motor vehicles and operational costs are fully deductible.

The private use of a company car will in principle result in a taxable fringe benefit for income tax purposes. A percentage (25%) of the list price of the company car must then be taken into account as a taxable benefit. A rate of 14% can be applied for cars that have very limited CO_2 emissions. Since 2009, there is another rate at 20% of the list price based on the benefit in-kind. As of 2014, a rate of 7% applies to plug-in hybrid cars and a rate of 4% applies to electric cars. A fringe benefit does not exist if the private use is less than 500 kilometres.

In this respect, it has been announced that per January 1, 2016, these percentages will be changed again.

4. *VAT*

4.1. General

Dutch VAT at the standard rate of 21% is in principle charged on most supplies of goods and/or services in the Netherlands.

4.2. 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 instalments, VAT on petrol and repair costs etc.). On basis of a decree 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). This legislation entered into force as of July 1, 2011. We note that no

VAT is levied over the BPM component of the purchase or importation price.

4.3. 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 instalment 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 let 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 exercised[16]).
- 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).

4.4. 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. Company car

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

[16] It is considered reasonably obvious that the call option will be executed if the option price does not exceed 10% of the residual value.

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).

5.2. Commuter traffic

Commuting is also considered to be private use. 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.

5.3. 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).

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) and uses this car for private purposes (for the private taxable individual or the employees), 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 out 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:

39. Determining the daily distance for travelling to and from work and tallying the number of days of travel to and from work.

40. 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.

41. 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).

5.4. Company car – income tax and wage tax

In the last few years, the rules for company cars have been subject to constant change. Until 2006, the fringe benefits of a company car were taxed in the income tax. The company car was explicitly excluded from the taxable wage for the wage tax. Since January 1, 2006 the taxable benefit of the company car has been transferred from the income tax to the 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[17] and a fixed percentage of the catalogue value of (in principle) 25%.

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.

However, a percentage of 20%, 14%, 7% or 4% can be applied for cars that have none or a (very) limited CO_2 emission.

The employer is obliged to apply the car costs fiction if a car can be used for private purposes. This also applies in situations where it is practically impossible for the employee to use the car for private use, or the employee have an equivalent private car. A fringe benefit does not exist if the private use is less than 500 kilometres. This must be convincingly demonstrated by the employee. From a wage tax perspective, commuter mileage is considered as business use for employees.

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

[17] If the car is older than 15 years, the market value should be applied instead of the catalogue value.

insurance premiums and income-related contribution to the Health Insurance Act (Zvw) have to be paid on the private use of the company car. From January 1, 2013, employers also have to pay employee insurance premiums on the taxable fringe benefit.

6. Income taxes – drivers' personal taxation

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).

7. Legal background

- Dutch VAT legislation (Wet op de omzetbelasting 1968, BTW);
- Decree of the Dutch Secretary of State of December 20, 2011, No BLKB 2011/2560M
- 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

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 are subject to duty at a rate of 5%.

If the value of the vehicle amounts to NZD $1,000 or more, Customs requires that the vehicle be entered on an Import Entry. A combined transaction fee of NZD $49.24 (GST inclusive) will be payable which encompasses both an import entry transaction fee (IETF) of NZ $29.26 and a biosecurity levy of NZ $19.98.

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 lawn-mowers, tractors and forklifts.]; or trailers and trailer-type caravans having a gross laden weight not exceeding 3,500 kgs; 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 licence plates?

Only New Zealand licence 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 recognises 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 licence 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 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 licence must be purchased based on the vehicle type and weight. For most diesel cars a distance licence would be purchased. This licence is purchased in 1,000 km units and a new licence must be purchased before the distance covered by the previous licence 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.*

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 previously incorporated into registration costs, regardless of the type of vehicle. From 1 July, levies will now be 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 new rating system will apply 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:

- Download *ACC7123 – Light passenger vehicles – Levy bands for 1 July 2015 to 30 June 2016 (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
Private passenger	1301 – 2600 cc	$176.85	$202.81
	2601 – 4000 cc	$207.90	$233.86
License ACC levies		*Petrol driven*	*Non-petrol driven*
Band 1		$158.46	$241.13
Band 2		$123.46	$206.13
Band 3		$103.46	$186.13
Band 4		$68.46	$151.13
Registration of motor vehicle (issued with standard plates, and includes first vehicle license and ACC levy)		6 months	12 months
Trailer			
Other (standard) goods	0 – 3500kg GVM	$84.46	$98.55
Motorcycle			
Private passenger	Petrol driven – 0 - 60cc incl	$246.36	$444.18
	Petrol driven – 61cc – 600cc incl	$273.96	$477.53
	Petrol driven – 601cc and over	$331.03	$591.96
Moped			
Private passenger	Petrol driven	$131.23	$213.93

3.2.4. Tax period

The tax period is each time a vehicle is registered or reregistered.

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 licence 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 licence.

3.3.3. Tax due

The current licensing fees are:

Motor vehicle type/usage	6 months	12 months
Passenger car – not including ACC levy		
Private passenger vehicle	$26.15	$52.11
Taxi or rental vehicle	$55.04	$109.86

The following table does include the ACC levy, but does not include an administration fee.

Motor vehicle type/usage		3 months	6 months	12 months
Trailer				
Less than 3500kg		$7.23	$14.28	$28.37
Motorcycle				
Petrol driven – 0 – 60cc incl		$99.14	$198.03	$395.85
Petrol driven – 61 – 600cc incl		$102.01	$203.78	$407.35
Petrol driven – 601cc and over		$130.54	$260.85	$521.51
Moped				
Petrol driven		$41.56	$82.90	$165.60
Goods truck/van/utility				
Private Passenger	Petrol driven – 0 - 3500kg	$43.11	$86.01	$171.81
	Petrol driven – 3501 – 6000kg GVM	$82.06	$163.86	$327.51
	Non-petrol driven – 0 - 3500kg GVM	$66.88	$133.54	$266.88
	Non-petrol driven – 3501 – 6000kg GVM	$119.39	$238.54	$476.88
Transport licensed goods	Petrol driven – 6000 – 12000kg GVM	$96.11	$191.98	$383.73
	Non-petrol driven – 6000 – 12000kg GVM	$133.43	$266.66	$533.11
Other (standard) goods	Petrol driven – 0 - 3500kg GVM	$43.11	$86.01	$171.81
	Petrol driven – 3501 – 6000kg GVM	$82.06	$163.86	$327.51
	Non-petrol driven – 3501 – 6000kg GVM	$66.88	$133.54	$266.88
	Non-petrol driven – 3501 – 6000kg GVM	$119.39	$238.54	$476.88

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 specialise 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 now on annual WoF inspections for the lifetime of the vehicle.

This is subject to changes which will be implemented on July 1, 2014. These changes are to include:

- After an initial inspection, new vehicles won't require another WoF inspection until the third anniversary of their first registration
- Vehicles which are less than three years old will be 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 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 (Fuels, Levies and References) Act 1989.

GST is also charged on the price of fuel.

This table sets out the duties and taxes payable on the different sources of fuel from July 1, 2014 (note that GST of 15% will be imposed on top of these duties and taxes payable):

	a	b	c	d	e	f	g
Unleaded 91 RON	0	56.524	56.524	9.90	0.045	0.66	67.129
Unleaded 95 RON	0	56.524	56.524	9.90	0.045	0.66	67.129
Petrol/ethanol blends	0	0	0	9.90	0.045	0.66	10.605
Automotive Diesel	0	0	0	0	0.045	0.33	0.375
Biodiesel	0	0	0	0	0.045	0.33	0.375
Methanol	30.2	0	30.2	0	0	0.66	30.86
LPG	0	10.4	10.4	0	0	0	10.4
CNG	0	10.5	10.5	0	0	0	10.5

Legend

a.	Crown Bank Account
b.	National Land Transport Fund
c.	Total excise (a+b)
d.	Accident Compensation Corporation Levy
e	Petroleum or Engine Fuel Monitoring Levy
f.	Local Authorities Fuel Tax
g.	Total of volume-based duties and taxes (c+d+e+f)

Notes

- RON = Research Octane Number
- Diesel is not subject to excise because diesel vehicles are all subject to road user taxes, which help to fund the New Zealand Transport Agency.
- All taxes and levies are in NZ cents per litre.

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 licence. This is a cost imposed on a vehicle owner.

3.6.2. Taxable person

The taxable person is the purchaser of the RUC licence.

3.6.3. Tax due

Details of current road user charges are available at:

http://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 licence is purchased by a vehicle owner or on behalf of the owner. As RUC licences 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. Accounting

5.1. Accounting standards

NZ IAS 17 is the New Zealand equivalent of the International Accounting Standard 17 (IAS 17) which covers leases. The objective of NZ IAS 17 is to prescribe for both lessors and lessees the appropriate accounting policies in relation to lease agreements.

Under NZ IAS 17, the lease classification is based on the extent to which risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. Finance leases are leases for which the risk and rewards incidental to the ownership of an asset are substantially transferred to the lessee. If this criterion is not met, the lease will be classified as an operating lease.

The basic principle for qualifying as a finance lease under NZ GAAP is similar to NZ IAS 17 and is consistent with the true and fair view principle in New Zealand accounting law. The test of all the risks and rewards transferring to the lessee is based on the substance of the transaction rather than on the legal form.

Currently the IASB in cooperation with the FASB is reconsidering the accounting model under IFRS and US GAAP. The objective is to eliminate the notion of an operational lease and a finance lease. All contracts would have to be looked at from an obligations and rights point of view and accounted for accordingly. This would bring more lease contracts on the balance sheet than under current accounting principles.

5.2. Hire-purchase

5.2.1. Purchaser

The purchaser will record the vehicle as a fixed tangible asset on the balance sheet at the acquisition cost and depreciate it over its useful economic life. A liability will also be created to reflect future payments in respect of the hire-purchase.

The accounting policies in regard to the vehicle need to be disclosed in the notes to the accounts.

5.2.2. Vendor

When the vehicle is sold it is removed from the vendor's balance sheet. The amounts receivable should be recorded on the balance sheet as a receivable.

5.3. Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership, i.e., a lease other than a finance lease.

5.3.1. Lessee

Under NZ IAS 17 lease payments are recognised as an expense on a straight line basis over the term of the lease unless another systematic basis is a better representation of the time pattern of the use of the benefit.

5.3.2. Lessor

In the case of an operating lease or a renting agreement, the car will be recorded as a fixed asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and directly attributable costs) and depreciated as economically justifiable with respect to the nature of the asset (the useful economic life). The depreciation is treated as an operating expense in the profit and loss account.

The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account.

The lessor must disclose the future minimum lease payments under a non-cancellable operating lease, the total contingent rents as income in the period, and a general description of leasing arrangements.

5.4. Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

5.4.1. Lessee

In a finance lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price at the lower of the fair value of the vehicle or the present value of the minimum lease payments, as well as an obligation for future lease payments. The depreciation is calculated with respect to the nature of the asset (economic life). In practice this means that the car is depreciated linearly over the lease period.

The lessee carries as a liability the minimum lease payments, which is divided into an amount payable after one year and an amount payable within one year.

The depreciation expense and the finance expense for the lease are accounted for together in the Profit & Loss account.

5.4.2. Lessor

The leased car is removed from the balance sheet upon the commencement of the lease.

The lease payments are recorded on the balance sheet as a receivable and should equal the net investment in the lease. This amount consists of the total of the minimum lease payments less finance income allocated to the future period and any unguaranteed residual value accruing to the lessor.

The financial charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (i.e. the amount of funds invested in the lease by the lessor) in the lease in each period. Finally the lessor does not have to disclose anything in the notes to the accounts.

6. Goods and Services Tax (GST)

6.1. 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.

New rules from April 1, 2014 will allow non-resident businesses who do not make any taxable supplies in New Zealand to register and recover GST costs incurred in New Zealand.

6.2. 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 NZD $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 company'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 "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.

6.3. 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.

6.4. 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 earlier 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.

7. Company car

7.1. 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.

7.2. 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 due to the New Zealand Inland Revenue.

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 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.

7.3. Other taxes on company cars

None.

8. Income taxes – Drivers' personal taxation

8.1. Private car in the personal tax return

8.1.1. Private use

The costs of using private cars are not deductible unless they have been used in deriving gross income (excluding employment income).

8.1.2. 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.

8.1.3. 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.

The Inland Revenue prescribed mileage rate is currently NZ $0.74 per kilometre. The rate applies irrespective of engine size or whether your vehicle is powered by a petrol or diesel engine. This mileage rate does not apply to motorcycles. Employers who reimburse employees for business travel in excess of 5,000 km will need to consider whether the mileage rate is still a reasonable estimate of the employee's costs.

Alternatively, rates published by an independent reputable New Zealand source can be used, for example New Zealand Automobile Association mileage rates.

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".

9. Selling cars

9.1. 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 can be zero-rated.

9.2. Private persons

In New Zealand private persons selling a vehicle do not need to charge GST on the sale.

10. Future developments

Emissions Trading Scheme

New Zealand has a large vehicle import industry, predominantly for Japanese vehicles. New emission standards, which came in to force at the start of 2012 will prevent most Japanese cars manufactured before 2005 from being imported.

11. 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 1996
- Road User Charges (Rates) Regulations 2013

Corporate tax

Brendan Catchpole
Partner
+64 9 355 8436
brendan.catchpole@nz.pwc.com

John Cuthbertson
Director
+64 9 355 8429
john.cuthbertson@nz.pwc.com

Indirect taxes

Eugen Trombitas
Partner
+64 9 355 8686
Eugen.x.trombitas@nz.pwc.com

Gary O'Neill
Director
+64 9 355 8432
Gary.oneill@nz.pwc.com

Norway

Morten Beck
Automotive Tax Leader
p: +47 95 26 06 50
e: morten.beck@no.pwc.com

Lars Flatåker
p: +47 95 26 05 25
e: lars.flataker@no.pwc.com

Trond Ingebrigtsen
p: +47 95 26 08 10
e: trond.ingebrigtsen@no.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 the annual vehicle 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 Customs 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 Norwegian Customs and Excise 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 Customs and there are various detailed criteria 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),
- annual vehicle tax (Årsavgift) and
- toll fees (where applicable)

2.2. Registration tax

2.2.1. Taxable event

The registration tax must be paid in advance to the Customs Service. When payment has been received, the Customs Service 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, engine rating, CO2 emissions and NOx, as well as possibly the engine's cylinder volume. A tax calculator for use when importing a car can be found on www.toll.no. When the vehicle has been registered, this information will be transferred from the Central Motor Vehicles Register to the Customs Service's 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.

2.2.4. Tax period

The payment is linked to each registration.

2.3. Annual vehicle duty

2.3.1. Taxable event

All owners of registered motor vehicles is liable to pay the annual car tax for each registered vehicle weighing less than 7,500 kg that he owns.

2.3.2. Taxable person

The person/company who is registered as the owner of the car in the Central Motor Vehicles Register is the taxable person.

2.3.3. Tax due

Per 2015 the annual tax for petrol vehicles and modern diesel vehicles is 3,060 NOK (motor vehicle with net weight below 7,500 kg). For diesel vehicles weighing less than 7,500 kg without a factory installed particle filter, the tax is 6,565. For electric cars the annual tax is 435 NOK.

2.3.4. Tax period

The tax must be paid each calendar year by 20 March. If you fail to pay within the deadline, you will be fined and the car could be deregistered. The annual tax falls due even if you do not receive a tax bill. The previous arrangement with tax stickers has been abandoned.

2.4. Toll fees

There is 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, see the Norwegian VAT Act section 6(6). Hybrid cars that run on fuel and electricity are not encompassed by the exemption. Sales of such cars are VAT-liable with 25% VAT

Previously registered motor vehicles are zero rated for VAT

4.2. Deduction

VAT on costs related to passenger vehicles and specific vans (Varebil klasse 1) is not deductible, see the Norwegian VAT Act section 8(4). 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 will be 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. Accounting

5.1. General

In Norway generally accepted accounting principles are established by the Accounting Act of July 17, 1998.

With regards to leasing, additional guidance is found in Norwegian Accounting Standard No 14, “Rental Agreements”. The standard is all in all in accordance with IAS 17, with the exception of not covering the accounting for lessor.

For accounting purposes a distinction needs to be made between an operating lease and a financial lease. The classification of a rental agreement as either financial or operational should be based on the substance of the agreement (substance over form). If financial risk and control as related to the lease contract in all material respects has been transferred to the lessee, the contract should be classified as a financial lease

A short overview is given below of the balance sheet rules affecting the different possibilities to acquire a car.

5.2. Hire purchase

5.2.1. Purchaser

In the case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it as economically justifiable with respect to the nature of the asset (economic life). In practice this usually means that the car is depreciated on a straight-line basis over a period of four to five years.

The purchaser will have to disclose the valuation principles with regards to the car in the notes to the accounts.

5.2.2. Vendor

The sold car is not capitalized in the vendor’s balance sheet and consequently there is no provision for depreciation. The payments received should be recorded on the balance sheet as a reduction of receivables.

5.3. Operational lease

5.3.1. Lessee

An operating lease or rental agreement is not capitalized by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. In principle, the lessee has to disclose nothing, unless the lease contract has a significant effect on the results of the enterprise. In the latter case the lessee is obliged to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In the case of an operating lease or rental agreement, the car will be recorded as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognized as income in the profit and loss account

The lessor is obligated to disclose its valuation principles in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, i.e., the capital portion of the minimum lease payments (measured at net present value). The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice this means that the car is depreciated on a straight-line basis over the lease period.

The lessee carries as a liability the minimum future lease payments, classified as a long- term debt. In the notes to the accounts, the lessee must disclose how the liability divides into an amount payable within one year, an amount payable after two to five years, and an amount payable after five years. The disclosure should include both nominal amounts and present value.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account. As the car is recorded as a fixed asset on the balance sheet of the lessee, it will have to disclose the valuation principles in the notes to the accounts.

5.4.2. Lessor

The leased car is not capitalized in the lessor's balance sheet and consequently there is no provision for depreciation. Lease payments due are recorded on the balance sheet as a receivable at the amount of the net investment in the lease. This will comprise, at any point in time, the total of the future minimum lease payments less gross earnings allocated to future periods

Gross earnings should be allocated between receipt of the capital amount and receipt of finance income so as to give a constant rate of return.

6. Company car

6.1. 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.

6.2. Taxable benefit

The taxable benefit in respect of a vehicle provided by the employer is fixed to 30% based on the listed price of the car. For any amount of the listed price exceeding 286,000 NOK, the taxable benefit is calculated with 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 kilometres 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.

For electric cars, the basis for calculation is 50% of the listed price, reduced to 37.5% if the electric car is older than three years as of January 1st of the income year

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: private use of vehicle provided by the employer in 2014

The vehicle is first registered in 2008 with a listed price of 554,000 NOK.

The calculated taxable benefit includes all private use, including commuter traffic, see below. Example: private use of vehicle provided by the employer in 2015.

The vehicle is first registered in 2009 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:

85,800 NOK (30% of 286,000 NOK) + 25,900 NOK (20% of 415,500 NOK – 286,000 NOK) = 111,700 NOK

7. Income taxes – Drivers' personal taxation

If the employee is commuting between home and work, he can claim an income deduction of 1.50 NOK per kilometre for the first 50,000km and 0.70 NOK for the next 25,000 kilometres. However, a deduction is not granted for the first 16,000 NOK. This 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 4.10 NOK per kilometre for the first 10,000 km and 3.45 NOK per kilometre for the exceeding distance.

If he does not receive any allowance for the business kilometres, 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).

8. Electric vehicles

See specific evaluation of taxable benefit in kind for employees under section 6.2. Please also see section 4.2.

9. Future developments

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

10. Legal background

- General Tax Code
- Road Code e

Poland

Tomasz Kassel
Automotive Tax Leader
P: +48 22 7464846
e: tomasz.kassel@pl.pwc.com

Bartosz Majda
P: +48 32 6040335
e: bartosz.majda@pl.pwc.com

Michal Zwyrtek
P: +48 32 6040228
e: michal.zwyrtek@pl.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.

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 following documents are required:

- Confirmation of recycling fee payment
- Confirmation of excise duty payment (for passenger vehicles)

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 authorised 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 and
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

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 case 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.

Starting from March 1, 2009, the excise duty on passenger cars became 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.

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.

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

Fee	*Amount*
Fee for issuing the registration card along with stickers	85.00 PLN
Fee for issuing number plates	80.00 PLN
Fee for issuing the vehicle card	75.00 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 and
- buses.

The tax should be declared, in principle, in the tax return submitted on an annual basis (by February 15 every year). However, this tax is payable in two instalments. The first instalment should be paid by February 15, and the second one by September 15.

2.5.2. Taxable person

The fee is payable by the legal owner of the vehicle. As a legal owner is also treated 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 2015, 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 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	821,45
	Above 5,5t up to 9t	1370,38
	More than 9t but less than 12t	1644,45
	Equal or above 12t	3138,07
Semi-trailer trucks	3,5t up to 12t	1918,50
	Above 12t up to 36t	2425,51
	Above 36t	3138,07
Trailers	7t but less than 12t	1644,45
	Equal or above 12t up to 36t	1918,50
	Above 36t	2425,51
Buses	Less than 30 seats	1918,50
	30 seats or more	2425,51

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 kilometre.

The rates vary depending in particular on the

- category of vehicle,
- maximum total weight of a vehicle and
- 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 tonnes 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

The part of depreciation write-offs calculated on the initial value of a passenger car exceeding the PLN equivalent of 20,000 EUR does not constitute tax deductible cost. Moreover, CIT Law limits the deductibility of insurance premiums for a passenger cars, the value of which exceeds 20,000 EUR (only part of share premiums is tax deductible).

Based on the Polish CIT Law, the expenditures related to the use of a car, which does not belong to the taxpayer, constitute the tax deductible costs up to the limit calculated as a number of business kilometre travelled multiplied by a rate per kilometre (see section 7.3) or, in particular cases, up to the monthly lump-sum limit. The above-mentioned expenditures include e.g., fuel or costs of repairs. According to the latest tax authorities' position the costs of rental payments should be treated as tax deductible without any limitation.

Regardless of the above, in the case of an operational lease the whole amount of lease fee paid by the lessee constitutes his tax deductible cost.

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 C

	Operational lease	*Financial lease*
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 Act	The leasing agreement needs to include a provision authorising 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 total amount of rental payments constitutes a tax deductible cost for the lessee and taxable revenue for the lessor. Furthermore, the lessor is entitled to depreciate the leased object for CIT purposes.	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.

4. VAT

4.1. General

Rules regarding VAT deductibility for cars and car-related expenses significantly changed starting from April 1, 2014. The change results from the derogation decision (2013/805/EU) issued on December 27, 2013 by the Council of the European Union. Derogation decision allows 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, a passenger car or truck. The criteria of the above-mentioned 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

Provision binding in 2015

General VAT deductibility rule is that taxpayers are allowed to deduct 50% of VAT related with purchase/lease of vehicles with a gross weight under 3.5 tonnes. Same rule (50% deduction) will apply to maintenance costs and other costs related with using vehicles with a gross weight under 3.5 tonnes.

Until June 30, 2015 no input VAT deduction will be allowed with regard to purchase of fuel for passenger cars (as a temporary deviation from the general rule of 50% VAT deductibility). This exceptional rule may be maintained, as this will to some extent depend on budgetary situation of Poland.

Apart from the above-described general rules, exceptions allowing full (100%) input VAT deduction are applicable in case of the following situations:

- taxpayer purchases specific kind 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.;
- 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;
- taxpayer uses cars only 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 willing 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 requirement 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, specific type of evidence will have to be maintained.

Evidence should, among others, provide the following type 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 above information should be confirmed by the taxpayer.

4.3. Leasing

Treatment of leasing agreements for VAT purposes

	Operational lease	*Financial lease*
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 • 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 and • 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 service supplier. The lessor should issue an invoice for each instalment and recognise 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	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 recognise the tax point according to the standard rules applicable with regard to the supply of goods (generally tax point arises upon delivery of

Treatment of leasing agreements for VAT purposes

	Operational lease	*Financial lease*
	lapse of the time limit for payment specified in the contract or invoice.	goods and invoice should be issued no later than the 15th day of the month following the month in which goods were delivered).

5. Accounting

5.1. General

The Polish Accounting Law sets down criteria for the classification of operational and finance leases which are similar to those set down in IAS 17 – "Leases"; however, the Polish accounting rules are more detailed. If the leasing agreement meets at least one of the seven conditions listed in this act, the assets shall be recognised as non-current assets belonging to the beneficiary and treated as a financial lease. According to IAS 17, a lease is classified as a financial lease if it transfers substantially all the risks and rewards incidental to ownership.

5.2. Purchase

5.2.1. Purchaser

In the case of a purchase, the company will disclose the car as a fixed tangible asset on its balance sheet at the acquisition cost (including non-deductible VAT and excise duty, amongst others) and depreciate it over its useful life.

The purchaser will have to disclose the valuation rules with regard to the car and changes to the gross book value, accumulated depreciation and net book value in the notes to the accounts.

5.2.2. Vendor

The sold car is not capitalised in the vendor's balance sheet and consequently there is no depreciation charge recorded in the profit and loss account. The payments received should decrease the receivables balance.

5.3. Operational lease

5.3.1. Lessee

An operating lease or renting agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating expenses in the profit and loss account.

5.3.2. Lessor

In the case of an operational lease or a rental agreement, the car will be recorded as a fixed asset by the lessor at the acquisition cost (including non- deductible VAT and excise duty, amongst others) and depreciated over its useful life. The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account. The lessor is obligated to disclose its valuation rules for and changes to the gross book value, accumulated depreciation and net book value in the notes to the annual accounts.

5.4. Financial lease

5.4.1. Lessee

In a financial lease agreement the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price, i.e., the capital portion of the minimum lease payments. The asset shall be depreciated over its useful life.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, it will have to disclose the valuation rules for and changes to the gross book value, accumulated depreciation and net book value in the notes to the accounts.

5.4.2. Lessor

The leased car is not capitalised in the lessor's balance sheet and consequently there is no depreciation charge. The lease payments received should decrease the receivable balance recorded on the balance, which equals the lease net investment. This amount consists of the total of the minimum lease payments less finance income allocated to the future period.

The finance charges should normally be allocated to accounting periods therefore giving a constant periodic rate of return on the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period.

6. *Company cars*

6.1. 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 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 7.3.1).

6.2. Company cars – income taxes

If for private purposes, the value of this service is treated as a benefit in-kind, 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.

7. *Income taxes – drivers' personal taxation*

7.1. 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.

7.2. Commuter traffic

The car costs incurred with respect to commuting are not deductible for the employee's personal income tax purposes.

7.3. Business kilometres

7.3.1. 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 kilometres driven by an employee multiplied by maximum statutory rate per kilometre, 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.

7.3.2. 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 7.3.1.

8. Electric vehicles

There are no regulations regarding electric vehicles in Poland. On the other hand, some regulations may occur in future because of the increasing popularity of electric vehicles.

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

Jaime Esteves
Automotive Tax Leader
p: +351 917 612 372
e: jaime.esteves@pt.pwc.com

Joaquim Moura
p: +351 917 627 305
e: joaquim.moura@pt.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 in order to obtain a number plate for the lifetime of the car.

1.2. Who can register a car?

The owner of the vehicle (private person, company or leasing company) must register a car even if the user is another person or entity.

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, if resident in Portugal, the owner of a car that is used on Portuguese public roads needs to register the car in Portugal within a period of 20 days, counted from the date on which the vehicle entered Portugal.

2. Car taxation

2.1. What are the different car taxes?

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

- Vehicle registration tax (Imposto sobre Veículos, or ISV)
- Annual vehicle tax (Imposto Único de Circulação, or IUC)

There are other taxes related directly or indirectly to the use of cars, such as excise duties on petrol and diesel, but which are not included in this summary.

2.2. Vehicle registration tax (ISV)

Vehicle registration tax (ISV) must be paid in order for the Portuguese authorities to grant a registration certificate with reference to the date on which the owner of a car requests its introduction into circulation.

2.2.1. Taxable event

The taxable event occurs with the production, assembly, or admission from another EU country or import into Portugal, i.e., at the time of the first registration of the following vehicles which require a number plate in Portugal:

- Passenger cars (with a gross weight of up to 3,500kg) with up to nine seats, including the driver's seat
- Cars for mixed use (transport of persons and goods) with up to nine seats, including the driver's seat (with a gross weight of up to 3,500kg)

- Cars for the transport of goods with a closed cargo space, an open cargo space or no cargo space (with a gross weight of up to 3,500kg and up to nine seats, including the driver's seat)
- Passenger cars weighing more than 3,500kg, with up to nine seats, including the driver's seat
- Auto caravans, considered as cars that include a residential space
- Motorcycles, tricycles and four wheeled vehicles

The deadline to request the first registration (i.e., to request customs declaration – DAV) of a taxable car in order to obtain a number plate in Portugal is 20 days.

A taxable event also occurs in the following cases:

- Where a new number plate has been 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 implies a new classification of the car into a category subject to a higher ISV, or changes in the engine that lead to an increase of CO_2 emissions or engine displacement
- Ceasing or non-application of one or several conditions for exemption from the ISV
- Cars that remain in Portugal and do not comply with the terms of the law for the ISV (Law No 22-A/2007 from June 29)

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 authorised as such by the customs authorities)
- Recognised operators (recognised as such by the customs authorities)
- Private persons that import or admit from other EU countries cars for their private use.

2.2.3. Tax due

The assessment of the ISV amount is based on the following:

- For passenger cars, with up to nine seats, including the driver's seat, cars for mixed use and motor vehicles for the transport of goods, taxed under Table A (below), the ISV depends on the engine displacement measured in cubic centimetres, the type of fuel, the CO_2 emissions and the level of emissions of particles, when applicable.
- For motor vehicles for the transport of goods, weighing up to 3,500kg, and cars for mixed use taxed under Table B (below), the ISV depends on the engine displacement measured in cubic centimetres, and the level of particles emission, when applicable.

- For auto caravans, motorcycles, tricycles, four-wheeled vehicles, and for cars manufactured before 1970, the ISV depends on the engine displacement measured in cubic centimetres.

The ISV calculation is made using the rates tables established by the legislation, which are determined according to the technical specifications of each car.

Interpretation of these tables is quite complex, sometimes requiring the reading of the corresponding supporting legislation.

2.2.3.1. ISV based on engine displacement and CO_2 component

The following table determines the ISV of passenger cars; vehicles for mixed use with a gross weight of up to 3,500kg and with up to nine seats; and vehicles for the transport of goods not taxed under Table B. It also includes the amounts in euros to be deducted in accordance with the engine displacement component (in cubic centimetres) and with the CO_2 component (in grams per kilometre; in this latter case for petrol or diesel cars).

Table A

Engine displacement component

Engine displacement (cc)	*Tax per cc (EUR)*	*Amount to deduct (EUR)*
≤ 1,250	1.00	740.55
> 1,250	4.70	5362,670

CO_2 emissions component

CO_2 emissions (g/km)	*Tax (EUR)*	*Amount to deduct (EUR)*
For petrol cars		
≤ 115	4.15	390.35
116 ≤ 145	37.91	4,281.66
146 ≤ 175	44.00	5,161.20
176 ≤ 195	111.85	17,047.04
> 195	147.69	24,021.60
For diesel cars		
≤ 95	19.97	1,586.51
96 ≤ 120	57.15	5,173.80
121 ≤ 140	126.75	13,642.70
141 ≤ 160	140.96	15,684.40
> 160	193.61	24,137.71

An ISV intermediate rate, corresponding to a percentage of the tax obtained by the application of 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;

- 50% 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 GLP or 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 kilometres.

Vehicle disposal

There is a tax incentive applicable on the acquisition of new passenger cars by the owners of old cars that deliver their obsolete cars for destruction. Applicable during 2015, by reducing the ISV up to 100% of its amount, when applicable, or by providing subsidies, that can reach:

- 4,500 EUR, in case of release for consumption of a new electric cars;
- 3,250 EUR, in case of release for consumption of a new plug-in hybrid cars; and
- 1,000 EUR, in case of release for consumption of a new heavy quadricycle electric cars.

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 centimetres) for the following vehicles:

- cars for the transport of goods and with a closed cargo space with a maximum of three seats (including the driver's seat) and with a cargo space not exceeding 120 cc and
- cars for the transport of goods with a closed cargo space with a maximum of three seats (including the driver's seat) and with four wheel traction.

Table B

Engine displacement

Engine displacement (cc)	*Tax per cc (EUR)*	*Amount to deduct (EUR)*
≤ 1,250	4.47	2,883.65
> 1,250	10.57	10,506.16

Cars for the transport of goods; cars for mixed use, auto caravans and old cars

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:

Table C

ISV is calculated applying the following percentages to the table above regarding:

a.	Cars for the transport of goods with an open cargo space or no cargo space, with more than three seats (including the driver's seat) and without four wheel traction	50 %
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 do not have permanent or adjusted four wheel traction	50 %
c.	Cars produced before 1970	49,4 %
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 to130cm, 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 %

On the acquisition of new diesel passenger or passenger/cargo vehicles (with a gross weight of up to 3,500kg) with a level of particle emissions higher than 0.002 g/km, the owner must pay an additional amount of: (i) 500 EUR in the case of the ISV being calculated under the above rules, or (ii) 250 EUR in the case of the cars listed in subsection h) above (regarding the application of Table B).

Motorcycles, tricycles and four wheeled vehicles

For the above vehicles, the ISV amount in euros may vary between 62 EUR and 206 EUR according to the respective engine displacement (in cubic centimetres).

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.

From a third country

There is a reduction for second-hand cars imported from a third country, similar to the one applied for cars from EU member states.

Exemptions

Under specific conditions several exemptions are applicable to: taxis, vehicles used for firefighting, military-use vehicles (including police), certain cars used by public utility institutions and cars used by handicapped persons.

Motor vehicles not subject to ISV

Cars powered exclusively by electric engines or renewable energy, ambulances, and 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

The general rule is that the vehicle is subject to ISV at the time the vehicle is first registered.

However, a vehicle can still be taxed after the first registration for ISV in the following cases:

- New number plate if the previous number plate was cancelled with reimbursement of the registration tax or any other tax advantage
- Modification of the car that implies a new classification into a category subject to a higher ISV, or changes in the engine that lead to an increase of CO_2 emissions or engine displacement

2.3. Annual vehicle tax (IUC)

The annual vehicle 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. Whereas ISV was decreased, the annual IUC was increased.

2.3.1. Taxable event

IUC is borne by the owner of the car and it is levied annually on vehicles with a Portuguese number plate (Law No 22- A/2007 from June 29) according to the following categories of vehicles:

- 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 a gross weight of up to 3,500kg and with up to nine seats, including the driver's seat
  - Mixed-use cars with a gross weight under 2,500kg, registered after July 1, 2007
- Category C:
  - Cars for the transport of goods and cars for mixed use with a gross weight of more than 2,500kg, used for the private transportation of goods, transport on own account or lease without driver for the referred type of transportation
- Category D:
  - Cars for the transport of goods and cars for mixed use with a gross weight of more than 2,500kg, used for the public transportation of goods, transport for the account of a third party or lease without driver for the referred type of transportation
- Category E:
  - Motorcycles, motor bicycles, tricycles and four wheeled vehicles registered since 1992
- Category F:
  - Boats for private use with an engine power greater than or equal to 20kW, registered since 1986
- 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. IUC should be assessed until the 30th day following the period of 183 days.

However, an exemption applies to vehicles which, although remaining in Portugal for a term exceeding 183 days, are registered under the normal number plates of another EU member state and fulfil the requirements to benefit from the temporary acceptance regime applicable to missions, internships, studies and cross-border work.

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

IUC is calculated taking into account the engine displacement, the kind of fuel the vehicle uses and the age of the vehicle.

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: engine displacement, CO_2 emissions. For cars produced before 1970, to which Table 4 of Section 2.2 applies, the minimum level of CO_2 emissions, up to 120 g/km
- 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 2015 (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)		
Petrol	*Other combustion*	*Electrical*	*After 1995*	*From 1990 to 1995*	*From 1981 to 1989*
≤ 1,000	≤ 1,500	≤ 100V	17.64	11.12	7.81
1,001 ≤ 1,300	1,501 ≤ 2,000	> 100V	35.41	19.94	11.12
1,301 ≤ 1,750	2,001 ≤ 3,000	-	55.31	30.92	15.51
1,751 ≤ 2,600	> 3,000	-	140.34	74.02	31.99
2,601 ≤ 3,500	-	-	254.85	138.78	70.67
> 3,500	-	-	454.06	233.24	107.17

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)
≤ 1,250	28.15	≤ 120g/km	57.76
1,251 ≤ 1,750	56.50	121g/km ≤ 180g/km	86.55
1,751 ≤ 2,500	112.89	181g/km ≤ 250g/km	187.96
> 2,500	386.34	> 250g/km	321.99

Diesel cars included in Category B – additional IUC

Engine capacity (cc)	Additional tax (EUR)
≤ 1,250	5.02
1,251 ≤ 1,750	10.07
1,751 ≤ 2,500	20.12
> 2,500	68.85

For vehicles registered as of July 2007 (inclusive), the amounts due are the following: the sum of the amount due based on the engine capacity (displacement) and the amount due based on the CO_2 emissions, multiplied by the respective coefficient according to the car's acquisition year. These vary between 1.00 for cars acquired in 2007 and 1.15 for cars acquired from 2010 onwards.

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
Gross weight (kg)	*Private use*	*Public transport services*
≤ 2,500	32 EUR	17 EUR

Category	C	D
Gross weight (kg)	*Private use*	*Public transport services*
2,501 ≤ 3,500	52 EUR	29 EUR
3,501 ≤ 7,500	123 EUR	64 EUR
7,501 ≤ 11,999	200 EUR	107 EUR

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.

Interpretation of the applicable tables is quite complex, sometimes requiring the reading of the corresponding supporting legislation.

2.3.4. Tax period

IUC is levied annually with reference to the month of the date of the number plate.

IUC is 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)			
	Electric18	*Plug-in hybrid*	*VNG or LPG19*	*Others*
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	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 and bike-sharing systems

[18] Vehicles powered exclusively by electric power.

[19] LPG (liquefied petroleum gas); VNG (vehicular natural gas)

Companies incurring in expenses with car-sharing and bike-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 cars for mixed use (transport of persons and goods) 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:

	Type of vehicle and applicable autonomous taxation rate			
Acquisition cost (EUR)	*Electric Energy*	*Plug-in hybrids*	*VNG or LPG*	*Others*
< 25,000.00	0%	5%	7.5%	10%
≥25,000.00 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 maximum cost base and the autonomous taxation are not applicable to vehicles, used exclusively for the transportation of goods.

For new passenger and mixed-use vehicles of companies in the business of public service transportation or renting, the declining-balance method can be applied.

4. VAT

4.1. General

Portuguese VAT at the standard rate of 23% for mainland Portugal, 22% in the Autonomous Region of Madeira, and 18% in the Autonomous Region of the Azores is due on most supplies of goods and/or services.

Deduction of VAT related to cars is strongly limited, as detailed below.

4.2. Deduction

VAT on the import, purchase, rental, repair, use and transformation of company (passenger and mixed use) cars with nine or less seats, including the driver's, to be used by employees is not deductible, except when the sale or other operation (e.g., leasing and hire agreements) of such means of transport is the main business activity of the taxable person or entity.

The VAT incurred on the acquisition, manufacture, import, lease, use, transformation and repair of electric or plug-in hybrid passenger cars and cars for mixed use, as well as 50% of the VAT incurred on costs related to passenger cars and cars for mixed use powered by LPG or VNG, is also deductible. It is only applicable to cars where the acquisition value does not exceed the limits referred in section 3.1 above.

VAT on fuels is generally not deductible. Exceptions are: 50% of VAT can be deducted on diesel, LPG, natural gas and biofuels if used in cars and 100% of VAT is deductible if used in buses, taxis, machines without a number plate, tractors mainly used in agriculture, or cars for the transport of goods with more than 3,500kg gross weight (lorries).

4.3. Financial and operational lease

The lease payments are treated as a supply of services during the lease period and the interest part of the rent is not separated from the capital part for purposes of VAT.

If a purchase option exists and is exercised at the end of the lease, it will be treated as a supply of goods.

4.4. VAT due on private use of company cars

The private use of a company car by an employee is not considered to be a taxable supply of services as, in general, the companies cannot deduct the input VAT on the cars used by their employees.

4.5. Hire purchase (lease without automatic transfer of legal ownership)

For VAT purposes, when an asset is delivered under a hire agreement with a binding purchase clause, the transfer of the asset should be considered a supply of goods at the time of delivery of the goods, i.e., from a VAT perspective, it should be considered a supply of goods from the beginning.

5. *Accounting*

5.1. General

In accordance with the Chart of Accounts for Financial Companies (PCSB) and with the General Chart of Accounts (SNC), cars owned by companies must be accounted for as tangible fixed assets.

5.2. Hire purchase

Hire-purchase contracts provide the transfer of title of the asset to the lessee on conclusion of the contract. The accounting treatment of a hire purchase depends on the type of leasing involved (financial or operational).

5.2.1. Purchaser

The company should register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value). The car should be depreciated as economically justifiable, according to the utilisation of the asset's future economic benefits with respect to the nature of the asset.

For tax purposes, the car should be depreciated on a straight-line basis over a period of four years.

5.2.2. Vendor

The car sold is not capitalised in the vendor's balance sheet and consequently there is no provision for depreciation. The payments received should be recorded on the balance sheet as a receivable.

5.3. Financial lease

Whether a lease is a financial lease or an operating lease depends on the substance of the transaction rather than on the form of the contract. A financial

lease is a lease that transfers substantially all risks and rewards incidental to ownership of the asset. Title may or may not be transferred.

In a financial lease, the asset is accounted for in the accounts of the lessee as a tangible fixed asset with the correspondent liability towards the lessor. The related depreciations are accounted for by the lessee. The payment of the rent comprises both the capital instalments and interest.

5.4. Operational lease

An operational lease is a lease other than a financial lease.

In this case, rent is paid for the use of the asset. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

5.4.1. Lessee

An operating lease or renting agreement is not capitalised by the lessee and is therefore not depreciated. The lease payments are treated as operating charges in the profit and loss account.

5.4.2. Lessor

In the case of an operating lease or a renting agreement, the car will be recorded as a tangible fixed asset by the lessor, at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable, according to the utilisation of the asset's future economic benefits with respect to the nature of the asset.

6. *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 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)

7. 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 organised 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 (kilometres) 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 2015, the upper limit amounts to 0.36 EUR per kilometre.

8. Electric Vehicles

For corporate income tax purposes, the expenses related to passenger cars and mixed-use vehicles powered with engines that are exclusively electric are exempt from autonomous taxation.

9. Recent developments

In 2015, Portugal has put in place a green tax reform, through which has implemented some tax measures to encourage the purchase of environmentally friendly cars. The most relevant measures include: (i) allowing the deduction of VAT on the acquisition of electric cars; (ii) applying lower ISV and IUC tax rates; (iii) increasing the limits of the accepted tax depreciations; (iv) exemption for autonomous taxation purposes; and (v) on the deduction, for tax purposes, in 110%, of the expenses incurred with car-sharing.

10. Legal background

- Income tax codes (CIRS and CIRC)
- Portuguese VAT legislation
- Law No 22-A/2007 from 29th June – legislation on ISV and IUC
- Tax Benefits Code (EBF)

Romania

Ionut Simion
Automotive Tax Leader
p: +40 21 225 3702
e: ionut.simion@ro.pwc.com

Valentina Radu
p: +40 21 225 3448
e: valentina.radu@ro.pwc.com

Irina Nistor
p: +40 21 225 3786
e: irina.nistor@ro.pwc.com

Monica Virza
p: +40 21 225 3143
e: monica.virza@ro.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.

1.2. Who can register a car?

Vehicle owners or their trustees 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. However, the deadline may be extended for foreign citizens from countries that have bilateral agreements signed with Romania.

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. What are the different car taxes?

Environment stamp

The environment stamp is applicable to both new and used cars when a car is registered by its first owner. This stamp is aimed at generating revenues for the Environmental Fund in order to finance programs and projects for environmental protection. Hybrid and electric cars are exempted from the environment stamp, while an eco-ticket, with a nominal value of RON 12,000, is granted from the Environmental Fund for the acquisition of new electric cars.

The environment stamp is primarily based on the level of CO_2 emissions and is computed by using the following formulas:

- For Euro 6 and Euro 5 vehicles

Environment stamp = [(A x B x (100 - C)]/100

A = CO_2 emissions level (g/km)

B = CO_2 emissions value (EUR/1 g CO_2 km), same value, regardless of the type of fuel (petrol or diesel) the vehicle is running on

C = tax reduction quota

- For Euro 4 and Euro 3 vehicles

Environment stamp = [(A x B x (100 - C)]/100

A = CO_2 emissions level (g/km)

B = CO_2 emissions value (EUR/1 g CO_2 km), different value, depending on the type of fuel (petrol or diesel) the vehicle is running on

C = tax reduction quota

- For Euro 2 and Euro 3 vehicles

Environment stamp = [(E x D x (100 - C)]/100

C = tax reduction quota

D = cylindrical capacity of the vehicle

E = CO_2 emissions value (EUR/1 g CO_2 km), different value, depending on the type of fuel (petrol or diesel) the vehicle is running on

Excise duties

A national excise duty is levied on vehicles with a cylindrical capacity greater or equal to 3,000 cm3. The tax owed is EUR 1/cm3 and is calculated by applying the fixed amount on the entire cylindrical capacity for vehicles produced in Romania, and for new or used vehicles acquired from other Member States or imported.

The term of payment varies depending of the payer's status and of the transaction, as follows:

- For vehicles acquired by legal persons from other Member States, the payment term is until the 25th inclusive of the month following the one in which the vehicles were received;
- For vehicles produced in Romania, the tax shall be paid until the 25th inclusive of the month following the one in which the vehicles were sold on the national market;
- For imports made by legal persons or by individuals, the tax shall be paid at the time of registering the import customs declaration;
- In case of intra-community acquisitions made by individuals, the tax shall be paid until the 25th inclusive of the month following the one in which the invoice was issued.

The legal persons acquiring vehicles with a cylindrical capacity greater or equal to 3,000cm3 from other Member States are subject to registration prior to performing such activities.

Other taxes

- Registration tax: 60 RON or 145 RON (total authorised weight under 3,500kg or 3,500kg)
- Vehicle registration certificate: 37 RON
- Plates: between 20 RON and 68 RON
- Authorisation tax for new models tested on public roads: 357 RON
- Mandatory insurance: between 230 RON and 7,000 RON

Note that the above insurance values are only for guidance and the value of the insurance may vary even by more than 50% 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 the first of the month following the one when the cars were acquired – the tax being due proportionally to the number of months remaining until the end of the year.

2.2.2. Taxable person

Any person that owns a car that needs to be or is registered in Romania is liable to pay the vehicle tax.

2.2.3. Tax due

The vehicle tax is computed by multiplying the cylindrical capacity of cars with a fixed amount (varying based on the cylindrical capacity).

Cylindrical capacity	Fixed amount/200cc	Vehicle tax
≤ 1,600cc	8 RON	between 40–64 RON
1,601cc–2,000cc	18 RON	between 162–180 RON
2,001cc–2,600cc	72 RON	between 792–936 RON
2,601cc–3,000cc	144 RON	between 2,016–2,160 RON
≥ 3,001cc	290 RON	≥ 4640 RON

2.2.4. Tax period

The vehicle tax is paid annually, in two equal instalments, due by March 31, and September 30 respectively. A 10% discount can be obtained by the taxpayer if the annual vehicle tax is 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 instalments, 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 nine 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 nine passenger seats (including the driver's seat) and exclusively used for passenger transport are 50% deductible for corporate tax purposes as of January 2012. Exceptions to this rule where fuel expenses are fully deductible are vehicles used in the following activities:

- Intervention, repair, safety and security, courier services, transporting staff to and from work places, TV vans, cars used by sales agents and recruitment agents
- Paid transportation services and taxi activities
- Rentals
- Driving schools

3.1.2. Tax depreciation

From a fiscal point of view, a car can be depreciated over a period of three to five years by using the straight-line or declining-balance depreciation method.

Under an operational lease agreement, the leasing instalments booked by a lessee are tax deductible subject to 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 RON 1,500/month for each vehicle, even if these were acquired before the entry into force of this provision (February 1, 2013).

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. Accounting

4.1. Accounting standards

In Romania, the Ministry of Public Finance (MPF) is the accounting standard setting body. The main legislation regulating the accounting and financial reporting framework comprises the Accounting Law 82/1991 ("the Accounting Law") and the Order 1802/2014 for the approval of the accounting regulations complying with the European Directives ("Order 1802/2014"), issued by the MPF and related legislation. The Accounting Law indicates the requirements for the general accounting principles for Romanian entities and Order 1802/2014 covers the financial reporting and related accounting requirements.

There is consistency in many areas between Romanian accounting rules and IFRS, and it can be assumed (although there is no clear provision in the accounting legislation) that where further guidance is required, IFRS could provide such guidance for an applicable accounting policy, but disclosures are required in the notes to the financial statements.

An overview of the accounting treatment under Romanian accounting law of different possibilities to acquire/lease a vehicle is presented below.

4.2. Hire purchase

4.2.1. Purchaser

In case of a purchase for Company's use, the company will register the vehicle as a fixed asset on its balance sheet at the acquisition cost and depreciate it over its useful economic life. The depreciation method and period will be established based on the company's management judgment.

The purchaser will have to disclose the accounting policies with regards to the vehicle in the notes to the financial statements.

4.2.2. Vendor

At the sale of the vehicle when the risks and the ownership right are transferred to the buyer, the seller de-recognises the inventory from its balance sheet.

4.3. Operational lease

4.3.1. Lessee

Under an operational lease agreement, the lessee will book expenses with the leasing instalments (rent).

4.3.2. Lessor

The lessor will book the vehicle leased as a fixed asset in its own balance sheet and will depreciate it over its useful economic life, established by the company's management together with the vehicle's depreciation method. The lessor will also book taxable revenue from the leasing instalments.

4.4. Financial lease

4.4.1. Lessee

From an accounting perspective, under a financial lease agreement, the lessee is treated as the owner. Therefore, it will book the vehicle as a fixed asset and will depreciate it over the useful economic life, established by the company's management together with the vehicle's depreciation method. In addition, the lessee will book the expenses incurred through interest as regards the vehicle leased.

4.4.2. Lessor

The leased car will be recognized as a receivable in the lessor's balance sheet. The lessor will also book revenues related to the interest received from the lessee.

5. *VAT*

5.1. General

Romanian VAT at the standard rate of 24% 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 kilometres) is also deemed a taxable person.

5.2. 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 (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 intervention, repair, safety and security, courier services, the transport of employees to and from the place of work, as well as TV vans and cars used by sales and recruitment 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

5.3. 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 instalments and providing that the ownership is transferred at the latest upon payment of amounts due.

Financial components for the sales of goods in instalments or for leasing services (i.e., interest expenses) are not included in the scope of exempt transactions and represent, in fact, a part of remuneration for the supply of goods/services. Also, the output VAT is applied upon the initial transfer of goods and there is no VAT on further instalments.

5.4. 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.

6. *Company car*

6.1. 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.

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

The private use of the company car by an employee (excluding trips between home and work) is considered as being a taxable benefit in kind granted by the employer. The taxable value of the benefit is determined monthly by applying 1.7% on the acquisition cost of the vehicle. The taxable value should be proportional to the number of kilometres used for personal purposes compared to

the total number of kilometres used in case of mixed use, when the company car is used both for business and private purposes. If the car is rented by the company (this includes leasing), the taxable benefit is assessed at the value of the rent.

The income tax and social security contributions related to this benefit in kind should be 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
Social security contribution	20.8%[1]	10.5%[2]
Health fund contribution	5.2%	5.5%
Unemployment contribution	0.5%	0.5%
Accident fund contribution	0.15%–0.85%[3]	–
Medical leave contribution	0.85%[4]	–
Guarantee fund contribution	0.25%	–

1 The contribution base is capped to five national average gross salaries multiplied with the number of employees. As such the cap applies at the salary fund level, so it is relevant only for companies with average salary/employee higher than 11,490 RON/month in 2014.
2 The contribution base is capped at 11,490 RON, the equivalent of five national gross average salaries of currently 2,298 RON/month. These amounts are valid for the year 2014.
3 The quote for the risk and accident fund is determined based on the CAEN code of the Romanian company, as mentioned on the Ministry of Finance website.
4 The contribution base is capped to 12 national minimum gross salaries multiplied by the number of employees. As such the cap applies at the salary fund level, so it is relevant only for companies with average salary per employee higher than 10,200 RON/month as of January 1, 2014 and 10,800 RON/month as of July 1, 2014.

If the vehicle is used by the employee only for business purposes, it would not be considered as 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.).

7. Income taxes – Drivers' personal taxation

7.1. Employees

In Romania, employees do not fill in and submit personal tax returns in respect of the salary income and the salary-related benefits. All income taxes and social security contributions are withheld, declared and paid to the Romanian state budget by the employer (the tax reported and paid monthly represents 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, employees may claim the reimbursement 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.

7.2. Freelancers

Freelancers are entitled to deduct 50% car-related expenses if the cars (weighting less than 3,500 kg and with 9 passenger seats including the driver's seat) are not used exclusively for the performance of their activity. The depreciation does not fall under this rule. However, this rule applies, amongst other, to the mandatory car insurance, road taxes and mandatory periodical inspection of the car.

Only for certain categories of vehicles the full deductibility of expenses is allowed and supporting documentation is required in order to sustain it.

8. Future developments

In order to encourage the use of vehicles solely for commercial purposes, the current provision with respect to the expenses and VAT-deductibility limit of 50% will be changed. Therefore, when using the vehicles in question only for business purposes, there will be no expense- and VAT-deductibility limit.

At the same time, if those vehicles will be used for other purposes then gaining profit, the existing limit will be extended also to hire/lease contracts, repairing services and other connected expenses.

9. Legal background

- Law 9/2012 on establishment tax applied on pollutant emissions for automobiles
- Emergency Ordinance 195/2002 regarding the circulation on public roads
- Accounting Law 82/1991;
- Order 1802/2014 for the approval of the accounting regulations complying with the European Directives
- Law 571/2003 regarding the Fiscal Code and its application norms
- Government Ordinance 51/1997 on leasing operations and leasing companies
- Government Ordinance No 8/2013

Russia

Enrika Schevchenko
Automotive Tax Leader
p: +7 495 967 6225
e: enrika.schevchenko@ru.pwc.com

Natalia Divichenko
p: +7 495 967 6185
e: natalia.divichenko@ru.pwc.com

Russia

1. Car registration

1.1. When does a car need to be registered?

Generally, Russian legislation requires the registration of vehicles which have an engine volume of more than 50cc or a maximum electric motor power of more than 4kW.

A new or second-hand vehicle is subject to registration within the period of validity of "Transit" license plate, or ten days from the moment of its acquisition, customs clearance in accordance with the customs legislation of the Customs Union and the Russian Federation, cancellation of vehicle registration, replacement of license plates or other circumstance that requires change of registration data. In case a vehicle changes owner and it is intended to be used on the Russian public roads, a new registration for the vehicle needs to be requested.

Also, any change in the initial registration data of the vehicle (e.g., a change of an engine due to its replacement in the vehicle) must be registered.

Importantly, entities importing vehicles to Russia or purchasing vehicles locally for further resale (i.e., not for their own use) shall not register these vehicles.

1.2. Who can register a car?

Currently, in Russia a car needs to be registered in the name of the owner or an entity which has the legal grounds (e.g. power of attorney, lease agreement, etc.) to possess, use or dispose of the car in the owner's name.

Basically, vehicles can be registered in the name of Russian or foreign entities (companies or individuals), without any restrictions.

Vehicles should be registered at the place where the entity applying for registration is located in Russia or where a respective individual resides in Russia. For example, this may be the address of a company or an individual's residence in Russia. Thus, if a foreign entity applies for registration of a vehicle, such companies should have a Russian address that 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 individual) has a Russian address registered with the respective authorities.

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 driven to or from Russia within the framework of international carriage or which are temporarily imported to Russia for the period up to six months.

When driving a vehicle with foreign number plates the driver must have the customs documents confirming temporary import of the vehicle. Breach of an obligation to re-export the car after expiration of a six-month 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
- Property tax for legal entities (this tax is not levied on 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).

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 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 chassi0073.

2.2.1.2. Taxpayers

The payers of recycling fee are:

- car importers (from September 1, 2012)
- local car manufacturers (from January 1, 2014)
- car 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 vehicles:

- For light vehicles: 17,200 RUR – 110,000 RUR (240 EUR – 1,550 EUR) per vehicle
- For trucks: 75,000 RUR – 435,000 RUR (1,055 EUR – 6,125 EUR) per vehicle
- For buses: 90,000 RUR – 300,000 RUR (1,270 EUR – 4,225 EUR) per vehicle
- Off-road hoppers: 2,040,000 RUR – 5,550,000 RUR (28,700 EUR – 78, 170 EUR) per vehicle
- Chassis: 120,000 RUR – 435,000 RUR (1,690 EUR – 6,125 EUR) per unit

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 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.

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 2015:

- Issue of a number plate for a car/other vehicle – 2,000 RUR/1,500 RUR (28 EUR/21 EUR);
- Issue of a certificate confirming state registration of a vehicle – 500 RUR (7 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.

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 horse power (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 (RUR)
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 vehicle and its age. The scale-up factor rates are as follows:

Price of vehicle (mill RUR)	Age of vehicle	Scale-up rate
>3 ≤5	≤1	1.5
	>1 ≤2	1.3
	>2 ≤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, while legal entities are required to make advance tax payments on a quarterly basis.

2.4. Property tax for legal entities

2.4.1. Taxable event

Property tax is payable only in respect of vehicles accounted for as fixed assets by a taxpayer prior to January 1, 2013. Vehicles that are accounted for as fixed assets after January 1, 2013 are exempt from the property tax (except for vehicles acquired as a result of the related party transaction or reorganization/liquidation of entities).

For foreign legal entities having presence in Russia, many double tax treaties exempt movable property (in particular, vehicles) from taxation to the extent it does not relate to a permanent establishment of such foreign legal entities in Russia.

2.4.2. Taxpayers

Property tax is payable by Russian legal entities and foreign legal entities that carry out their activities in Russia through a permanent establishment and (or) own immovable property in the territory of Russia.

2.4.3. Amount of tax

Property tax is calculated as a tax rate multiplied by an average annual residual balance value of fixed assets of a taxpayer. The maximum property tax rate is 2.2%, but this may be reduced by the regional authorities.

2.4.4. Tax period

The tax period is established as a calendar year, however, taxpayers are required to make advance tax payments on a quarterly basis.

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% for light vehicles and minivans; 10-14% for trucks (depending on the tonnage). 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. intragroup purchase or lease of cars) may be subject to new 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 patent tax system or simplified tax system (with 6% tax rate on income) 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 within the statutory limits, which are very low.

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 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.
- In case of unequal lease payments throughout a lease term there may be some uncertainty about the timing of recognition of revenue by the lessor and of expenses by the lessee.
- 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).

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 of 18% (unless they qualify for the application of the reduced rate or specific VAT exemption(s)).

A taxable person 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.

4.2. Second hand cars

Upon the supply of cars purchased from individuals (not VAT payers) for further resale, the taxpayer determine the output VAT from the margin between the sales price of the car inclusive of 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 500 RUR (7 EUR) to 30,000 RUR (420 EUR) per customs declaration.

4.3.2. Customs duty

In August 2012 Russia, joined WTO and took commitments on gradual reduction of customs duty rates on a range of goods, including vehicles. Currently duty rates applicable to vehicles are as follows:

- The customs duty rate for new light vehicles is 25% of the customs value, but not less than a fixed amount calculated as the engine volume in cm_3 multiplied by a fixed rate varying from 1 EUR to 2.35 EUR per cm_3 depending on the car's actual engine volume.
- The customs duty rate for used light vehicles is 25% of the customs value but not less than a fixed amount calculated as the engine volume in cm_3 multiplied by a fixed rate varying from 0.450 EUR to 1 EUR per cm^3 depending on the car's actual engine volume.
- The customs duty rate for used light vehicles older than seven years is a fixed amount calculated as the engine volume in cm_3 multiplied by a fixed rate varying from 1.40 EUR to 3.20 EUR per cm_3 depending on the car's engine volume.
- The customs duty rate for cars with electronic engines is varying from 0% to 18% of the customs value.
- The customs duty rates for new heavy vehicles (trucks, etc.) are from 0% to 18% depending on the type of the vehicle.
- The customs duty rate for Sport Utility Vehicles (SUV) with engine capacity exceeding 4,200 cm^3 is 20.7% but not less than 1.95 EUR per cm^3.

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:

- Zero for cars with an engine power less or equal to 90 horsepower.
- 37 RUR per horsepower for cars with an engine power exceeding 90 horsepower to 150 horsepower (inclusive). For example, if the imported car has an engine power of 100hp, the excise duty equals 100hp x 37 RUR = 3,700 RUR (52 EUR).
- 365 RUR per one horsepower for cars with an engine power exceeding 150 horsepower. For example, if the imported car has an engine power of 200hp, the excise duty equals 200hp x 365 RUR = 73,000 RUR (1,030 EUR).

4.5. Import VAT

VAT is assessed at the rate of 18% on top of the customs value inclusive of customs duty and excise.

5. Accounting

5.1. General

Under Russian accounting standards (RAS) fixed assets shall be recorded in accounting in accordance with their initial cost. The initial cost of the acquired fixed assets constitutes the actual costs of acquisition, installation or manufacturing of the respective fixed assets, excluding VAT. A fixed asset is expensed via depreciation during its useful life.

5.2. Leasing accounting principles

General differences between IFRS and RAS are the following:

- No effective interest rate concept in RAS.
- No minimum lease payment concept in RAS.
- According to RAS revenue is recognized in accordance with the contractual schedule of lease payments.
- The terms and conditions for putting leased assets on the lessor's or lessee's balance sheet shall be determined by the finance lease agreement according to Russian legislation.

5.2.1. Operational lease

RAS accounting is similar to IFRS, although recognition of lease income/lease expense in RAS is driven by the legal form of the arrangement, rather than by its substance.

5.2.1.1. Lessor

Leased equipment is treated by a lessor as a fixed asset which is depreciated over its useful life and presented on its balance sheet. No accelerated depreciation is available except for the lessor uses a diminishing balance method of depreciation.

Lease income is recognized in accordance with the contractual schedule of payments.

5.2.1.2. Lessee

The lessee should recognize expenses in accordance with the contractual schedule of payments.

5.2.2. Financial lease

According to the Russian accounting standards leased fixed assets may be accounted for either on the balance sheet of the lessor or the lessee. This is subject to the finance lease agreement between the parties.

5.2.2.1. Leased fixed assets are accounted for on the balance sheet of the lessor

Accounting for both the lessor and the lessee is similar to operating lease (see section 5.2.1 above), except for that the leases asset is accounted for by the lessor as an income-bearing tangible asset, not as a fixed asset.

5.2.2.2. Leased fixed assets are accounted for on the balance of the lessee

Accounting for the lessor

The lessor should reflect the following entries in its accounting:

- Fixed assets are recorded on the lessor's balance sheet upon acquisition as an investment into fixed assets and further as fixed assets upon their putting into use.
- The transfer of the leased assets to the lessee shall be recorded as (1) income and accounts receivable respectively in the total amount of the liabilities for the leasing payments under the lease (Dr Receivables, Cr Other income); and (2) the respective cost of leased assets is written off in the amount of their book value (Dr other expenses, Cr leased assets); (3) the difference between the total amount of the liabilities related to leasing payments and the book value of the leased assets is recorded as Deferred income (Dr other income, Cr deferred income).
- Leasing payments received by the lessor in the respective reporting period shall be reflected as the reduction of the initially recorded receivable in correspondence with the cash accounts (Dr cash, Cr receivables). Also, deferred income should be reduced accordingly and the respective income should be reflected in the Income statement.

Accounting for the lessee

The lessee should reflect the following entries in accounting:

- Leased equipment is recorded in accordance with the accounting approach by the lessor for the operating lease.
- The leased assets are recorded on the lessee's balance sheet at the moment of receipt of the leased asset from the lessor as a capital investment into fixed assets (Dr Capital investments – Cr Payable) and further as fixed assets (Dr Fixed assets – Cr Capital investments).
- The lessee depreciates leased assets in accordance with RAS requirements (Dr Expenses – Cr Depreciation of fixed assets);
- Expenses on finance lease are recognized by the lessee (Dr Expenses – Cr Payable)
- Lease payments paid by the lessee in the respective reporting period shall be accounted for as a reduction of lease liability (Dr Payable – Cr Cash).

6. Company car

6.1. 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.

6.2. 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 (although Russian tax legislation does not contain direct provisions in this respect).

7. 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 within the statutory limits.

8. 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.

9. 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.

The new rules provide for the following regulation on applicability of certification documents issued before the mentioned dates:

Vehicles subject to Technical Regulation No. 018/2011 in respect of wheeled vehicles (applies starting from January 1, 2015)	Documents issued before December 14, 2011	Valid till the date of their expiry
	Documents issued from December 15, 2011 up to December 31, 2014.	Valid until the date of their expiry, but no longer than until July 1, 2016, except for vehicles and components limited to quantitative quotas.
Vehicles subject to Technical Regulation No. 031/2012 in respect of agricultural and forestry tractors (applies starting from February 15, 2015)	Documents issued before October 2, 2012	Valid till the date of their expiry
	Documents issued from October 3, 2012 up to February 14, 2015.	Valid until the date of their expiry, but no longer than until March 15, 2017.
Vehicles subject to Technical Regulation No. 010/2011 in respect of machines and equipment (applies starting from February 15, 2015)	Documents issued before October 20, 2011	Valid till the date of their expiry
	Documents issued from October 21, 2011 up to February 14, 2015.	Valid until the date of their expiry, but no longer than until March 15, 2015.

10. Future developments

None.

11. Legal background

- Tax Code of the Russian Federation
- Civil Code of Russian Federation
- 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)
- Order of the Russian Ministry of Internal Affairs No.1001 dated November 24, 2008 “On procedure for registration of motor vehicles” (with subsequent amendments thereto)
- Order of the Russian Ministry of Internal Affairs No. 28 dated January 20, 2011 “On amending of normative acts of MVD”
- Federal law No. 164-FZ (revised by 10-FZ) dated October 29, 1998 “On Finance Lease (Leasing)”
- Regulation of the Central Bank of the Russian Federation No. 302-P “On the accounting rules for the Credit Organizations located on the territory of the Russian Federation”
- Order of the Ministry of Finance of the Russian Federation No. 15 dated February 17, 1997 “On Reflecting the Transactions under a lease on the Books”
- Resolution of the Russian Government No. 863 dated December 28, 2004 “On customs processing fees” (with subsequent amendments thereto)
- Order of the Russian Ministry of Finance No. 15 dated February 17, 1997 “On statutory accounting for leasing operations” (with subsequent amendments thereto)
- Russian Federal Law No. 89-FZ dated June 24, 1998 “On production and consumption waste” (with subsequent amendments thereto)
- Government Decree No. 1291 dated December 26, 2013 “On utilization fee of wheeled vehicles and chassis”
- 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 11, 2011 On Adoption of Technical Regulation of the Customs Union On Safety of Wheeled Vehicles

Slovakia

Todd Bradshaw
Automotive Tax Leader
p: +421 2 59350600
e: todd.bradshaw@sk.pwc.com

Valeria Kadasova
p: +421 2 59350626
e: valeria.kadasova@sk.pwc.com

Rastislava Krajcovicova
p: +421 2 59350616
e: rastislava.krajcovicova@sk.pwc.com

Gabriela Kubicova
p: +421 2 59350285
e: ***gabriela.kubicova@sk.pwc.com***

Slovakia

1. Car registration

1.1. When does a car need to be registered?

All cars that are required to be registered based on a decision of a relevant authority, must be equipped with a number plate and registered with the competent traffic inspectorate (special department of the Slovak Police). The competent traffic inspectorate depends on the place of the vehicle holder's residence, seat, or address of his permanent establishment or branch. The vehicle, that has not yet been registered, should be registered within 15 days after its acquisition by the owner. The owner declares who should be registered as the vehicle's holder.

The vehicle does not need to be registered if all of the following conditions are met cumulatively:

- It is held for sale.
- It is completely new.
- It is owned by a legal entity holding a business licence to produce or sell vehicles.

1.2. Who can register a car?

The vehicle should be registered with the local traffic inspectorate by its owner.

The owner has to inform the local traffic inspectorate about the person who will be registered as the holder of the vehicle.

If the registered holder of the vehicle and the owner of the vehicle are not the same persons, both the vehicle's owner and holder must visit the local traffic inspectorate together. Otherwise, the owner of the vehicle will be registered as the vehicle's holder.

A holder of the vehicle can be either an individual older than 15 years with legal capacity or a legal entity or its branch entered in the commercial register. Only one person can be registered as the holder of the vehicle.

The holder of the vehicle is obliged to personally notify the traffic inspectorate within 15 days, among others, of the transfer of possession of the vehicle to another person, deregistration of the vehicle from the Slovak traffic inspectorate and registration of the vehicle with a foreign traffic inspectorate. The traffic inspectorate will register some changes in the registration only with the owner's approval, or on the basis of a court decision.

The owner or the holder (if authorised by the owner), is obliged to personally notify the traffic inspectorate of the change of the owner of the vehicle.

Deregistration from the traffic inspectorate should be done either by the vehicle's holder or owner.

A person other than the owner or holder of the vehicle can act on behalf of the owner or holder in matters of registration and changes in the registration only on the basis of a written power of attorney with a notarised 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 persons, a third party can act on behalf of the holder regarding the registration and changes in the registration of the vehicle only if the owner of the vehicle granted that party a written power of attorney with a notarised signature for such specific action. If the owner or the holder authorizes another person in the application for registration of the vehicle, and includes such fact into the application and signs it in front of the local traffic inspectorate officer, the notarized signature of the owner or the holder is not necessary.

A person other than the owner or holder of the vehicle can act on behalf of the owner or holder in matters of registration or changes in the registration on the basis of a written power of attorney signed by an electronic signature with an electronic time stamp of the owner or the holder.

As of January 1, 2014, many actions regarding the registration and changes in the registration of the vehicle can be performed electronically.

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

A foreign entity may register a vehicle in Slovakia with the local traffic inspectorate after obtaining Slovak permanent or temporary residence (for an individual) or establishing its registered seat in Slovakia (for a legal entity).

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

A vehicle registered in a foreign state 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 which is binding for the Slovak Republic.

This does not apply for countries within the EEC, where only the number plate with 12 yellow stars in a circle with blue background and two letters of the particular country are sufficient.

However, once the vehicle is required to be registered as described in section 1.3, Slovak number plates will be issued and assigned to the vehicle.

2. Car taxation

2.1. What are the different car taxes?

In Slovakia, there are

- car taxes, which are due for vehicles used for business purposes – this is called a motor vehicle tax – and
- environmental fees, which must be paid to the Recycling Fund of the Slovak Republic.

Environmental fees must be paid by importers (importing cars from both EU and non-EU countries) and producers of cars for each car put on the market in Slovakia. The environmental fee is 66.39 EUR for each car. Importers and producers have to be registered with the Recycling Fund within 30 days after they start producing or importing cars. Reports on production, export, import, re-export, collection, or recycling have to be filed quarterly with the Recycling Fund and the local environmental office.

Environmental fees may be reduced if the importer or producer proves that the cars were

- exported or re-exported out of Slovakia, or
- recycled.

A car producer must use only recyclable and reusable materials, parts and construction blocks for production. An importer can import and put on the market only cars made of such materials. Within the period of six months after a car has been put on the market, the producer and importer have to submit a list of all parts and materials, as well as information on ways to dismantle the car, how to dispose of all liquids, and the location of any hazardous materials in the car. The producer and importer have to publish materials on environmental progress related to the cars at least once a year.

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. Motor vehicle tax is generally paid to the tax authorities where the vehicle is registered.

Trial motor vehicles and vehicles for special activities not designated for transport are not subject to tax.

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 uses 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 starts or stops being due during a tax period, the amount of annual tax will be 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 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 tax payer (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 some of the conditions in Article 2.2.2 were not met (such as the vehicle was deregistered, the business was terminated or interrupted, the tax payer was wound up, the tax payer 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 bookkeeping, tax evidence or no tax expenses relating to usage of this vehicle were applied, the tax payer 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 passenger cars, based on engine capacity in cubic centimetres or engine performance in kW;
- for utility vehicles, such as delivery vans, lorries, trucks and trailers and busses, 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 cm3	-	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

Number of axles	Total weight or maximum permitted weight of loaded vehicle		Annual tax in EUR
	Minimum	Maximum	
up to 2	-	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

Utility vehicles			
3		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
4 and more		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 by:

f. 25% in first 36 months, starting with the month of first evidence of the vehicle;

g. 20% in following 36 months; and

h. 15% in additional following 36 months.

After this 3 times 36 months period (9 years) the full annual tax will apply for the following 36 months.

After 4 times 36 months period (12 years) the annual tax will be increased by:

i. 10% in following 12 months; and by

j. 20% for vehicles which are more than 156 months old (13 years).

In addition to the above the annual tax will be decreased by 50% for:

- Hybrid motor vehicle or hybrid electric vehicle;
- Motor vehicle of category L, M and N powered by gas - CNG or LNG;
- Motor vehicle of category L, M and N powered by hydrogen.

If during the tax period the vehicle was uses in combined transport (e.g. transport to a train) at least 60-times, the annual tax can be decreased by additional 50%.

2.2.8. Tax advantages

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 tax payer should divide his estimated tax liability into four equal quarterly advance payments;
- 8,300 EUR, the tax payer should divide his estimated tax liability into 12 equal monthly advance payments.

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).

If the estimated tax is be lower than 700 EUR or in the case that the tax liability started during the tax period, the tax payer does not have to pay any advance payments.

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 of up to 100% of the purchase price of the car. This does not apply if the purchase price is EUR 48,000 and more and, over the depreciation period of the car, the company achieves either tax losses or relatively low tax bases. In such case the company's tax depreciation charges of the car may be limited down to acquisition price EUR 48,000 only.

If the company uses a car under operational lease, where the lessor's acquisition value of the car is EUR 48,000 and more, the company (lessee) may be required to limit yearly tax deduction of leasing charges to EUR 14,400 in those years when either a tax loss or a relatively low tax base is achieved.

If the company leases its car under an operation 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. In case of cars depreciated for six years, the taxpayer can choose between straight-line or accelerated depreciation methods. Cars belonging to the four years' deprecation group can be depreciated using the straight-line method only.

If a car is purchased by a Value-added Tax (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 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 as the level of relating 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 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).

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 it acquires the new car from other EU member state he must file a VAT return and pay the related VAT 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.

There is a special arrangement for traders of used cars, in accordance with EU Directive 2006/112

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, in which case he does not have to pay output VAT on the self-supply (i.e., the part used for purposes other than business). However, in case of VAT related to services or goods other than those subject to depreciation rules, the VAT payer **can** claim only a proportion of input VAT in case the input is used for business and other than business purpose.

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.

4.3. 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 becomes due at the time the right to handle with the car as the owner is transferred from the lessor to the lessee.

In an EU cross-border financial lease with the right to buy the car, if the lease is considered a supply of goods in the EU member state of the lessee, the lease is considered a supply of goods from the Slovak VAT point of view as well.

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 means of transport (up to 30 days, or 90 days in case of vessels) is the place where the means of transport will actually be placed at the disposal of the customer;
- for other lease structures for means of transport (those except for a short-term lease) the place of supply is where the customer has its seat, place of business, or establishment to which the service will be supplied.
- for other than short-term lease of means of transport, 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 establishment. This rule does not apply to the lease of cruisers, in this case the place of supply is where the vessel is given physically at the disposal of the customer if the supplier has the seat or establishment in the same place

4.4. 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 Slovak VAT. The VAT is due on the instalments.

In an EU cross-border financial lease with the right to buy the car, if the financial lease is considered a supply of goods in the other EU member state of the lessee, the financial lease is considered a supply of goods in Slovakia as well.

5. *Accounting*

5.1. General

Accounting for cars is done according to the generally accepted accounting principles and is generally governed by the Slovak Act on Accounting (although, a minority of Slovak companies are required to prepare their accounts under International Financial Reporting Standards). There are no strict methods of accounting depreciation in this act. Vehicles should be depreciated based on a depreciation plan reflecting their expected useful life. Cars are depreciated up to the amount of their acquisition value for accounting purposes.

A technical improvement which exceeds 1,700 EUR in value a year is added to the purchase price of a vehicle, and is depreciated using the same method as that used for the vehicle. For a technical improvement of less than 1,700 EUR in value a year, the taxpayer can choose between capitalising and expensing such an item.

5.2. Hire purchase

Hire-purchase arrangements for moveable assets are governed by the Commercial Code or Civil Code (see section 5.4).

5.3. Operational lease

An operational lease can be characterized as a contractual relationship without a change in ownership.

5.3.1. Lessee

The subject of an operating lease is not capitalized and depreciated by the lessee. The lease payments are treated as operating costs in the profit and loss account.

5.3.2. Lessor

The car is recorded as a fixed asset by the lessor at the acquisition cost and depreciated based on the economic useful life of the vehicle. The lease instalments are accounted for as revenues.

5.4. Financial lease

Under Slovak tax law, a financial lease is the acquisition of tangible assets under a lease agreement with a purchase option, whereby the purchase price is a part of the sum of the agreed payments if

- according to the lease agreement, title to the leased item should pass, without undue delay after the expiration of the term of the lease, from the lessor to the lessee; and
- the term of the lease is not shorter than 60% of the tax depreciation period.

5.4.1. Lessee

The car is capitalized as a fixed tangible asset in the lessee's accounts and depreciated in the same manner as cars purchases directly (see information in section 3)

5.4.2. Lessor

The car is not capitalized in the lessor's accounts and is not depreciated by the lessor. The lease instalments are accounted for as revenues.

6. Company car

6.1. VAT due on private use of company cars

An employee's private use of a company car (not leased), where VAT was not deductible at the time of purchase of the car, is not considered a supply of a service for a consideration. Therefore this use is not subject to VAT in Slovakia.

The private use of a company car by an employee, where the VAT was deductible at the time of purchase of the car, is considered a supply of a service for a consideration, and is subject to VAT.

Also, the private use of a car rented by a company (operational lease) and then provided to an employee for private use is subject to VAT.

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

When an employer puts a company car at the disposal of an employee, and the employee **is able 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.

7. Income taxes – drivers' 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 EUR 0.183 for each kilometre driven. The employee is 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 for the employer, and are not taxable income for the employee.

As of January 1, 2015 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 employee and also social and health insurance contributions for the employer and the employee.

8. 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 motor vehicle, or in case of lease with the right to buy the vehicle, the lessee ("**the motorist**") must conclude a contract for compulsory contractual motor vehicle liability insurance ("**compulsory contractual motor vehicle liability insurance**" or "**CCI**") each calendar year. Although CCI is not bound to a specific person, it refers to damage that the motorist causes to other persons 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 CCI covers:

5. damage to the injured party's health and costs connected to the death of a person;
6. damage, destruction, theft, or loss of an object;
7. lost profit;
8. legitimately incurred expenses connected with legal representation in enforcing the above, if the insurance company fails to meet its obligations.

The insurance average limits must be stipulated in the insurance contract.

The agreed insurance coverage:

- for the harm under the point 1) above must be at least EUR 5,000,000 regardless of the number of injured or killed; and
- for the harms under the points 2), 3) and 4) above must be at least EUR 1,000,000 regardless of the number of injured participants

In case there are more damaged/injured persons and the total amount of their insurance claims exceeds the amounts stated in the previous paragraph, their respective insurance claims are reduced proportionately with regard to the ratio between the limit of the insurance coverage and the total amount of claims of all of the injured participants.

It is prohibited to have CCI concluded with more than one insurance company in the same insurance period (generally, one calendar year).

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 motorist can cancel his CCI by notice as to the end of the insurance period. Notice must be given not later than six weeks prior to the end of his insurance period. The motorist still remains covered by this CCI until the end of the insurance period.

Please note that a car accident insurance differs from the CCI. The car accident insurance is not obligatory and in general, its aim is to cover damages that the motorist caused to his own vehicle.

9. Electric vehicles

Currently, the government of the Slovak Republic is reviewing the document Strategy of development of electro mobility in the Slovak Republic. The aim of the material is to identify the opportunities and suggest optimal measures of the state institutions and self-governing regions with the aim to develop and support electro mobility from the perspective of implementation and operation of a system for usage of electric vehicles. If adopted by the government, the Secretary for Economy should prepare an action plan for the implementation of the measures from the Strategy for development of electro mobility and its effect on national economy for the period 2014 to 2020.

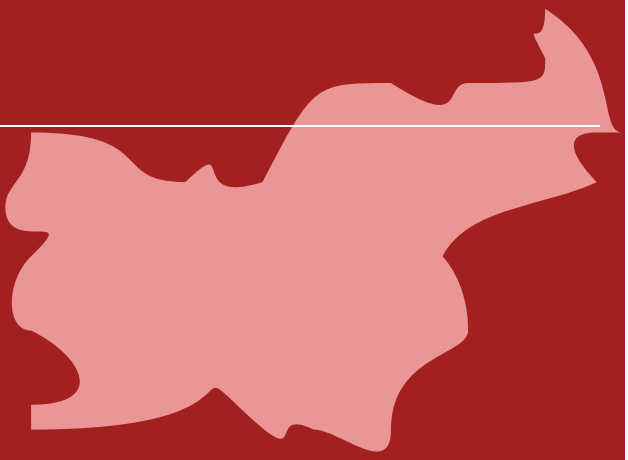
10. Future developments

From January 1, 2015, new legislation will become effective regulating the payment for using certain parts of highways and speedways in Slovakia. The purpose is the introduction of electronic stamps in addition to regular stickers as a manner of payment for using the highways or speedways.

11. Legal background

- Income Tax Act
- VAT Act
- Act on Local Taxes
- Travel Allowances Act
- Accounting Act
- Accounting Principles
- Act on Compulsory Contractual Motor Vehicle Third Party Liability Insurance
- Act on Road Traffic

Slovenia



Aleksander Ferk
P: +386 1 58 36 069
e: aleksander.ferk@si.pwc.com

Sonja Omerza
p: +386 1 58 36 023
e: sonja.omerza@si.pwc.com

Slovenia

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 licence 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.

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 authorised 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.

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

This tax is levied on motor vehicles with the following tariff codes: 8703 21, 8703 22, 8703 23, 8703 24, 8703 31, 8703 32, 8703 33, 8703 90 and 8711 determined in the Customs Tariff of EU, which are placed on the market or registered for the first time in the territory of Slovenia.

The tax rate is determined on a progressive scale at 0.5 – 31 % of the selling price of the vehicle, depending on the CO2 emission or other ecological attributes (e.g., Euro standard, hard particle emission). Tax rates are higher for vehicles using diesel fuel.

2.2.1. Taxable event

The tax liability is incurred when a transaction with a motor vehicle new to Slovenia is performed. Motor vehicles tax must be paid for passenger motor vehicles put into circulation in Slovenia for the first time; imports and acquisitions from other EU member states are also taxed.

A motor vehicle transaction is deemed to have been performed

- when an invoice for the sale of a motor vehicle is issued;
- when a motor vehicle is handed over, if the vehicle is handed over before the invoice is issued or without an invoice;
- at import when a customs duty is incurred or would be incurred if a customs duty relief was not provided, and/or if the vehicle was not free of customs duty;
- when a motor vehicle is taken for personal use;
- when a motor vehicle is handed over, if it is of disposed free of charge;
- when a motor vehicle is acquired from another EU Member State.

2.2.2. Taxable person

The person liable to declare and pay tax is the producer, the person that acquires the vehicle from another EU Member State and/or the importer of motor vehicles.

The acquisition of motor vehicles from another member state is treated as an acquisition of goods within the EU as stipulated by the Slovene VAT Act.

The importer is the customs debtor, as defined in customs regulations and/or the recipient of the motor vehicle.

2.2.3. Tax due

The tax base for a new motor vehicle in Slovenia is the selling price of the individual new motor vehicle, exclusive of motor vehicle tax and VAT.

For motor vehicles that are acquired from another member state, the selling price is the purchase price, while upon import, it is the customs value determined in compliance with EU customs regulations. The tax base is defined in accordance with the Slovene VAT Act.

However, if the selling price does not comply with the market value or if no payment is performed, the tax base is the market value of the motor vehicle as determined by the Tax Authorities. The Tax Authorities determine the tax base on the basis of all circumstances in each case, whereby a starting point for determining the market value (with the exception of imports of motor vehicles), is the value from the catalogue for the evaluation of motor vehicles.

2.2.4. Tax rate

9. The rate of tax on motor vehicles valid after January 1, 2011 with the following tariff codes: 8703 21, 8703 22, 8703 23, 8703 24, 8703 31, 8703 32, 8703 33 and 8703 90, with the exception of three-wheel, four- wheel (ATVs) and camping vehicles (for the tariff codes stated above) depends on the release of CO2 in combined driving ("the release of CO2") and the type of fuel the vehicle uses:Slovenia

Release of CO2 (g/km)	Tax rate (%) of the taxable amount by fuel type	
	Petrol, liquefied petroleum gas (LPG)	*Diesel*
from 0 up to and including 110	0.5	1
more than 110 up to and including 120	1	2
more than 120 up to and including 130	1.5	3
more than 130 up to and including 150	3	6
more than 150 up to and including 170	6	11
more than 170 up to and including 190	9	15
more than 190 up to and including 210	13	18
more than 210 up to and including 230	18	22
more than 230 up to and including 250	23	26
more than 250	28	31

If the motor vehicle uses any other kind of power, including electric, or a combination of different drives (hybrid car), the tax rate is the same as for petrol and LPG.

For motor vehicles with eight seats or more, the tax rate set out in the table above is reduced by 30%.

For motor vehicles with a leakage rate of less than Euro 3 levels, the tax rate set out in the table above is increased by 10 percentage points, and for motor vehicles with a leakage rate at Euro 3 levels, the tax rate set out in the table above is increased by 5 percentage points.

For motor vehicles with a leakage rate at Euro 4 levels, the tax rate set out in the table above was increased by 2 percentage points from January 1, 2011.

For motor vehicles powered by diesel fuel with a leakage rate at Euro 6 levels the tax rate for petrol motor vehicles is applicable.

For motor vehicles powered by diesel fuel with a release of particulate matter greater than 0.005 g/km, the tax rate set out in the table above should be increased by 5 percentage points from January 1, 2011 onwards.

For motor vehicles with no information about the CO2 leakage rate, a tax rate of 28% for vehicles powered by petrol or LPG, and 31% for vehicles powered by diesel fuel, is applicable.

10. The tax rate on motor vehicles with customs tariff code 8711, which are three and four-wheeled motor vehicles (ATVs), depends on the power of the engine:

Engine power (kW)	Tax rate in (%) of the taxable amount
up to and including 25	1.5
more than 25 up to and including 50	2
more than 50 up to and including 75	3
more than 75	5

For motor vehicles with a two-stroke internal combustion engine, the tax rate set out in the table above is increased by 3 percentage points.

For motor vehicles with a leakage rate of less than Euro 2 levels, the tax rate set out in the table above is increased by 10 percentage points.

For motor vehicles with a leakage rate at Euro 2 levels, with the exception of mopeds, the tax rate set out in the table above is increased by 5 percentage points.

Notwithstanding the provision stated above, the tax rate on electrical motor vehicles is 0.5%.

11. The rate of tax on camping vehicles depends on the power of the engine:

Engine power (kW)	Tax rate in (%) of the taxable amount
up to and including 60	6
more than 60 up to and including 90	9
more than 90 up to and including 120	13
more than 120	18

For motor vehicles with a leakage rate of less than Euro 3 levels, the tax rate set out in the table above is increased by 10 percentage points, and for motor vehicles with a leakage rate at Euro 3 levels, the tax rate set out in the table above is increased by 5 percentage points.

For motor vehicles with a leakage rate at Euro 4 levels, the tax rate set out in the table above was increased by 2 percentage points from January 1, 2011 onwards.

For motor vehicles powered by diesel fuel with a release of particulate matter greater than 0.005 g/km, the tax rate set out in the table above was increased by 5 percentage points from January 1, 2011 onwards.

Notwithstanding the provision stated above, the tax rate on electrical motor vehicles is 0.5%.

12. Additional tax is applied for the motor vehicles falling within CN codes 8703 21, 8703 22, 8703 23, 8703 24, 8703 31, 8703 32, 8703 33 and 8703 90 (not including motorized tricycles and quadricycles) depending on engine capacity as follows:

Engine capacity (in cm3)		Rate of the additional tax in % of the taxable base
From	To	
-	2.499	0
2.500	2.999	8
3.000	3.499	10
3.500	3.999	13
4.000	-	16

Additional tax is applied for the motor vehicles falling within CN codes 8711 and for motorized tricycles and quadricycles depends on engine capacity and is as follows:

Engine capacity (in cm3)		Rate of the additional tax in % of the taxable base
From	To	
	999	0
1.000	-	5

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. However, it is not levied on electrical motor vehicles, fire engines, ambulances, tractors, mopeds, trailers under 750kg, motor vehicles of the Slovene Intelligence and Security Agency, the Slovene Ministry of the Internal Affairs, Ministry of Defense and diplomatic or consular representatives of foreign countries in Slovenia, as well as those of international organisations.

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
up to 125cc	13.00 EUR
from 125cc to 500cc	21.00 EUR
from 500cc to 1000cc	29.00 EUR
above 1000cc	33.00 EUR

- For motor vehicles, combined vehicles for transport of people and goods, and caravans:

Engine size	Annual fee
up to 1350cc	62.00 EUR
from 1350cc to 1800cc	96.00 EUR
from 1800cc to 2500cc	153.00 EUR
from 2500cc to 3000cc	282.00 EUR
from 3000cc to 4000cc	452.00 EUR
above 4000cc	565.00 EUR

- Buses (categories M2 and M3) pay 3.16 EUR for each seat.
- Motor vehicles (categories N1, N2 and N3), apart from towing vehicles, pay the fee based on weight of the vehicle:

Weight	Annual fee
up to 4t	101.94 EUR
above 4t	22.86 EUR

- Motor vehicles – towing vehicles (categories N2 and N3) – pay a fee based on the net power of the engine:

Net power	Annual fee
up to 190kW	5.37 EUR/kW,
above 190kW	1019.37 EUR/vehicle

- Trailers (categories O2, O3, and O4), except semi-trailers, pay the fee based on weight of the vehicle:

Weight	Annual fee
up to 2t	38.22 EUR
above 2t	19.11 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: 55 EUR
  - N2: 110 EUR
  - N3: 165 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: 39.60 EUR
  - O3: 77 EUR
  - O4: 110 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: 60 EUR
  - M2 and N2: 84 EUR
  - M3 and N3: 120 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).

2.4. Environmental duties

2.4.1. Taxable event

For vehicles manufactured in Slovenia, environmental duty is due at the moment the new vehicle is put into free circulation in Slovenia. For vehicles acquired from other EU member states the tax is due upon the acquisition of the vehicle; for vehicles imported from third countries it is due at the moment of import.

2.4.2. Taxable person

Persons liable to pay environmental duties are:

- Manufacturers of motor vehicles
- Persons acquiring a motor vehicle from another member state for the purpose of taxable activities if this person delivers the vehicle to Slovenia
- Natural persons (non-entrepreneurs), who import a motor vehicle or acquires it in another EU member state and delivers it to Slovenia
- Importers of motor vehicles from third countries

2.4.3. Duty due

The tax base is the weight of the motor vehicle (minus 75 kilograms to represent the weight of the driver) as stated in the homologation documents.

The Government of Slovenia sets the amount of environmental duties annually in a decision published in the Official Gazette.

For the year 2015, the government has not yet taken a decision on the amount of environmental tax on used motor vehicles. Therefore, the amount of environmental tax on used vehicles is € 0 per kilogram of vehicle. Nevertheless, person liable should fulfil all the reporting obligations to the Customs Bureau Jesenice - department of excise duty, even if the amount of tax is € 0 per kilogram of vehicle.

2.5. Administrative fee

An administrative fee of 13.60 EUR is due upon the registration of a new motor vehicle that has previously not been registered. If previously registered vehicle is registered again (extension of registration), administrative fee is set at 7.25 EUR, and can even be diminished to 3.63 EUR if the registration in extended via online application.

The costs for the printed documents and number plates are levied separately.

3. 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.

4. VAT

4.1. 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.

New means of transport are motorized land vehicles that were supplied less than six months from the date of their first entry into service and that have not travelled more than 6,000 kilometers.

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 tax authority is unable to establish the applicability any of the above circumstances.

The sale of second-hand motor vehicles is subject to a special VAT scheme for second-hand goods.

4.2. 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.

5. *Accounting*

5.1. General

Accounting by a Slovenian company is in accordance with Slovene Accounting Standards or International Financial Reporting Standards, depending which standards the company adopts.

Under both of these accounting standards a lease is deemed to be a financial lease if substantially all the risk and rewards of ownership are transferred to the lessee.

The following factors indicate that a lease is a financial lease:

- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable: the price is such that one can be reasonably certain at the conclusion of the lease that the option will be exercised

- the lease term represents the major part of the economic life of the asset, and at its end, the title may or may not be transferred
- at the conclusion of the lease the present value of the minimum payments amounts in greater part to fair value of the leased asset
- the lease agreement was concluded, stipulating that the lessor leases the asset built or made exclusively for the lessee's requirements; at the end of the lease term such asset only has economic value to the lessee,
- gains or losses from the fluctuation in the residual fair value accrue to the lessee

A lease other than a financial lease is deemed to be an operational lease.

5.2. Hire purchase

5.2.1. Purchaser

If the purchaser is a company it should record the car in its balance sheet as a fixed asset. The value of the car should initially be measured at its cost (procurement price) comprising the purchase price as well as the directly attributable costs of bringing the asset to operating conditions for its intended use. If VAT is not deductible, it is included in the procurement price.

5.2.2. Vendor

The vendor records payment due as a receivable.

5.3. Operational lease

5.3.1. Lessee

The lessee will not capitalise the car in its balance sheet and thus may not depreciate it. The lease payments are recorded in the profit and loss account as operating expenditure.

5.3.2. Lessor

The lessor will record the car in its balance sheet as a fixed asset. Costs, including depreciation, incurred in earning the lease income are recognised as expenditure. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognised on a straight-line principle through- out the lease term. The lease income is recognised as operating revenues.

5.4. Financial lease

5.4.1. Lessee

At the commencement of the lease term the lessee will recognise the asset leased through a finance lease as a fixed tangible asset. The liability in its balance sheet is recognised as the fair value of the car, or, if lower, the present value of the minimum lease payments, each of which are determined at the conclusion of the lease agreement. The financial lease gives rise to depreciation expenses for the car as well as finance expenses (interest) for each accounting period. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

5.4.2. Lessor

The lessor should recognise a non-current asset equal to the fair market value of the minimum lease payments at the inception of the lease.

6. 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.

7. 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 form 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 fir 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.

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.

7.1. 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.

7.2. 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).

8. 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 is environmental government reform (the so-called "Green tax reform") which includes 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 (see section 2.4).

9. 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.

10. Electric vehicles

The rate of tax on motor vehicles with electric engines valid after January 1, 2011 with the following tariff codes: 8703 21, 8703 22, 8703 23, 8703 24, 8703 31, 8703 32, 8703 33, 8703 90 and 87 11, with the exception of three- or four-wheeled all-terrain vehicles (ATVs) and camping vehicles (for the tariff codes stated above) depends on the release of CO2 in combined driving. For motor vehicles using electric power, or a combination of different drives (hybrid car), the tax rate is the same as for petrol and liquefied petroleum gas (LPG). Please see the table under section 2.2.4.

However, the tax rate on electrical motor vehicles of customs tariff code 8711, three- and four-wheeled motor vehicles (ATVs) and camping vehicles is 0.5%.

Investment allowance for corporate income tax purposes can also be claimed for the purchase of electric vehicles (allowance equals to 40% of vehicle's purchase price but shall not exceed the year-end taxable base of the company). This allowance can also be claimed for the purchase of hybrid vehicles.

11. 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

South Africa

Gerard Soverall
P: 011 – 797 5004
e: gerard.soverall@za.pwc.com

South Africa

1. Importation of cars

1.1. Customs duties

Upon importation of cars into South Africa, the general rate of customs duty is 25%. With regard to cars originating from the EU, the customs duty is 18%, with the exception of the following:

- Cars with a cylinder capacity not exceeding 1000cm3 (0%).
- Special purpose vehicles (0% to 25%).

In addition to the customs duty, ad valorem excise duty of 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 car on a sliding scale, i.e., the higher the value, the higher the duty rate applicable.

South African Bureau of Standards ("SABS") – New vehicles 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 SABS subjects it to the process of homologation. Homologation must be completed successfully before a vehicle or vehicle model is allocated a 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.

1.2. Import VAT/sales tax

When vehicles are purchased from a supplier in another country, VAT is payable when the goods are imported into the Republic of South Africa.

As a general rule, VAT at 14% is payable on the customs value of the vehicles plus 10%.

The VAT paid to SARS Customs on vehicles imported by a vendor in the course of making taxable supplies, may be deducted as input tax provided that the necessary documentary proof is retained.

2. Car Registration

2.1. When does a car need to be registered?

A car needs to be registered within 21 days of ownership. Where a used car 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 South Africa.

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

No, a foreign owner is allowed 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 the Republic is allowed to use a vehicle with a foreign number plate provided it is not permanent.

3. Car Taxation

3.1. What are the different car taxes?

Imported vehicles are subject to ordinary import duties, specific excise duties (i.e. ad valorem excise duty) and CO2 levies 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 cars will be taxed based on their certified CO2 emissions. Any new passenger car with a CO2 rating above 120g/km will be subject to a tax of 90ZAR for every g/km over that value.

The environmental levy rate for motor vehicles for the transport of goods with a G.V.M not exceeding 5t amounts to R125.00 per g/km CO^2 emissions exceeding 175g/km.

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 car. Only cars with a CO2 rating above 120g/km 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. VAT

4.1. General

As a general rule, VAT is calculated at a standard rate of 14% on the supply of any vehicle that does not fall within the definition of "motor car".

If an input tax deduction was now allowed because the vehicle falls within the definition of "motor car", the subsequent sale of such motor car by the vendor is not seen as a transaction in the course of furtherance of an enterprise, and therefore the vendor is not required to account for output tax.

4.2. Deduction

As a general rule, an input tax deduction may not be made by a vendor if a vehicle, falling within the definition of 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, minibuses, double cab light delivery vehicle and any kind of vehicle normally used on public roads, which has three or more wheels and is constructed for carrying of passengers.

Exceptions to the definition of "motor car" include for example:

- vehicle accommodating one person or more than 16 persons,
- vehicles of an unladen mass of 3,500 kilograms or more,
- caravans and ambulances,
- vehicle constructed for a special purpose (eg, a crane),
- game viewing vehicles and
- vehicles constructed or converted into hearses for transport of the deceased persons and used exclusively for that purpose.

There is however an exception to the general rule regarding the non-deductible nature of any VAT incurred on the acquisition of a "motor car" which applies to motor car dealers and car rental enterprises.

In these cases, input tax may be deducted on the acquisition of any vehicle, provided that it is used for making taxable supplies and the necessary documentary proof is retained.

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 enterprise in supplying motor cars
- A motor car acquired for demonstration purposes or for temporary use prior to a taxable supply by such vendor
- 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 order not to disadvantage the second-hand goods market or to distort market prices, the VAT Act allows vendors under certain circumstances to deduct input tax on second-hand goods acquired from non-vendors where no VAT is actually payable to the supplier, or where the goods are supplied by a vendor but do not form part of the vendors enterprise. This is known as notional or deemed input tax deduction.

The notional input tax deduction is calculated by multiplying the tax fraction (14/114) by 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.

4.3. Hire purchase (instalment credit agreement)

An instalment sale 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. Similarly the recipient will be able to deduct the full input tax if the vehicles were acquired for making taxable supplies, unless 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.)

4.4. 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.

VAT is claimable when a payment is made on terms set out by the lease agreement, provided that the necessary documentary proof is retained.

5. Income taxes – taxable persons

A taxpayer that uses a vehicle in the production of his taxable income can claim the car-related expenses for income tax purposes. Such expenses include fuel costs, insurance, finance charges, repair and maintenance, licences, etc. The taxpayer can also claim wear and tear on the purchase price of the vehicle calculated at a rate of 20% per annum.

6. Company car

6.1. VAT due on private use of company cars

The provision of a motor car to an employee is a deemed supply for VAT purposes. VAT at the standard rate of 14% has to be accounted for on such supply. The consideration on which the VAT is to be calculated is determined in terms of VAT Regulation 2835.

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

The right of use of motor vehicle is a fringe benefit and is taxed as follows:

- The determined value of the vehicle on which the fringe benefit is based includes VAT.
- All cars 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.
- The employee's tax is based on 80% of the fringe benefit.
- In order to reduce the fringe benefit, the employee will have to prove business use.
- Accurate records of distances travelled for business purposes must be kept.
- On assessment, the South African Revenue Service (SARS) must reduce the private-use value of the vehicle.

Business-use percentage reduction:

- Accurate records of distances travelled for business purposes must be kept.
- On assessment, SARS must reduce the private-use value of the vehicle.

This is done as follows:

- Calculate the ratio of business use over total use (in kilometres)
- Multiply this by the fringe benefit
- Deduct this business use from the total fringe benefit to arrive at the value of the private use

This is done on a car-by-car basis.

7. 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 motor vehicle used by the recipient for business purposes (the so-called motor car travel allowance).

The most common type of travel allowance is one which is given to an employee who uses his own car for business purposes.

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.
- Using actual business kilometres and a deemed cost per kilometre.

In each case a log book 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. Where actual costs are calculated by the taxpayer, the determined value of the vehicle is limited to 480,000ZAR. 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 480,000 ZAR.

8. Selling a car

Taxpayers that usually trade in motor vehicles will be subject to income tax on the profits generated.

Taxpayers that do not normally trade in motor vehicles and private individuals may be subject to recoupments where wear and tear was previously claimed. Any gain may also be subject to capital gains tax.

South Korea

Author
Hyungsuk Nam
e: hyungnam@samil.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 case where origin criteria under applicable Free Trade Agreements are met, the relevant preferential duty rate can be applied as shown below.

FTA	Duty rate
Chile	0%
Singapore	0%
EFTA	0%
ASEAN	0%
India	0%
EU	1.3%
US	4%
Peru	0%
Turkey	4%
AUS	0%
Canada	0%

**Please note that 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.

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.

VAT = VAT base X 10% (VAT rate)

VAT base = Customs Value + Customs Duty + 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, the VAT is also exempted.

1.3. Individual Consumption Tax

In general, customs duties and VAT are imposed on the imported automobiles; however, individual consumption tax is also applied to the following goods as an exception.

Item	Tax rate
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%(*)

(*) Individual Consumption Tax will be temporarily enforced at **a rate of 3.5%** until Dec. 31, 2015(Kindly note that the temporary tax rate would not be applicable based on the specification of the item listed on the Enforcement Decree).

The calculation formula of Individual Consumption Tax assessed on imported cars is as follows.

Individual Consumption Tax: Individual Consumption Tax base(**) x Tax Rate(*)

Individual Consumption Tax base(**): Customs Value + Customs Duty

2. *Car registration*

2.1. When does a car need to be registered?

Under the Article 3 of Car Registration 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 foreigner 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 (ie, 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
- 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:

13. New registration
14. To change information of registration
15. Registration for the transfer of property
16. Cancellation of registration
17. Registration of distrainment
18. Registration of the settlement of mortgage
19. Registration of rectification
20. To notice

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 2015)

	Applicable Taxes (*2)		Tax Rates
Purchase	Individual consumption tax		• Below 1,000cc: exempted • 1,001~2,000cc: 5% of ex-factory price(*3) • over 2,000cc : 5% of ex-factory price(*3)
	Education Tax		• 30% of individual consumption tax
	VAT		• 10% of retail price
	Acquisition tax (*1)		• private automobiles :7% of retail price (4% for a compact car) • Others 3. private: 5% of retail price (4% for a compact car) 4. business purposes : 4% of retail price
Possession	Property tax		• business purposes – Below 1000cc: ₩18/cc – 1001~1,600cc: ₩18/cc – 1601~2000: ₩19/cc – 2001~2,500cc: ₩19/cc – over 2,500cc: ₩24/cc • private – Below 1000cc: ₩80/cc – 1001~1,600cc: ₩140/cc – 1601~2000: ₩200/cc
	Local Education tax		-30% of property tax
Use	Fuel excise Tax (Transportation, Energy, Environment tax)	Gasoline	₩529/l
		Diesel	₩375/l
	Individual consumption tax	Gasoline	₩475/l
		Diesel	₩340/l
	Education tax		15% of fuel excise tax
	Motor fuel tax		26.0% of transportation, energy, environment tax
	VAT		10% of fuel retail price

Note: (*1). Former registration tax was included into acquisition tax as of October, 2015.

(*2) Compact cars below 1,000cc are exempt from individual consumption tax, education tax, and acquisition tax.

(*3) Individual Consumption Tax will be temporarily enforced at a rate of 3.5% until Dec. 31, 2015

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.

21. 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 (until Dec 31, 2015). Maximum of ₩2,000,000 for an electric car (until Dec 31, 2017).
Education tax	Maximum of ₩ 300,000 (₩600,000 for an electric car)
Acquisition tax	Maximum of ₩1,400,000 (until Dec 31, 2015).

22. An owner of a compact car below 1,000cc may enjoy the following benefits.

- Exemption from acquisition tax
- Refund of individual consumption tax and transportation, energy, environment tax.

23. If a taxpayer pays fuel excise tax (transportation, energy, environment tax) in a lump sum, a tax deduction is granted, depending on the month in which the payment is made.

Payment time	Deduction rate
January	10%
March	7.5%
June	5%
September	2.5%

5. Accounting

5.1. Accounting standards

Korea Accounting Standard Board ("KASB") has adopted the Korean International Financial Reporting Standards ("K-IFRS") in 2007. Among the standards, IAS 17 for the lease transaction will be applicable for auto industry.

5.2. Hire purchase

5.2.1. Purchaser

The purchaser recognizes a vehicle as a fixed tangible asset at the acquisition cost (i.e. purchase price) and depreciates it over its useful life. The accounting policies with regards to the vehicle should be disclosed in the notes of financial reports.

5.2.2. Vendor

The vendor recognizes the sales transaction when title and risk of the vehicle are transferred to the purchaser. Any unpaid balance should be recorded as receivable in its balance sheet

5.3. Operational lease

5.3.1. Lessee

From a lessee perspective, a leased vehicle through operating lease agreement is not an asset on its balance sheet and therefore, is not depreciated over its useful life. The lease payments are treated as expenses on the profit and loss statement. The lease should be disclosed in the notes if it is regarded to have a significant effect on the financial statements.

5.3.2. Lessor

From a lessor perspective, a leased vehicle through operating lease agreement is an asset on its balance sheet, which is depreciated in a depreciation method generally applicable for similar type of assets in accordance with IAS 16 and IAS 38.

The lease payment received from a lessee is recognized as lease income on the profit and loss statement. The lease income from operating lease shall be recognized on a straight-line method over its lease term unless another revenue recognition method better represents the time pattern in which the benefits are recognized for the leased vehicle.

Costs including depreciation expense incurred in earning the lease income are recognized as expense. Initial direct costs incurred by a lessor in negotiating and arranging the operating lease agreement shall be capitalized and depreciated on a straight-line method over lease term or any other method matched to the revenue recognition method for lease income.

5.4. Financial lease

5.4.1. Lessee

From a lessee perspective, a leased vehicle through capital lease agreement is recognized as an asset and liability on its balance sheet at lower of its fair value or the present value of the minimum lease payments at the commencement of the lease term. For the purpose of calculating the present value of the minimum lease payments, the interest rate in the lease agreement shall be used as a discount rate if it is practically determinable.

Initial direct costs incurred by a lessor in negotiating and arranging the operating lease agreement shall be capitalized and depreciated on a straight-line method over lease term or any other method matched to the revenue recognition method for lease income. Other costs identified as directly attributable to lease activity are added to the asset value.

5.4.2. Lessor

From a lessor perspective, a leased vehicle through capital lease agreement is treated as if such vehicle is sold to the lessee. The lessor recognizes lease payment receivable in its balance sheet. In this case, the value of receivable should be equivalent to the net investment in the lease, meaning, the total minimum lease payments less financial income allocated to the future period and unguaranteed residual value.

The financial income should generally be allocated to lease period so as to give a constant periodic rate of return on the lessor's net cash investment. The lessor is not required to disclose information with respect to the financial lease in the notes of financial reports.

6. VAT//Sales tax

6.1. 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.

6.2. 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 could be found in the auto industry.

24. Delivery of vehicles to be used for public transportation
25. Acquisition of vehicles to be used for public transportation
26. Services related with public transportation

However, VAT exemption is not granted to express bus, chartered-bus, taxi, and special-vehicle.

6.3. 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 is made in instalment 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.

6.4. 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.

7. Company car

7.1. 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 the taxable business of the taxpayer, such as logistics or leasing company.

7.2. 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.

8. 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.

9. Selling a car

9.1. Taxable persons

VAT is charged on a business person who independently supplies the goods or services on 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 regardless.

Under the Special Tax Treatment Control Law, if a business person (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 9/109 of purchase price of the vehicle.

9.2. Private persons

In principle, VAT is charged on a business person and an individual may be viewed as a business person if he independently supplies the vehicles on 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.

10. Further Development

In order to reduce the personal use of company car, the government is considering improving the standards for the deduction of company car expenses.

11. Legal background

- Korean Car Registration 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

Faustino Garcia
Automotive Tax Leader
p: +34 915 684 281
e: faustino.garcia@es.pwc.com

Alfonso Viejo
Indirect Taxes
p: +34 915 684 846
e: alfonso.viejo@es.pwc.com

Pilar Salinas
Customs
p: +34 915 684 535
e: pilar.salinas@es.pwc.com

Elena Romero
Indirect Taxes
p: + 34 915 684 743
e: elena.romero.hernandez@es.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 from the fact that they are new or second-hand vehicles.

Failure to comply with this obligation would imply the vehicle's immobilization until the situation is duly regularized.

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 lessor or by the owner thereof, depending on the nature of the agreement (i.e., including or not a call option). In any case, in order to enable a (legal) person to register its car in Spain and to receive Spanish license 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 foreigners (NIE).

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

A car with foreign license 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 defense/safety purposes, ambulances, certain types of vans/minibuses, cars under the tourist plate regime).

In some cases (e.g., cars destined to defense/safety purposes and ambulances), previous authorization from the Spanish Tax Authorities is required. For the rest, a declaration by the taxpayer that such 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 organizations, 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.

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 CO_2 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 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 120 grams of carbon dioxide (CO_2) per km will be exempt from registration tax, while those that emit more than 200 grams per km will pay 14.75%. There are two intermediate bands of 4.75% and 9.75% tax for cars of 120-160 grams per km and 160-200 grams.

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 organizations, 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
A. Private cars:	
Less than eight fiscal horsepowers	12,62
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 horsepowers and over.	112,00
B. Buses:	
Less than 21 seats	83,30
From 21 to 50 seats.	118,64
More than 50 seats.	148,30
C. Trucks:	
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
D. Tractors:	
Less than 16 fiscal horsepowers.	17,67
From 16 to 25 fiscal horsepowers.	27,77
More than 25 fiscal horsepowers.	83,30
E. Trailers and semitrailers pulled by motorvehicles.	
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

Power and class of vehicle.	Cuota - Euros
F. Vehicles:	
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 to 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 organizations 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 regularized.

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. *Accounting*

5.1. General

The Spanish Accounting Reform Law 16/2007 was approved in order to adapt the Spanish mercantile/accounting legislation in line with the international harmonization according to the European Union's norms (Accounting International Rules).

The new Spanish GAAP, based on accounting reform was approved by Spanish Royal Decree 1514/2007 and replaced the old one (1990).

The accounting legislation has been always interpreted by Accounting and Auditing Institute (ICAC), which also advises the Spanish government on changes in the law that may be considered necessary.

As from the moment new Spanish GAAP became applicable and as regards vehicle, the person that bears the risk for the vehicle will, in principle, be required to report it in its balance sheet.

The lease definition contained within the Spanish GAAP (2007) is in line with the 17th IFRS accounting rule, with the exception for the case that such plan refers to the contract's legal instrumentation, prevailing the content over the form. The referred to lease definition would be the following:

"A lease is deemed to be any agreement, regardless of its legal instrumentation, by which the lessor transfers to the lessee, in return for either a sole amount of money or several payments, the right to use an asset during a certain time period, regardless that the lessor remains bound to render services related to the exploitation or maintenance of such asset".

For accounting purposes a distinction needs to be made between an operating lease and a financial lease:

27. Financial lease: all risks and benefits inherent to the asset's property are transferred to the lessee (i.e., the asset's property will be transferred to the lessee at the contract's termination, the lease period covers almost all the asset's economic life, the minimum payments' value match with the asset's reasonable value, the asset's features limit its utilization just to the lessee, the lessee assumes losses in case of contract cancel, etc.)

Consequently, an agreement qualifies as a financial lease in case the minimum lease payments, and, in case of a hire-purchase contract, the minimum lease payments plus the option price (call option), completely cover the acquisition/manufacturing costs together with ancillary costs provided by the lessor.

(According to the old General Accounting Plan, the determining element to qualify a lease as a financial one rested on the fact that the call option was going to be exercised).

28. Operating lease: they have a residual character as when, according to the circumstances a lease may not be qualified as a financial one, it shall be deemed as an operating lease.

Below a short overview will be given of the balance sheet rules affecting the different possibilities to acquire a car.

5.2. Hire purchase

5.2.1. Purchaser

In case of a purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). In practice this usually means that the car is depreciated linearly over a period of 6 years.

The purchaser will have to disclose the valuation rules with regard to the car in the notes to the accounts.

5.2.2. Vendor

The car sold is not capitalized in the vendor's balance sheet and consequently there is no provision for depreciation. The payments received should be recorded on the balance as a receivable.

5.3. Operational lease

This transaction qualifies as a contract in which the lessor transfers the lessee the right to use an asset during a certain period, in exchange of receiving a single amount of money or several payments without being this lease a financial one.

The lessee accounts for such several payments as expenses while the lessor accounts for them as incomes, being both of this notes (income/expenses) transferred to the profit and loss account.

5.3.1. Lessee

An operating lease or renting agreement is not capitalized by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account.

In principle, the lessee does not have to disclose anything, unless the lease contract has a significant effect on the results of the enterprise. In the latter case, the lessee is obliged to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In case of an operating lease of a rental agreement, the car will be recorded as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognized as income in the profit and loss account. The lessor is obligated to disclose its valuation rules in the notes to the annual accounts.

5.4. Financial lease

The financial lease implies that all risks and benefits inherent to the asset's property are transferred to the lessee; however, operational lease has a residual character, which means that, when the requirements in order to consider a lease as "financial" are not complied with, the lease will be deemed as an operational lease.

5.4.1. Lessee

The lessee registers a fixed tangible asset and a financial liability for the same amount in its accounts.

The value of the asset and the liability shall be the lower of these amounts:

- Reasonable value of the asset at the beginning of the agreement
- The current value of the minimum payments agreed during the lease period, including the payment of the call option or the residual value, when no doubts regarding the exercise of the call option exist.

In order to calculate the current value of the lease payments, the implicit interest rate established in the agreement will be used. If the latter cannot be calculated, the market interest in similar transactions shall be considered.

The total amount of interest will be distributed over the lease period and will be registered in the profit and loss accounts in the year of its accrual.

5.4.2. Lessor

The lessor should register a credit for the current value of the minimum payments plus the residual value on the balance sheet.

The difference between the accounted credit and the amount to be recovered is the financial interest, which will be allocated in the profit and loss accounts according to its accrual and use the effective rate.

6. Company car

6.1. 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 regularized (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).

6.2. 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 valuated according to the above
  - Subsequent supply: the market price of the used car at the moment of fist supply

7. Income taxes – drivers' personal taxation

7.1. Private car in the personal tax return

7.1.1. 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.

7.1.2. 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.

7.1.3. Business kilometres

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.

8. Special territorial schemes

8.1. Canary Islands

Importation of cars into the Canary Islands coming from outside the EU is currently subject to customs duty at 10%.

As from July 1, 2012, supplies of cars are subject to IGIC 13.5% or 9.5% (depending on the power) or 3% (cars and taxis for disabled people).

Imports and supplies of hybrid electric vehicles that do not exceed 110 grams of CO_2 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 3%.

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.

8.2. 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%. 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.

9. Electric vehicles

Measures in this respect depend on each autonomous region. Legislation approved in April 2013 (Royal Decree 294/2013, of April 26), regulates granting of subsidies for the acquisition of electric vehicles.

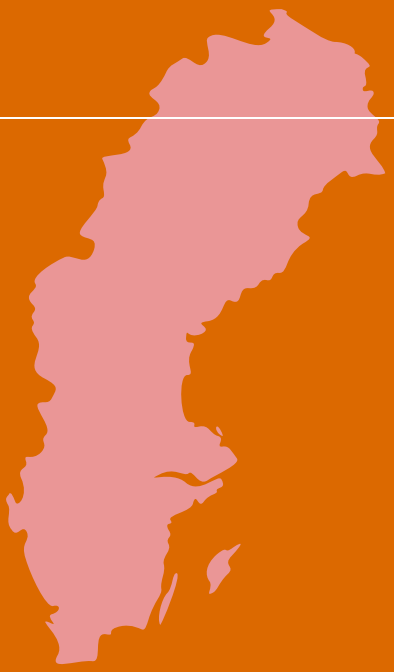
10. Future Developments

None

11. Legal background

- Corporate Income Tax Act (RDL 4/2004)
- 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 16/2007 and RD 1514/2007 by which the Spanish GAAP is approved
- Law 3/2010 regulating the tax rate of IGIC applicable to electric and hybrid vehicles
- Royal Decree 294/2013 of April 26, on assignment of subsidies for the acquisition of electric vehicles
- Excise Duties Law 38/1992
- Law 4/2012 of June 25, on tax and administrative measures

Sweden



Sofia Negrin
Automotive Tax Leader
p: +46 10 213 14 36
e: sofia.negrin@se.pwc.com

Ulf Hedström
p: +46 10 213 14 24
e: ulf.hedstroem@se.pwc.com

Sweden

1. Car registration

1.1. When does a car need to be registered?

A vehicle should be registered before its use in Sweden. The registration is handled by the Swedish Transport Agency. Additional information as regards 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 is only intended to be used in Sweden temporarily.

1.2. Who can register a car?

A vehicle should be registered by the owner. If a vehicle changes legal owner, 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 a foreign- registered car on a Swedish public road. 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, 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, etc

2.2.2. Taxable person

The owner of a vehicle at the beginning of a tax collection month is the taxable person.

2.2.3. Tax due

Private cars of class I are targeted by a carbon dioxide emission-based vehicle tax. A private car of class I is defined as a private car which is not a private car of class II. A private car of class II is defined as a camper

The vehicle tax is based upon the vehicle's fuel and emissions of carbon dioxide. The carbon dioxide emission-based vehicle tax system comprises

- private cars of class I which, according to data in the Swedish vehicle database, have a vehicle year of 2006 or later;
- private cars of class I which have a vehicle year earlier than 2006 but fulfil the requirements of environmental class 2005, electricity or hybrid;
- private cars of class II (campers), light buses and light trucks which were taxable for the first time in Sweden after the end of 2010.

For light buses and light trucks the total weight cannot exceed a maximum of 3,500kg.

The carbon dioxide emission-based vehicle tax consists of a fixed primary amount and an amount calculated on the vehicle's carbon dioxide emissions (carbon dioxide component). Currently the fixed primary amount is 360 SEK per year. The carbon dioxide component varies depending on which fuel the car uses. How the carbon dioxide component is calculated for each respective fuel is described below.

In mixed driving the carbon dioxide component is 22 SEK per gram of carbon dioxide that exceeds 111g/km. For vehicles that are equipped with engines that could be driven with a fuel mixture containing a large alcohol ratio, or wholly or partly with a gas other than liquefied petroleum gas (LPG), the carbon dioxide component is 11 SEK per gram of carbon dioxide which the vehicle, in mixed driving, emits per kilometer in addition to 111g (e.g., ethane and methane gas).

For private cars that run on diesel fuel the fixed primary amount and the carbon dioxide component should be multiplied with a fuel factor of 2.37. An environmental supplement will be added with 500 SEK for private cars that were taxable in Sweden for the first time before the end of 2007 and 250 SEK for private cars that were taxable in Sweden for the first time after the end of 2007.

Information regarding a vehicle's carbon dioxide emissions is available on the registration certificate.

Private cars not taxed with the carbon dioxide emission-based vehicle tax are instead taxed with a weight-based vehicle tax. The amount of this tax depends on weight and fuel.

An annual registration fee of 60 SEK is also charged.

As of July 1, 2009, environmentally friendly cars are no longer subject to vehicle tax during the first five years the cars have been used. Specific criteria must be met in order to qualify for exemption.

The five-year tax exemption was extended on January 1, 2013 to include passenger cars class II (mobile homes), light trucks and light buses.

To get the exemption, the car should have been subject to tax commencing from January 1, 2013 or later. The car should have been classified in the emission class of §§30 or 32 Emission Act (2011: 318) and the car's carbon dioxide emissions according to the vehicle registry must not exceed the estimated maximum carbon emissions relative to the car's weight. Cars that are equipped with technology to run on ethanol fuel or gas fuel, except propane, may have higher carbon emissions relative to the car's weight

For electric cars the electric energy consumption per 100km cannot exceed 37 kWh, as specified by the manufacturer or general agent

2.2.4. Tax period

The tax is to be paid annually in advance. The month in which the car tax is due depends on the final figure in the registration number of the vehicle. If the tax exceeds 3,600 SEK, the payment is divided into three periods.

3. Income taxes – Taxable persons

All costs relating to purchased or leased cars are fully tax-deductible for Swedish registered companies. This applies even if the employee uses the car privately. Nevertheless, the employee will in such a case be taxed for the benefit of using the car privately.

The purchase price for 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.

4. VAT

4.1. General

Swedish VAT at a standard rate of 25% is, in principal, due on most supplies of goods and services relating to cars. Purchases made for a taxable business are in general deductible.

4.2. Deduction

A right to deduct input VAT exists, though limited to 50% of the VAT paid, on the leasing of a passenger car that is used more than negligibly for a business purpose – i.e., the passenger car must be used more than 1,000km annually for business purposes to obtain the right to the 50% input VAT deduction. If the car is leased to be used for, among other things, taxi, means of transport for deceased people or education towards driving license or for leasing the VAT is fully deductible.

VAT paid on running costs for a passenger car are, however, fully deductible if the car is a business asset or has been leased for use in the business

VAT relating to a purchase of a car is not deductible unless the car is purchased to be retailed, leased or used for, among other things, taxi, means of transport for deceased people or education towards driving license

4.3. Hire purchase

For VAT purposes a hire purchase in Sweden is seen as a supply of goods. Hence output VAT in respect of the entire sales amount will have to be reported at the time of sale/when the car is put to the disposal of the customer. Instalment payments made are not VAT-able

4.4. Leasing

A financial lease is for VAT purposes considered a supply of goods.

Operational leasing is from a Swedish VAT perspective seen as a supply of services. This implies that VAT should be reported on the leasing fee invoiced.

5. *Accounting*

5.1. General

The purchase cost for a car is depreciated systematically over its working life.

Leasing payments are normally allocated linearly over the leasing period. However, if the lease in question is a so-called financial lease, special accounting standards exist.

5.2. Hire purchase (Financial lease)

The generally accepted accounting standards for hire purchase can be found in K3 or RFR2.

The accounting recommendations differ between operational and financial leases. The recommendations for financial leases are mandatory for the consolidated financial statements, but in a separate legal entity the operational lease standard is allowed.

There are three possible standards in Sweden for companies. K3 for larger companies, K2 for smaller companies (smaller companies can also use K3) and RFR2 for the mother company in IFRS consolidation. RFR2 is also allowed for subsidiaries in IFRS consolidation. The main difference is that financial lease is possible in a legal entity according to K3 or RFR2 but not possible in K2 companies.

5.3. Operational lease

5.3.1. Lessee

Leasing payments as regards operational leases are normally allocated linearly over the leasing period.

5.3.2. Lessor

Revenues referring to a vehicle that has been leased due to an operational lease shall normally be allocated linearly over the leasing period.

5.4. Financial lease

5.4.1. Lessee

The car is treated as the lessee owns the car, as tangible fixed asset in the balance sheet. The payments for the coming periods are presented as liability to present value at the beginning of the contract. In the income statement there will be depreciations of the car and a financial cost for the liability. The payments are divided into financial cost and amortization.

5.4.2. Lessor

A vehicle that has been leased due to a financial lease shall be accounted as a receivable in the balance sheet with an amount that corresponds to the net investment. The revenue should be divided into financial income and repayments.

6. Corporate tax

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 depreciations for tax purposes, etc

In 1998 the Supreme Administrative Court tried a number of 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 for tax purposes could not be considered as the real owner, and thus was not entitled to make tax depreciation on the assets. The court decisions caused uncertainty in respect of leasing transactions, and of whether or not the interpretation should be made in a broad sense, making most leasing agreements possible to attack from a tax point of view, or if the decisions were considered more as in case decisions

In the most recent official document issued regarding this specific question in October 2004 by the Swedish Tax Agency (Skatteverket, or SKV) as well as in SKV's guidelines for 2014, the tax authority's view is given. According to SKV it is not possible to let the accounting regulation for financial leasing be decisive for the taxation. It is the SKV's opinion that it is the legal owner of the assets that is entitled to the special tax depreciations, that is normally the lessor (and not the lessee). By way of exception a different assessment of the true meaning of the lease agreement might however come into question resulting in that the lessor is not to be seen as the owner of the assets for income tax purposes and hence not entitled to the tax depreciations of the asset.

7. Company car

7.1. VAT due on private use of company cars

The rules regarding withdrawal taxation do not apply unless full deductions of VAT have been made when the car was purchased or full deductions are made on lease payments.

Hence, withdrawal taxation will only occur if a car is purchased/leased to be used for retail, or leased or used for, among other things, taxi, means of transport for deceased people or education towards driving license.

7.2. Company car in personal tax returns – benefit in kind

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 standardized valuation.

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 he can state this in his tax return.

8. 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, the employer is obliged to report the benefit on the employee's annual statement of earnings and withhold and remit the income tax attributable to the car benefit.

8.1. 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. Only if the private use is slight, i.e., no more than 10 occasions and/or 1,000km of driving annually (i.e., if either of these limits are breached the employee will be taxed), can the employee avoid taxation.

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 benefiting from it drives at least 30,000km annually in duty. If the employee is paying the employer from his net salary or is paying for other running costs other than fuel, then the benefit value should be reduced. The benefit value may also be reduced if the vehicle could be considered a "work tool". A vehicle is considered to be a "work tool" if it is fitted or adjusted for purposes other than personal transport, for example installation or distributions vehicles. To enjoy an adjustment of the benefit value the employer has to apply for the adjustment with the Swedish Tax Agency.

The Supreme Administrative Court has decided that if an employer pays congestion tax for private use of the car, the employee should not be taxed for an additional benefit in excess of the benefit of using the car. If the employee reimburses his employer for such a cost of congestion tax with his net salary, the benefit value of using the car should be reduced by the equivalent amount.

If the employer reimburses the employee for his commuter costs this is regarded as a taxable benefit for the employee. Under certain circumstances the employee is entitled to deduct the portion of the commuter costs that exceed 10,000 SEK for income year 2014. Note that deduction is only allowed with 0.65 SEK per kilometer for company cars running on diesel fuel and with 0.95 SEK per kilometer for company cars running on other kinds of fuel (e.g., petrol).

Provided that the employee pays for the fuel, the employer may reimburse the employee with 0.65 SEK per kilometer if the company car runs on diesel fuel and 0.95 SEK per kilometer if the company car runs on other fuels (e.g., petrol) without triggering any adverse tax consequence provided that it is a business trip.

8.2. 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 benefit value of the environmentally-friendly company car is adjusted to what the value would be if the car were an "ordinary" car of the same model.

For company cars that run on electricity, or on gas other than propane, the benefit value can be adjusted down to a maximum of 60% of the benefit value of an "ordinary" car of the same model. The adjustment may not exceed 16,000 SEK in relation to the "ordinary" car. These regulations are in force until the income year 2017

9. Congestion tax in Stockholm

As of August 1, 2007, a congestion tax is imposed on Swedish-registered vehicles driving into and out of the Stockholm inner-city zone on weekdays (Monday to Friday) between 6:30am and 6:29pm. No tax is charged on Saturdays, Sundays, public holidays, the day before a public holiday or during the month of July. As of January 1, 2015, the congestion tax is imposed also on foreign-registered vehicles.

Vehicles are registered automatically at "control points" during the times when the tax is charged. Each passage into or out of the inner-city zone costs 10 SEK, 15 SEK or 20 SEK, depending on the time of day. The maximum amount charged per day and vehicle is 60 SEK. 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. 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 vehicle owner who is responsible for paying the tax.

10. Congestion tax in Gothenburg

As of January 1, 2013, a congestion tax is imposed on Swedish-registered vehicles driving into and out of Gothenburg on weekdays (Monday to Friday) between 6:30am and 6:29pm. No tax is charged on Saturdays, Sundays, public holidays, the day before a public holiday or during the month of July. As of January 1, 2015 the congestion tax is imposed also on foreign-registered vehicles.

Vehicles are registered automatically at "control points" during the times when the tax is charged. Each passage into or out of the inner-city zone costs 8 SEK, 13 SEK or 18 SEK, depending on the time of day. The maximum amount charged per day and vehicle is 60 SEK. 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. 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 vehicle owner who is responsible for paying the tax.

11. Legal background

- Swedish income tax legislation
- Swedish VAT legislation
- Swedish road and traffic regulations ions

Switzerland

Juerg Niederbacher
Automotive Tax Leader
p: +41 58 792 4293
e: juerg.niederbacher@ch.pwc.com

Michaela Merz
p: +41 58 792 4429
e: michaela.merz@ch.pwc.com

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). The cost of registration depends on the canton where the car is registered. The cost should not exceed 150 CHF 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

	40 CHF Number plate
+	30 CHF Cost of registration
+	40 CHF Vehicle registration document
=	110 CHF

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?

Yes, in general 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 a sufficient motor insurance coverage exists. Foreign driving licenses will still be valid during the first 12 months in Switzerland.

If a vehicle is used in Switzerland by a person not resident in Switzerland, the car with foreign license plates can be used on Swiss public roads.

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 three 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)
- CO_2 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 curb 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		

Curb weight in kg	Tax due in CHF	Curb weight in kg	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. The rate of taxation is based on cubic capacity of the engine or on weight.

2.3. Car tax (customs duties)

When importing or producing a passenger car or a minibus, customs duties based on weight are due, unless preferential treatment applies (e.g. EU origin). Furthermore, car tax and import VAT is levied.

2.3.1. Taxable person

In principle the 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

4% of the value of the car (car tax), 8% import VAT.

2.3.3. Tax period

One-time due.

2.4. CO2 duties

The Swiss parliament adopted a regulation on CO2 emission for cars according to which CO2 duties will be applied, if newly registered cars have average CO2 emissions exceeding the calculated target value. The regulation came into force in 2012.

For cars registered after July 1, 2012, duties are imposed if the CO2 emission exceeds 130g CO2 per kilometre, whereas heavier cars are currently allowed to have a higher emission.

Until 2018, the first three grams of excess CO2 emission are subject to reduced duty rates. Until 2015, a reduced percentage of the duty was due on excess CO2 emission.

For example, for a privately imported car in 2015 this increased duty would mean the following:

- CO_2 emission: 170g CO_2/km
- Kerb weight: 1,649kg
- Duty: 4,200 CHF

For individual calculations, a duty calculator has been published on the following website:
http://www.bfe.admin.ch/themen/00507/05318/05535/index.html?lang=de.

For wholesale importers importing more than 50 cars per year, the target value is calculated based on the average CO_2 emission of all imported vehicles. For private individuals and importers importing less than 50 cars per year, the CO_2 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 hidden profit distribution.

4. VAT

4.1. General

Swiss VAT at the standard rate of 8% 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 good concerned.

Since the implementation of the new Swiss VAT Act in 2010 no threshold for company cars has been defined or published. We might, however, assume that on certain luxury cars, no input VAT deduction may be granted, if the purchase and maintenance of luxury cars is not proven to be (at least partially) for business purposes.

However, there is no general limitation of input VAT recovery for cars.

4.3. Leasing: Supply of goods/services?

The lease of movable property is considered a supply of goods for Swiss VAT purposes.

5. Accounting

5.1. General

If the company purchases a car, it has to be reported as an asset in the balance sheet of the company. The car needs to be depreciated over its lifetime. The depreciation is treated as an operating expense and has to be shown in the profit and loss account.

Regarding leasing contracts, a distinction has to be made between operating leases and financial leases, whereby the differentiation is made by using an economic approach (substance over form).

As a rule, a leasing contract qualifies as financial lease, if one of the following conditions is fulfilled:

- if the sum of all leasing payments plus a possible payment at the end of the contract approximately equals the fair market value of the car;
- if the period of the leasing contract does not differ considerably from the economic period of use of the car;
- if the leasing good becomes the ownership of the lessee at the end of the leasing period, or;
- if the additional payment at the end of the leasing period is far below the actual fair market value of the leased good.

In case of an operational lease, the lessee does not report the car in the balance sheet. Leasing obligations that cannot be terminated within one year have to be disclosed in the notes to the financial statement.

5.2. Hire purchase

5.2.1. Purchaser

In case of a hire purchase, the company will register the car as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). In practice this usually means that the car is depreciated on a straight-line basis over a period of four to five years.

The purchaser will have to disclose the valuation rules with regard to the car in the notes to the accounts.

5.2.2. Vendor

The car sold is not capitalised in the vendor's balance sheet and consequently there is no provision for depreciation. The net payment for the car (excluding interest) is recorded in the profit and loss account. The interest is to be recorded as a provision and will only be recorded in the profit and loss account as income when the payments are received.

5.3. Operational lease

5.3.1. Lessee

An operating lease or rental agreement is not capitalised by the lessee and thus not depreciated. The lease payments are treated as operating charges in the profit and loss account. In principle, the lessee does not have to disclose anything, unless the lease contract has a significant effect on the results of the enterprise. In the latter case the lessee is obliged to mention the lease contract in the notes to the annual accounts.

5.3.2. Lessor

In case of an operating lease or a rental agreement the car will be recorded as a fixed asset by the lessor at the acquisition cost (purchase price, production cost or assigned value) and depreciated as economically justifiable with respect to the nature of the asset (economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services such as insurance and maintenance, should be recognised as income in the profit and loss account.

5.4. Financial lease

5.4.1. Lessee

In case of a financial lease, the car is reported as an asset in the balance sheet for group reporting purposes. The net book value of all reported leasing goods and the total value of the liabilities that are in connection with the leasing must be disclosed in the balance sheet or in the notes to the financial statement.

For the stand-alone financial statement, the financial leasing should only be disclosed in the notes on the financial statements. In this case, the total amount of the future leasing payments and the maturity structure of the payments have to be disclosed. In a financial lease agreement, the car will be capitalised as a fixed tangible asset in the lessee's accounts at the acquisition price (i.e., the capital portion of the minimum lease payments). The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice this means that the car is depreciated on a straight-line basis over the lease period.

The lessee carries the minimum lease payments as a liability, which is divided into an amount payable after one year and an amount payable within one year.

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

5.4.2. Lessor

The leased car may be capitalised in the balance sheet and can be depreciated. If it is not capitalised in the lessor's balance sheet, consequently there is no provision for depreciation. The lease payments received should be recorded on the balance as a receivable and equals the net investment in the lease. This amount consists of the total of the minimum lease payments minus finance income allocated to the future period. Any unguaranteed residual value accruing to the lessor is treated as a fixed asset.

The finance charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period. Finally, the lessor does not have to disclose anything in the notes to the accounts.

6. Company car

6.1. VAT due on private use of company cars

Self-supply exists where the taxpayer takes goods from his business for private or non-business use and these goods have given rise to total or partial deduction of input VAT. In relation to the company cars, a deemed supply can exist if the cars are also utilised 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 the lump-sum method for calculation is almost always 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 150 CHF per month. The private use of company cars is subject to VAT at a rate of 8%. 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:

Calculation example: Purchase price = 32,000 CHF (excl. 8% VAT)	
0.8% per month= 256 CHF (including 8% VAT) (or at least 150 CHF per month)	18.95
per quarter= 768 CHF (including 8% VAT)	56.85
per year = 3072 CHF (including 8% VAT)	227.55

Please note that if this standardised 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 self-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.

6.2. 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 amounts to 0.8% of the actual purchase price of the company car or lease car monthly, excluding VAT.

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. 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.

The calculated taxable benefit is also used as the basis for determining the payable Swiss social security contributions. Please note that both the employee and employer pay Swiss social security contributions on the benefit in kind.

7. 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. In the event, however, 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 0.70 CHF per business kilometre. The exact amount that the tax authorities will accept as a tax-free reimbursement per business kilometre 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 0.70 CHF per business kilometre. The amount per business kilometre 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 equalling 3% of the employment income in his Swiss individual income tax return, whereby the minimum deduction amounts to 2,000 CHF and the maximum deduction is 4,000 CHF. 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 4,000 CHF 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 kilometres.

8. Electric vehicles

Electric vehicles benefit from a reduction or even a waiver of the road circulation tax in some cantons.

9. 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.

10. 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 2 344 1220
e: peerapat.poshyanonda@th.pwc.com

Paul Sumner
p: +66 2 344 1305
e: paul.sumner@th.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, Thailand-Australia, Thailand – New Zealand, Thailand-India, Thailand-Peru, and Thailand – Japan.

In addition, the importation of cars is subject to excise tax as well as interior tax (10% of the excise tax payable). The excise rate varies based on the type of car and its engine capacity, whereby cars with a large engine capacity are subject to higher excise tax rates. For cars and vans, the ad valorem excise tax rates are between 30% and 50%. When calculating the excise tax payable based on the ad valorem excise tax rates, a formula is applied to determine the effective excise tax rate.

The excise tax base for imported cars is the CIF value plus import duties. As a result, cars and vans (with an 80% import duty rate) are subject to an effective tax rate ranging between 170% and 300% (including import duty, excise tax and interior tax, but exclusive of VAT [see below]).

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.

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 and excise 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 colour 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 in the case of a foreign-owned vehicle which has been authorised to enter the country temporarily at a border checkpoint.

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, etc. (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, vehicles for providing services, etc.
- Car tax levied on each vehicle, e.g., tractors for agricultural work, motor cycles, etc.
- Car tax levied at half of the stipulated rate for vehicles using natural gas, energy-saving parts according to the regulations, etc.

3.2. Registration tax

3.2.1. Taxable event

The car registration tax is payable when the car is first registered and thereafter annually.

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 paid annually.

4. Income taxes – corporate taxable entities

The tax law does not differentiate between an operational lease and a financial lease. A leasing contract is treated as an operational lease for tax purposes regardless of its treatment for accounting purposes.

4.1. 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, inclusive of VAT, is deductible.

Car-related expenses, such as fuel, are tax deductible for the lessee. Repair costs are also deductible provided that the lessee is required to absorb such costs under the lease agreement.

4.2. Lessor

Since the title to the leased car belongs to the lessor, the lessor is entitled to depreciate the full amount of its cost over the 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 financial 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 income tax return.

5. Accounting

5.1. Accounting standards

Under Thai Accounting Standards, TAS 17, "Leases" prescribes the appropriate accounting policies and disclosures to apply in relation to a lease. TAS 17 (revised in 2014 (B.E. 2557)) is based on IAS 17 bound volume 2013. Under the standard, a lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The required accounting for leases will depend on the classification of the lease (either finance lease or operating lease) and can have a significant impact on the financial statements of both the lessee and lessor. Under the accounting standard, a lease is classified as either a finance lease or an operating lease. The classification of a lease is based on the extent to which the risks and rewards incidental to ownership of the leased asset lie with the lessor or the lessee.

5.2. Operating lease

An operating lease is simply a lease other than a financial lease. In practice, an operating lease does not transfer substantially all the risks and rewards of ownership to the lessee. A significant element of risk must, therefore, remain with the lessor.

5.2.1. Lessee

Lease payments made under operating leases are recognised as expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. The commencement of the lease term is the date on which the lessee is entitled to exercise the right to use the leased asset. The lease payments exclude costs for services such as insurance and maintenance.

5.2.2. Lessor

The assets subject to operating leases are presented in the statement of financial position according to their nature. In most cases, the asset will be recorded as property, plant and equipment or investment property. Depreciable leased assets must be depreciated or amortised on a basis consistent with the lessor's normal depreciation policy for similar assets.

Lease income from operating leases (excluding receipts for services provided, such as insurance and maintenance) is recognised in the accounting records on a straight-line basis over the lease term, irrespective of when the payments are due.

5.3. Finance lease

A finance lease is defined as a lease that transfers substantially all the risks and rewards incidental to the ownership of an asset. Title may or may not eventually be transferred. Thus, a finance lease is an arrangement that has the substance of a financing transaction for the lessee to acquire effective economic ownership of an asset.

5.3.1. Lessee

A finance lease is recorded in the lessee's books both as an asset and as an obligation to pay future rentals. At the commencement of the lease term, the sum to be recognised both as an asset and as a liability is the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount of the asset.

The depreciation policy for depreciable leased assets mut be consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and its useful life. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liabilities are presented separately from the leased assets in the statement of financial position.

5.3.2. Lessor

The amount due from the lessee under a finance lease is recognised in the lessor's statement of financial position as a receivable at an amount equal to the lessor's net investment in the lease – that is, the discounted minimum lease payments plus any unguaranteed residual accruing to the lessor. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance income.

Where a lessor is a manufacturer/dealer, the sales revenue recorded is the lower of the asset's fair value and the present value of the minimum lease payments computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost (or carrying amount of the asset, if different) less the present value of any unguaranteed residual value. The difference between the revenue and the cost of sale is the selling profit, which is recognized in accordance with the entity's policy for outright sales.

6. VAT

6.1. 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%.

The 0% VAT rate applies to the export of goods from Thailand, as well as to services performed in the country but used abroad.

6.2. Deduction

For VAT-registered operators, the input VAT directly incurred in their businesses is, in principle, entirely creditable against their output VAT.

However, with respect to input VAT arising from 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 input VAT arising from the purchase of goods or the receipt of services related to such 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.

6.3. 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 is deemed to arise upon the occurrence of such act:

- Receipt of payment for the price of the goods
- Issuance of a tax invoice

The lessor must charge the lessee VAT at the rate of 7% 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.

6.4. Leasing: Supply of services

A lease agreement, whether operational or financial, whereby the customer 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 the occurrence of such act:

- 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 at the rate of 7% on the amount of the rental.

On the expiry of the financial 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.

7. Company car

7.1. 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.

7.2. 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.

7.3. 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. Upon the sale of such 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 the sale.

8. *Income taxes – drivers' 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 such expenses, in which case standard deductions specific to the type of business may be applied.

8.1. Private use

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

8.2. 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 motor cycle.

9. Selling a car

9.1. 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 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.

9.2. 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.

10. Future developments

In order to encourage the use of eco-friendly automobiles, new excise tax rates will be introduced which will depend on different factors, including

- Cylinder Displacement (CC);
- Carbon Dioxide (CO_2) emission quantity;
- Safety standards; and
- Types of fuels used.

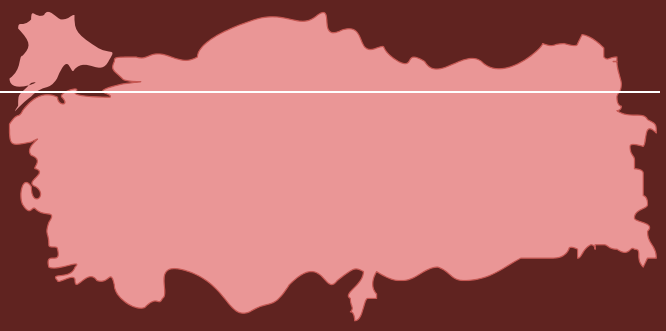
For example, hybrid electric vehicles would receive lower reductions than normal vehicles. The new excise tax reductions on cars vehicles could reflect a reduction of excise tax rate from 50% to between 10% and 30% depending on the above factors. However, for passenger cars with a cylinder capacity of more than 3,000 cc the excise tax rate are not expected to be reduced. The new excise tax rates are expected to be effective on January 1, 2016.

In addition to the new excise tax rates, the Thai Cabinet approved a draft new Excise Tax Law called Excise Tax Code in May 2015. The new version of the Excise Tax Law will replace and consolidate all relevant Excise Acts (e.g. Tobacco Act, Liquor Act, Excise Tax Act, etc.) into one Excise Tax Code.

Based on the proposed draft, the excise tax for all goods including motor vehicles, will be collected based on a suggested retail price instead of ex-factory prices (for domestically produced products) or CIF value (for imported products).

The draft is now pending review by the National Legislative Assembly. Once it is approved, it will be tentatively effective within one day after the date of announcement in the National Gazette which is scheduled to be at the end of this year or the beginning of next.

Turkey



Bilgutay Yasar
PwC Turkey, Tax Partner, Automotive Leader
p: +90 212 326 60 94
e: bilgutay.yasar@tr.pwc.com

Ulas Ceylanli
PwC Turkey, Tax Partner
p: +90 212 326 64 60
e: ulas.ceylanli@tr.pwc.com

Turkey

1. Car registration

1.1. When does car need to be registered?

For a car to be put into the free circulation, it must be registered by the 'traffic registration' department of the Police 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 real or legal persons. 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 the 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 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 and engine power of the vehicles.

It is calculated by applying the pre-determined rates on the sales price of the cars. As of 2015, the effective special consumption tax rates 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	
Less than 1600 cc	45
Between 1600 cc to 2000 cc	90
2000 cc and more	145
Electric passenger cars	
Less than 85kW	3
Between 85kW – 120kW	7

Vehicles	Tax Rate (%)
120kW and more	15
Light commercial vehicles	
Less than 2000 cc (not heavier than 850 kg)	15
Between 2000 cc and 2800 cc (heavier than 850 kg)	15
Electric light commercial vehicles	10
Commercial vehicles for transportation of goods	
Less than 3000 cc	10
Between 3000 cc to 4000 cc	52
4000 cc and more	75
Electric commercial vehicles for transportation of goods	
Less than 85kW	10
Between 85kW – 120kW	52
120kW and more	75
Motorcycles	
Less than 250 cc	8
250 cc and more	37
Electric motorcycles	
Less than 20kW	3
20kW and more	37
Others	
Golf cars and similar vehicles	6,7

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

The sale of the passenger cars in Turkey is subject to the general VAT rate of 18%. The second hand sale of the passenger cars, on the other hand, is subject to VAT at the rate of 1%.

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 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.

2.3.4. Tax period

The VAT for the sale of the car is filed to the tax office in the 24th day of the month following the sale of the car. The payment should be performed by the 26th.

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 2000 cc

B - *The sales price:* 200,000 TRY

C - *The special consumption tax (B * 145%):* 290, 000 TRY

D - *The value added tax [(B +C)* 18%]:* 88,200 TRY

E - *Total tax burden (C + D):* 378,200 TRY

F - *The total sales price (E + B):* 578,200 TRY

G -*The ratio of the tax burden on price (E/B):* 189%

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 is calculated in accordance with the below-stated table for the year 2015. The figures are revised each year by the revaluation rate announced by the Ministry of Finance. The Council of Ministers also has the authority to revise and differentiate the figures based on the technical facilities and the fuel-oil type of the vehicles:

	Age of Vehicles and Tax Payable Per Year (TRY - 2015)				
Engine Capacity (cc)	1 to 3 year	4 to 6 year	7 to 11 year	12 to 15 year	16 year and more
5. Passenger car, station wagon, off-road vehicles and similar vehicles					
not over 1300 cc	591	412	231	175	63
1301 to 1600 cc	945	709	412	291	112
1601 to 1800 cc	1,667	1,304	768	469	182
1801 to 2000 cc	2,626	2,024	1,189	709	280
2001 to 2500 cc	3,939	2,860	1,787	1,068	423
2501 to 3000 cc	5,491	4,777	2,985	1,607	591
3001 to 3500 cc	8,362	7,524	4,533	2,263	831
3501 to 4000 cc	13,147	11,352	6,686	2,985	1,189

	Age of Vehicles and Tax Payable Per Year (TRY - 2015)				
Engine Capacity (cc)	1 to 3 year	4 to 6 year	7 to 11 year	12 to 15 year	16 year and more
4001 cc or more	21,516	16,135	9,556	4,296	1,667
6. Motorcycles					
100 to 250 cc	112	85	63	40	17
251 to 650 cc	231	175	112	63	40
651 to 1200 cc	591	352	175	112	63
1201 cc or more	1429	945	591	469	231

2.5.4. Tax period

Motor Vehicle Tax is assessed on annual basis. It is paid in two instalments, one in January and the other in July.

3. Direct taxation – level of deduction

In accordance with the Income Tax Law, article 40(5), the costs of the passenger cars that are acquired via purchasing or leasing can be deducted from the tax base, on condition that they are utilized solely for business purposes.

The costs mentioned above includes the depreciation of the passenger cars in the assets, the leasing expenses and other car related expenses including the fuel-oil, maintenance and others.

The general depreciation rate applied for the passenger cars is 20% (5 years). There is not any lump-sum limit or a ceiling for the amount of the depreciation expense over the passenger cars.

When company cars are used for private purposes as well, in accordance with the Income Tax Law a benefit in kind should be considered as salary and subjected to income taxation.

On the other hand, there are no concrete methods, guidelines or lump-sum ceilings provided by the tax legislation for the determination of the business use or private use; hence it is up to the employers to determine the private use and the related benefit in kind. Since the proof of private use is quite difficult, the tax authorities do not tend to have major criticism on these determinations.

4. VAT

4.1. General

The delivery of goods or services in Turkey is subject to VAT. The VAT rates are 1%, 8% and 18%. The generally applied 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 %.

4.2. Deduction

4.2.1. Passenger cars

In accordance with the VAT Law, the VAT paid for the purchase of passenger cars is not deductible.

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.

Although there is no specific regulation, the tax authorities are of the opinion that the VAT paid for the financial leasing of passenger cars should also be considered as non-deductible, in the same manner as with purchased cars, since the ownership of the car will pass to the lessee at the end of the leasing period.

On the other hand, the VAT paid for the operational leasing can be considered as deductible VAT.

Regarding the accounting treatment of the non-deductible VAT, the companies are free to capitalise VAT together with the cost of the car or to record them directly as expenses.

4.2.2. Car-related expenses

The deductibility of the VAT of the car-related expenses (fuel-oil, maintenance, etc.) depends on the purpose of the usage of the cars.

The VAT of the expenses for the cars that are used just for business purposes can be directly 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 benefit 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.

On the other hand, the Ministry of 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.

5. Accounting

5.1. General

In accordance with the Tax Procedural Law, purchased passenger cars are capitalised as asset and be subjected to depreciation.

The depreciation rate for passenger cars is 20% (five years). Regarding the application of depreciation for the first year, although all other assets can be depreciated for the whole year regardless of their purchase date, the passenger cars should be depreciated on a prorate basis for the period between the purchase date and the year's end. The accelerated depreciation is possible for the passenger cars as well.

If the purchase of the car is financed through loans, the interest expenses (and the foreign exchange losses for the loans in foreign currency) that will arise for the first year should be added in the cost of the car as well.

The accounting treatment of the leased cars differs based on the type of leasing, namely financial or operational.

5.2. Financial Leasing

5.2.1. General

The Tax Procedural Law has special provisions where the term 'financial leasing' is defined and the accounting principles are determined.

According to the Law, if a leasing transaction (contract) meets one of below conditions, the transaction will be classified as financial leasing:

- The ownership of the asset is transferred to the lessee at the end of the leasehold period,
- Lessee is granted with the option to purchase the asset lower than the current market value at the end of leasehold period,
- The leasehold period covers more than 80% of the economic life of the asset,
- The net present value of the lease payments set by the leasing contract is higher than 90% of the current market value of the asset.

If the leasing transaction satisfies one of these conditions, it will be classified as financial leasing. The Tax Procedural Law defines the accounting treatment of the financial leasing transactions, both for the lessee and the lessor.

The brief summary is as follows.

5.2.2. Lessee

In a financial lease agreement, the car will be capitalised in the fixed assets of the lessee's accounts, as the utilization right of the car, and will be subjected to depreciation. The valuation base for the determination of the capitalization cost will be the lower one of the current market value of the asset or the present value of the rental payments.

The lessee shall register the liability arising from leasing contract on the liability side of the balance sheet and distinguish the payments as principal payment and interest payment. The interest payments shall be recorded as expense to the corresponding profit and loss accounts.

5.2.3. Lessor

For the lessor, the receivables arising from the leasing contract shall be deemed as the total rental payments during the leasehold period. The passenger car subject to financial leasing shall be valued with the amount arising from difference between the net asset value of the asset stated in the balance sheet and the present value of the rental payments.

If the difference between the net asset value of the car stated in the balance sheet and the present value of the rental payments

- is zero, the car will be valued by a track value and therefore the asset will not be subject to depreciation (the general application);
- is negative, the car will be appraised by a track value again, and therefore will not be subject to depreciation but the difference will be treated as capital gain arising from the disposal of such asset;
- is positive, the difference will subject to depreciation.

The difference between the capitalised receivable and the present value of the rental payments shall be valued by recording the difference as deferred interest income for the following months, on the liability side of the balance sheet.

5.3. Operational lease

5.3.1. General

If a lease contract does not satisfy any of the conditions stated above, it will be classified as operational lease.

The related accounting treatment will be as follows.

5.3.2. Lessee

The leased car is not capitalised by the lessee and thus not depreciated. The lease payments are treated as deductible expense in the profit and loss account.

5.3.3. Lessor

The leased car will be recorded as a fixed asset by the lessor at the acquisition cost and depreciated by 20% in five years.

The lease payments under the contract shall be recognised as income in the profit and loss account.

6. *Company car*

6.1. Corporate tax deductibility

In accordance with the Income Tax Law, article 40(5), the costs of the passenger cars that are acquired via purchasing or leasing can be deducted from the tax base on condition that they are utilised for solely business purposes.

6.2. VAT deductibility

Whether for business use or not, the VAT of the purchased cars, as stated in section 4, cannot be considered as deductible VAT.

For the car-related expenses, the deductibility of the VAT related expenses (fuel-oil, maintenance etc.) depends on the purpose of the passenger car. The VAT of the expenses for the passenger cars used for business purposes can be considered as deductible VAT. On the other hand, for non-business purposes, the VAT cannot be deducted.

7. Income taxation – drivers' personal taxation

7.1. Private use

In accordance with the Income Tax Law, except for certain exemptions, 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.

On the other hand, there are not any concrete methods, guidelines or lump-sum ceilings provided by the tax legislation for the determination of the business use or private use. Such separation is left for the discretion of the companies. Therefore, since the proof of private use is also quite difficult, the tax authorities have not made major criticism yet claiming the abuse of the business use.

7.2. 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 (tax payers of commercial profit or profit from independent professional services).

In cases of the income tax return of the individuals that have commercial profit or 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.

Regarding the employees, the expenses related to their private cars cannot be considered as deduction in any manner, for the income tax purposes.

8. Electric vehicles

Please refer to section 2.2 for the special consumption tax rates relating to electric vehicles.

9. Future developments

In accordance with current legislation, the importation of second-hand cars into Turkey is limited. The status of the free importation of used cars will be concluded in the EU membership negotiations.

The Turkish government is considering changing the annual motor vehicle tax into a CO_2 emission-linked tax. When comparing this potential change with lessons learned from Western Europe – and taking into account the relatively low amount of the motor vehicle tax – the question remains whether the impact would be sufficient to change the buying behaviour of consumers.

Most probably other incentives should be provided to persuade consumers to trade their older polluting vehicle for cleaner ones. Recently, the government announced that it was working on a package to support the scrapping of old cars. Most likely the support will come through low cost financing for new cars rather than deduction on tax rates. The government announced that only the cars produced in Turkey will fall within the scope of the support package.

10. 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

Denis Shendryk
p: +380 44 354 04 04
e: denis.shendryk@ua.pwc.com

Alexander Buryak
p: +380 44 354 04 04
e: alexander.buryak@ua.pwc.com

Viktoria Tymoshenko
p: +380 44 354 04 04
e: viktoria.tymoshenko@ua.pwc.com

Roman Goptsii
P: +380 44 354 04 04
e: roman.goptsii@ua.pwc.com

Alexey Katasonov
P: +380 44 354 04 04
e: alexey.katasonov@ua.pwc.com

Ukraine

1. Importation of cars

When importing cars into Ukraine, legal entities and individuals must submit an import customs declaration to the customs authorities and pay import duty, special customs duty (has been canceled in September 2015, see details in section 1.2), excise duty and VAT. These taxes are payable prior to the 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%–12% depending on the type and the country of origin of the vehicle).

Imported cars may be exempted from import duty if they originate from countries which have ratified free-trade agreements with Ukraine (CIS countries, Georgia, Macedonia, and Montenegro). Certain cars originating from EFTA countries may be imported with application of reduced import duty (depends on tariff code). It is expected that Ukraine will graduatelly reduce import duty on EU manufactured cars within next 10 years starting from 1st January 2016 (after implementation of the EU-Ukraine Assosiation Agreement).

To obtain duty exemption, the imported cars should comply with the preferential rules of origin (e.g. 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 CIS countries; for Macedonia and EFTA countries - the value of non-originating components should not exceed 40%; for Montenegro - value of non-originating components should not exceed 50%).

Transit delivery of the cars through the territory of Ukraine will require application of customs securities (using Carnet TIR procedure; placing security deposits in the amount equal to a possible custom duty, excise duty and VAT on the bank account of the customs office; or providing a guarantee from an independent guarantor).

1.2. Special customs duties

Special customs duties in Ukraine were introduced in order to protect domestic car manufacturers and were subsequently repealed in September 2015. Special customs duties were imposed only on the importation of cars which are classified under codes 8703 22 10 00 and 8703 2319 10 of the Ukrainian Tariff codes (motor vehicles designed for the transport of persons with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity exceeding 1,000 but not exceeding 2,200 cubic centimetres). The rates of duty were as follows:

- 6.46% for cars with engine displacement exceeding 1,000 but not exceeding 1,500 cubic centimetres;
- 12.95% for cars engine displacement exceeding 1,500 but not exceeding 2,200 cubic centimetres.

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 any amount of customs duty and excise duty.

The following vehicle imports into Ukraine are exempt from VAT:

- temporary imported vehicles for commercial and individual use;
- imported vehicles to be used by disabled individuals or diplomatic personnel.

VAT paid for imported cars is generally recoverableunless the cars are to be used in non-taxable transactions or out of the customer'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 displacement, engine type (petrol/diesel), and the age of the imported vehicle:

- For new cars: 0.063–2.209 EUR per cubic centimeter of engine displacement;
- For used cars: 1.094–4.985 EUR per cubic centimeter of engine displacement.

The import of cars into Ukraine to be used by by disabled individualsor diplomatic personnel, as well as the import of special purpose vehicles (such as ambulances) purchased with public funds, are exempt from excise duty.

1.5. Certification procedure

Importated vehicles are subject to compliance cerification according to Ukraine's national technical and consumption regulations. As a general rule, vehicle's customs clearance can be accomplished only after a certificate of conformity is issued and submitted to customs authorities. However, under certain circumstanes, the certification authorities may allow the certification procedure to be completed after the car's importation. In such cases they issue a special permit which should be filed with customs authorities in place of the aforementioned certificate.

It is expected that requirement for certification of conformity for cars will be lifted starting with 1 January 2016.

1.6. Customs processing fee

There is a special customs processing fee which applies in cases of over-time and offsite customs clearance of cars at an hourly rate ranging from 20 EUR to 50 EUR for each hour of the customs inspector's work.

2. Car registration

2.1. When does a car need to be registered?

It is illeagal to use an unregistered vehicle in Ukraine. According to the Ukrainian legislation, owners of vehicles or legal entities/individuals (or their authorized representatives) are required to register such vehicles within ten days of its acquisition in Ukraine or their customs clearance. This deadlinecan be extended in case of a temporary illness of the applicant, a business trip, etc.

Vehicles temporary imported into Ukriane by non-residents for a period up to two months do not require registration. Longer period of stay will require temporary state registration with the State Traffic Inspection.

In order to gain admission for temporary import into Ukraine, the vehicle must be registered with the respective authorities in the foreign country.

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 aforementionedowner. 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 regestered, provided the vehicles are generally keptat that location. In case of M&A, 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 State Traffice Inspection 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.

Temporarily imported privately owned vehicles can only be used on the customs territory of Ukraine by the persons who legaly imported them. Such vehicles can only be used for personal purposes, and cannot be operated as part of a commercial activity, and may not be dissolved to constituents, transferred, leased, etc.

Vehicles imported to the territory of Ukraine should be registered on the basis of 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).

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 or 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, except for those registered before April 1, 2008.

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.

Foreigners who temporarily use their vehicles on the territory of Ukraine for up to two months should submit their foreign plates for storage to the State Traffic Inspections for the whole period of this usage. Instead of foreign plates, foreigners obtain national plates (or transit plates) for the whole period of usage of their vehicles.

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 two months after the import of the vehicle or, in case of the temporary registration of the vehicle, it shall not exceed one year. 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 6, 7 and 9 (for import VAT, see section 1)
- Excise duty – see section 3.2
- Customs duties – see section 1

- Personal income tax (PIT) – see section 8 and 9
- Registration tax– see section 3.3
- Mandatory state pension fund contributions – see section 3.4
- Utilisation fee – see section 1.5 and section 3.5

Additionally, starting from September 1, 2013, new transfer pricing rules came into effect in Ukraine. For details refer to Section 3.6.

3.2. Excise duty

Ukrainian car manufactures 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 manufacturersupon the initial deliveryof the vehicle.

3.2.3. Tax due

An excise duty rate varies depending on the type of the vehicle and the engine displacement. The tax rate for new cars rangesfrom 0.063 EUR to 2.209 EUR per cubic centimetre of engine displacemenet.

The imports of new vehicles powered by electric engines are taxed at a fixed rate of 109.129 EUR per unit.

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 (with the exception of disabled persons and individuals who inherited the asset).

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 2015, depending on the value of the vehicle, the following rates apply (based on the minimum subsistence level; the subsistence minimum set on January 1, 2015 is UAH 1,218 [about USD 55]):

- Value up to UAH 200,970 – 3%;
- Value above UAH 200,970, but not more than UAH 353,220 – 4%;
- Value above UAH 353,220 – 5%.

3.4. Transfer pricing

New TP rules came into effect on January 1, 2015. Below we mention the most important points of the new TP Law.

The TP rules apply only to **controlled transactions** and only for the purposes of corporate profits tax (CPT). The list of controlled transactions includes:

- Business transactions that have an impact on taxable profits, with related parties who are non-residents of Ukraine;
- Cross-border business transactions on sale of goods through non-resident commissionaires;
- Business transactions that have an impact on taxable profits with residents of jurisdictions determined by the CMU on the following criteria:
  - states (territories), where the CPT rate is less than the Ukrainian rate by five percentage points,
  - states, which do not have international agreements with Ukraine containing provisions on exchange of information;
- Business transactions with non-resident related party through a non-related intermediary, if such intermediary does not perform significant functions, does not use significant assets and does not bear significant risks in respect of such transaction.

The transactions are to be considered controlled, if annual value of all transactions with the same counterparty exceeds UAH 5 millions net of VAT (approximately EUR 200 thousands), provided the total annual revenue of the taxpayer from all types of business activity exceeds UAH 50 millions net of VAT (approximately EUR 2 millions).

TP documentation and reporting requirements. All affected taxpayers should file a report on controlled transactions by May 1 of the year following the reporting year.

Taxpayers should also provide TP realted paperwork upon the tax authorities' request within one month after receiving such request.

The TP law provides a list of information to be disclosed by taxpayers on their TP related paperwork, specifically:

- information about related parties;
- information about the group, including the legal structure, description of the activities, as well as the group's TP policy

- description and conditions of the transaction
- description of the goods (works, services)
- terms and conditions of settlement
- factors that influenced the price determination
- information about functions performed, assets used and economic risks assumed by the parties of the controlled transaction
- an economic analysis including a benchmarking study, substantiation of the TP method(s), amount of income (profit) and/or expenses (loss) related to the controlled transaction, its profitability, source of information used
- a comparability analysis and information about the proportional TP adjustment performed by the taxpayer (if any).

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 2015 the standard CPT rate is 18%.

Starting with 2015 reporting year, annual tax base is Net Profit Before Taxes (NPBT) as per accounting records, either Ukrainian statutory or IFRS, adjusted for "tax differences".

NPBT is increased by the amount of a car depreciation (as well as car related capital expenses such as maintenance, repairs and enhancements costs) calculated based on the national GAAP, and is decreased by the amount of tax depreciation of the particular asset. Vehicles that are not used in the business activity of a company are not subject to depreciation under the provisions of the Ukrainian tax law.

Previously the Ukrainian tax authorities used to scrutinize the deductibility of the above mentioned expenses. In practice, deductibility decision depended on the ability of a company to provide a proper paper trail substantiating business purpose of such expenses. However, starting with 1 January 2015 this concept was discontinued in Ukraine. Currently there is no developed practice in this regard.

4.2. Leasing

According to the Ukrainian tax legislation, there are two types of leases: operational leases and financial leases.

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.

Notwithstanding the criteria, the parties may agree to treat the lease as an operational lease. If they do so, they must continue to treat it as an operational lease throughout the term of the lease.

Starting from 2015 the Tax Code of Ukraine determines taxable profits as Net Profits Before Taxes as per the accounting records, prepared on the basis of either Ukrainian statutory accounts (i.e. local GAAP) or IFRS, adjusted for "tax differences". Currently there is a lack of clarity on whether the aforementioned tax treatment should prevail over the accounting one (i.e. according to the local GAAP or IFRS) for CPT purposes. At this stage, the tax treatment is preferable as it provides for a more conservative approach. A taxpayer may seek a tax ruling from the SFSU regarding the classification of a lease for Ukranian tax purposes, taking into account that there are different direct tax implications depending on whether the lease is classified as an operating lease or a finance lease.

4.2.1. Operational leases

Lessee will treat rental payments on operational lease as deductible expenses for CPT purposes. Lessor respectively will treat such payments as its income.

4.2.2. Financial leases

A finance lease is treated as a sale/purchase and therefore the expenses for the lessee should include depreciation of the purchased asset for the respective period and financial expenses. Such financial expenses are calculated as the difference between the present value of minimum rent payments (rent payments plus guaranteed residual value) and the fair value of the purchased asset. The lessor recognizes sold asset as receivables in amount of sum of minimum rent payments and non-guaranteed residual value less financial income. Financial income is recognized and it is calculated as the difference between minimum rent payments plus non-guaranteed residual value and the present value of such sum.

5. Accounting

5.1. Accounting standards

The representation of leasing and purchase transactions in accounting is regulated by the Ukrainian general accounting standards (UA GAAP) PSBO 7 "Fixed Assets" and PSBO 14 "Lease", adopted by the Ministry of Finance of Ukraine in 2000.

Under these standards, fixed assets shall be recorded in accounting based on their initial cost. The initial cost of the acquired fixed assets constitutes the actual costs of acquisition, installation or manufacturing of the respective fixed assets, excluding VAT. A fixed asset is expensed via depreciation during its useful life.

For accounting purposes, a distinction needs to be made between operational leases and financial leases. According to the UA GAAP, an agreement qualifies as a finance lease if at least one of the following takes place:

29. The lessee receives the car in ownership at the end of the lease period;

30. The lessee has the right to buy the car (an object to the lease agreement) at a price lower than its fair value at the moment of the purchase;

31. The period of the lease lasts for most of the useful life of the car;

32. The present value of the total amount of minimum lease payments is equals to or exceeds the fair value of the car;

33. The lessee has the right to prolong the lease agreement at a price lower than market lease costs;

34. The lease agreement can be terminated by the lessee, who then has to reimburse the lessor's losses;

35. The lessee carries all the profit or losses from changes to the car's fair value at the end of the lease agreement.

5.2. Hire purchase

5.2.1. Purchaser

In the case of a purchase, the company will register the car as a fixed tangible asset in its balance sheet at the acquisition cost (purchase price, production cost or assigned value) and depreciate it over its useful economic life.

The purchaser will have to disclose the accounting policies with regard to the car in the notes to the financial reports.

5.2.2. Vendor

The sold car is de-recognised when the risks and rewards of ownership are transferred to the buyer. The amounts receivable should be recorded in the balance sheet as a receivable.

5.3. Operational lease

5.3.1. Lessee

An operational lease is not capitalised by the lessee and, thus, is not depreciated. The lease payments are treated as operating charges in the profit and loss account. The lessee has to mention the lease contract details in the notes to the financial reports.

5.3.2. Lessor

In case of an operating lease, the car will be recorded as a fixed tangible asset by the lessor in the statutory accounts at the acquisition cost (which is equal to the purchase price and the directly attributable costs) and depreciated as economically justifiable with respect to the nature of the asset (the useful economic life). The depreciation is treated as an operating expense in the profit and loss account. The lease payments under such a contract, excluding charges for services like insurance and maintenance, should be recognised as income in the profit and loss account. The lessor is obliged to disclose the valuation rules in the notes to the financial reports.

5.4. Financial lease

5.4.1. Lessee

In a financial-lease agreement, the car will be recognised as both a fixed tangible asset and a liability in the lessee's accounts at either the fair value of the asset or the present value of the minimum lease payments, whichever is less. The depreciation is treated as economically justifiable with respect to the nature of the asset (economic life). In practice, this means that the car is depreciated linearly over the lease period.

The lessee carries the minimum lease payments as a liability, which is divided into an amount payable after one year and an amount payable within one year (long-term and short-term debt).

The operating (depreciation) and financial (interest portion of the lease payments) charges are accounted for together with other charges in the profit and loss account.

As the car is recorded as a fixed asset on the balance sheet of the lessee, the valuation rules will have to be disclosed in the notes to the financial reports.

The lessee should include the following entries in its accounting:

- The leased cars are recorded in the lessee's balance sheet at the moment of commencement of the lease as an investment into fixed assets (debtor [Dr] capital investments – creditor [Cr] long-term lease liabilities) and further as fixed assets upon the acceptance of leased vehicles (Dr fixed assets – Cr capital investments).
- The lessee depreciates leased fixed assets in accordance with the UA GAAP principles (Dr expenses – Cr depreciation).
- Leasing payments made by the lessee in the respective reporting period shall be reflected in two parts: (1) as a reduction of the initially recorded lease liabilities, which means that the long-term debt turns into short-term liability (Dr long-term lease liabilities – Cr current debt on long-term lease liabilities), and (2) as recognition of the financial expenses (Dr other financial expenses – Cr settlements in respect of interest accrued).
- The current debt account and interest accrued accounts are closed in correspondence with the bank's accounts (Dr current debt on long-term lease liabilities – Cr bank's accounts and Dr settlements in respect of interest accrued – Cr bank's accounts respectively).

5.4.2. Lessor

A leased car is de-recognised from the lessor's balance sheet. The residual value of the leased car is written off. The lease payments received should be recorded in the balance as a receivable, and should equal the net investment in the lease. This amount consists of the total of the minimum lease payments less finance income and any unguaranteed residual value accruing to the lessor.

The financial charges should normally be allocated to accounting periods so as to give a constant periodic rate of return on the lessor's net cash investment (i.e., the amount of funds invested in the lease by the lessor) in the lease in each period. Finally, the lessor has to disclose the total amount of the minimum lease payments and their present value, lease contract details and the sum of future income payments in the notes to the financial reports.

The lessor should include the following entries in its accounting:

- The transfer of the leased car to the lessee shall be recorded as (1) income and account receivables respectively in the total amount of the liabilities for the leasing payments under the lease agreement (Dr long-term account receivables – Cr other income); (2) the respective cost of a leased car is written off in the amount of its book value (Dr other expenses – Cr leased assets); and (3) part of the lease payments are recognised as short-term

debt of the lessee according to contractual payment periods (Dr short-term receivables – Cr long-term account receivables), while interest payments received from the lessee are recognised as other financial income by the lessor (Dr settlement on interest income accrued – Cr other financial income).

- Leasing payments received by the lessor in the respective reporting period shall be reflected as a reduction of the initially recorded short-term receivables in correspondence with the bank's accounts (Dr bank's accounts – Cr short-term account receivables) and closing of the interest income accrued account in correspondence with the bank's accounts (Dr bank's accounts – Cr settlement on interest income accrued)

6. VAT

6.1. 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% and 7% VAT rates or an exemption.

6.2. Deduction

VAT paid on goods and services is generally recoverable, unless such goods/services are further used in non-VATable 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 ("URTI").

6.3. 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, cost of sales of self-produced goods, or balance value of fixed assets. The VAT liabilities should arise at the date when the vehikle 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.

6.4. Leasing: Supply of services?

6.4.1. Operational leasing

Operational car leasing is considered to be a supply of services in Ukraine, 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/cost of sales of such services.

6.4.2. 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, cost of sales 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.

7. Company car

7.1. VAT due on private use of company cars

There would be VAT due on the private use of a company car as 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).

7.2. 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 wherein.

Otherwise, the employer is required to withhold PIT at the source from such benefits at the standard tax rate of 15% or 20%. If the benefit is provided in kind, for personal income tax calculation purposes, its value has to be grossed up at the applicable tax rate.

8. Income taxes – drivers' personal taxation

Data about a personal car should be indicated in the personal income tax return (brand, model, year of manufacture, engine displacement, engine power rating). The deduction of costs related to a car is not allowed.

9. Selling a car

9.1. 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, cost of sales 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.

9.2. 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. As an exception, one sale per calendar year of a car, a motorcycle or a scooter will be exempt from such taxation.

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 15/20% tax rates.

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.

10. Temporary Military tax

In 2015 the temporary military tax is applied to the same tax base as the personal income tax.

11. 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”;
- Law #3353-XII dated June 30, 1993 “On the Rules of Traffic”;
- Regulation #1388 of the Cabinet of Ministers of Ukriane 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.

United Kingdom

Jonathan Evans
Automotive Tax Leader

p: +44 7989 409347
e: ***jonathan.d.evans@uk.pwc.com***

Aidan Coleman

p: +44 1509 604086
e: ***aidan.p.coleman@uk.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

New cars registered after March 1, 2001 are chargeable to VED according to their CO2 emissions figure and fuel type.

2.2.2. Tax due

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 and light goods vehicles registered before March 2001 (pre-graduated VED)

Engine size (in cc)	2013–14 (in GBP)	2014–15 (in
Not over 1,549	140	145
Over 1,549	225	230

For cars registered on or after March 1, 2001, 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.

From April 2010, anyone buying a new car has paid a different rate of VED for the first tax disc; from the second tax disc onwards they pay standard rates.

For cars registered prior to April 2010 standard rates apply. The applicable rates are shown below.

Vehicle excise duty bands and rates for cars registered on or after March 2001 (graduated VED)

Band	CO2 (g/km)	2013–14 Standard rate1	2014–15 Standard rate1	2014–15 First-year
		(in GBP)	(in GBP)	(in GBP)
A	Up to 100	0	0	0
B	101–110	20	20	0
C	111–120	30	30	0
D	121–130	105	110	0
E	131–140	125	130	130
F	141–150	140	145	145
G	151–165	175	180	180
H	166–175	200	205	290
I	176–185	220	225	345
J	186–200	260	265	485
K[3]	201–225	280	285	635
L	226–255	475	485	860
M	Over 255	490	500	1,090

36. Alternative fuel discounts: 2009/10 £20 bands A – I, £15 bands J – M; 2010/11 £10 all cars; 2011/12 £10 all cars; 2012/13 £10 all cars; 2013/14 £10 all cars; 2014-15 £10 all cars.

37. First year rate applies to new car purchases only. Rate reverts to standard rate in subsequent years.

38. Includes cars emitting over 225g/km and first registered between March 1, 2001 and March 23, 2006.

2.2.3. Tax disks

From the October 1, 2014 the requirement to display a paper tax disk 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.

3.1.1. Rates from April 1, 2013

From April 1, 2013, the capital allowances treatment for cars changed to encourage the purchase of less polluting cars. For cars purchased from April 1, 2013 onwards the allowances are given on a reducing balance basis as follows:

- Cars emitting above 130g/km of CO2: 8% per annum
- Cars emitting between 95g/km and 130g/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 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 95gm/km driven; or
- The car is an electric car.

If the purchaser borrows funds to finance the purchase, the interest payable will be deductible as a revenue expense.

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 will 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, 2013, cars emitting over 130g/km have 15% of all rental payments disallowed. For leases entered into between April 2009 and March 2013 the 15% disallowance applied to cars emitting over 160g/km. However, it may be that such treatment will only be enforced upon the final business user in a chain of leases. There is no disallowance of rental payments for cars emitting under 130g/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. All finance and operating leases over 7 years in length are treated in the same way as hire purchase (see section 3.2 above). For leases between 5 and 7 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, but this is currently being challenged in the UK Courts.

4.2.1. Goods

Where possession of cars is transferred 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, the supply is treated as goods for UK VAT purposes. This includes outright sale, conditional sale and hire purchase.

As a supply of goods this means that VAT 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 should be 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 disposal of an ex-contract hire vehicle is subject to UK VAT. The disposal of an ex-hire-purchase, contract-purchase (or other conditional sale) vehicle that the lessor has repossessed is, subject to conditions, currently outside the scope of VAT if the customer could not reclaim the VAT charged on the original supply. For vehicles delivered post August 31, 2006 the sale following repossession is subject to VAT.

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 of a car 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. *Accounting*

5.1. General

In the UK, the 2006 Companies Act requires companies to prepare accounts which reflect a true and fair view of the business.

UK companies currently prepare their accounts either on the basis of UK GAAP or International Financial Reporting Standards' (IFRS). Listed companies in the UK are required to prepare their consolidated accounts on the basis of IFRS. Other companies may choose to do so, or to use UK GAAP.

With effect from January 1, 2015 UK GAAP is changing. Companies can chose to adopt either FRS 102 (new UK GAAP which is based on IFRS for SMEs and where the 90% present value test is dropped), or FRS 101 (which is based on IFRS but with some amendments).

The International Accounting Standard that deals with leases is IAS 17 Leases.

In FRS 102 accounting for leases is considered in Section 20 of the standard. The old UK GAAP Standard that deals with leases is Statement of Standard Practice No. 21 "Accounting for leases and hire-purchase contracts" (SSAP 21).

The accounting for leases required by the standards is similar but not identical.

5.2. Hire purchase

5.2.1. Purchaser

When a car is acquired under a hire-purchase contract, its purchase price and the associated hire-purchase financing is recognised as an asset and a liability on the company's balance sheet, and accounted for on a basis similar to that set out below for finance leases. Under a hire-purchase contract, the car is depreciated over its useful life; being the shorter of the lease term or the car's useful economic life.

5.2.2. Vendor

The vendor accounts for the hire-purchase contract in a manner similar to finance leases for the lessor as set out below.

5.3. Operating lease

5.3.1. Lessee

Rentals are expensed in the profit and loss account over the period of the lease. The rentals should be spread equally over the lease agreement.

The balance sheet will not normally be affected except for accruals and prepayments.

5.3.2. Lessor

The car is capitalised in the lessor's balance sheet and depreciated over its useful life.

5.4. Financial lease

5.4.1. Lessee

For a finance lease, the car is capitalised in the accounts to reflect the economic substance of the transaction that is as if the car had been bought by the company. The presentation of the transaction in the accounts will not, therefore, match its legal form.

FRS 102 follows IFRS and the classification of a lease is based on the extent to which the risks and rewards incidental to ownership of the leased asset lie with the lessor or lessee. There is no 90% test and this now requires the exercise of judgement. A finance lease transfers substantially all of the risks and rewards incidental to ownership. The standard identifies primary lease classification indicators that would lead to a lease being classified as a finance lease.

The old UK GAAP (SSAP 21) definition is that a finance lease substantially transfers all the risks and rewards of the car ownership to the lessee. A key test was the 90% test. If the present value of the minimum lease payments in an agreement amount to 90% or more of the fair value of the car, then the lease should be presumed to be a finance lease. Although this test gave a good indication as to whether a car should be capitalised, its results are no longer binding. FRS 5, "Recording the substance of the transaction", states that the party having the benefits and risks relating to the underlying property should show the car on its balance sheet even though it does not have the legal title.

One of the deciding factors is to consider if it is the lessor or lessee who bears the risks on the residual value at the end of the lease.

If it is accepted that the lease is a finance lease, this will involve the setting up of an asset and finance lease liability.

The car is included on the balance sheet at the present value of the minimum lease payments. As an asset it needs to be depreciated to indicate the amount of wear and tear. The depreciation should be spread over the shorter of the lease term or the car's useful economic life.

As the car is included as an asset, a liability must be included to reflect the value of the minimum lease payments. The lease is treated as a loan used to buy the car and repayments of the lease are set against this as if they were loan repayments. The interest element of the repayment is expensed in the profit and loss account.

5.4.2. Lessor

The amount due from the lessee under a finance lease is recorded in the lessor's balance sheet as a receivable which is reduced as cash payments are received. Income is recognised at a constant rate on the carrying amount of the receivable in each period in the profit and loss account.

5.5. Expected developments

There is a proposal to change lease accounting under IFRS to bring all leases onto the balance sheet. Debate continues as to whether the Profit and Loss charge should then be made so as to provide equal annual charges or to produce a constant percentage charge. This debate is ongoing.

6. Company car

6.1. VAT due on private use of company cars

There is no VAT due on the private use of a company car as, instead, the employer suffers an input VAT restriction on its acquisition 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.

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 by applying a "fuel scale charge"; a calculation based on the car's CO_2 emissions. The fuel scale charges are updated annually by the UK tax authorities 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 have been 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.

6.2. 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 2014-2015 tax year the rate of the charge is as follows

CO_2 (g/km) emissions	Percentage of car's list price
≤ 75%	5%
76% - 94%	11%
= 95%	12%

For vehicles with emissions over 95g/km the percentage increases by 1% for each additional 5g of emissions until a cap rate of 35% is reached. It is currently expected that this cap will increase to 37% from the 2015-16 tax year onwards. If a vehicle's emissions rate is not a multiple of 5 it is rounded down to the nearest 5g emissions rate.

Diesel cars are subject to a 3% surcharge, but the maximum charge is currently limited to 35%.

The tax charge on electrically propelled cars registered after January 1, 1998 was reduced to 0% for 5 years from April 6, 2010; it is currently expected that the rate will be 9% from the 2015–16 tax year onwards. The previous reductions in the tax charge for hybrid cars, which are powered by either electric or petrol, and bi-fuel cars (built to run on petrol and gas), were abolished from April 6, 2011.

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	22%
2000+	32%

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 (21,700 GBP for the 2014-15 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.

7. Income taxes – drivers' personal taxation

An individual who uses their privately owned car for business purposes can from April 6, 2014 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 Approved Mileage Allowance Payments (AMAPs). 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 AMAPs and the actual amount paid to them for business mileage.

8. Electric vehicles

The UK government stimulates the use of electric vehicles by a number of measures.

From 2015-16 electric vehicles will no longer be exempt from Vehicle Excise Duty (VED). Zero emission cars will be charged at 5%.

They can benefit from a 100% first-year allowance for expenditures on a car.

Furthermore, electric vehicles and plug-in hybrids can enjoy an exemption from the London congestion charge.

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@us.pwc.com

Scott D. Miller
p: +1 313 394-6840
e: scott.d.miller@us.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 analyse 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 zero 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.

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 cutoms 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 6.3 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 travelling 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 authorise 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 authorise 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 or MV-82EZV, 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. It is required that they carry the International Driving Permit. Motorists from other countries generally must secure a driving licence 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 travelling 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 6 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, 7 and 8.

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 number plate fee of 25 USD, a title fee of 50 USD and the sales/use tax on a vehicle if it has not yet been paid.

Registration fees for passenger vehicles – New York State

Weight in lbs		*2-year fee*	*Weight in lbs*		*2-year fee*	*Weight in lbs*		*2-year fee*
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

Registration fees for passenger vehicles – New York State

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 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.[20]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).

[20] In previous tax years, businesses were allowed "bonus" depreciation for federal tax purposes for the first year the vehicle was placed in service. Bonus depreciation allowed a business to deduct 50% of the cost of an asset as depreciation in its initial year placed in service. Businesses were then to depreciate the remaining 50% of the asset cost under the normal MACRS depreciation method. For luxury automobiles, bonus depreciation was limited to 8,000 USD per vehicle in previous years. Note: Bonus depreciation is not applicable to assets acquired after December 31, 2014, but as of the preparation of this Global Automotive Guide, there is pending legislation that would reinstate the bonus depreciation retroactively for 2015 assets.

The taxpayer may depreciate the value of a luxury automobile over five years using the MACRS depreciation method[21]. The maximum allowable yearly depreciation for 2015 is limited as follows:

Luxury auto depreciation limits

Year of service	*Regular depreciation limit*
1	3,160 USD
2	5,100 USD
3	3,050 USD
4+	1,875 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.22 See section 5 for further discussion of these expenses.

4.2.2. Sale of a vehicle

See section 9 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

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 for each kilowatt-hour of capacity in excess of four kilowatt-hours. This credit is capped at 7,500 USD. 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. Accounting

5.1. Accounting standards

In the United States, companies must account for their transactions in accordance with US GAAP. Below is a short overview of the accounting treatment under US GAAP of acquiring/leasing a vehicle.

5.2. Sale purchase

5.2.1. Purchaser

The purchasing company will register the vehicle as a fixed tangible asset on its balance sheet at the acquisition cost (purchase price, production cost, or assigned value including associated taxes and fees) and depreciate it down to its estimated salvage value over its useful economic life in accordance with the company depreciation policy for fixed assets.

[21] This limit is separate from the bonus depreciation limit. For example, a company purchases a vehicle in 2014 and claims bonus depreciation; the company is limited to $8,000 bonus depreciation and $3,160 for MACRS depreciation, or a total depreciation expense of $11,160 in the first year.

[22] 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.

5.2.2. Vendor

The sold vehicle is relieved from inventory and revenue recognised when risks and rewards of ownership are transferred to the buyer. The amounts recoverable should be recorded on the balance sheet as a receivable until the cash is received.

5.3. Capital lease

Vehicle financing transactions typically are not structured as capital lease transactions. In the United States, most vehicle financing transactions are structured as either direct purchases or operational leases. Highlighted below are the primary points of identifying a capital lease to consider at the inception of a lease. See ASC 840 under US GAAP for further guidance on accounting for a capital lease.

5.3.1. Lessee

A lease must be accounted for as a capital lease by a lessee if it meets any of the following four criteria:

39. The property transfers ownership at the end of the lease term.

40. There is a bargain purchase option.

41. The lease term is at least 75% of the asset's economic life.

42. The present value of the minimum lease payments is at least 90% of the fair market value of the asset at lease inception.

5.3.2. Lessor

A lessor must account for a lease as a sales-type, direct financing or leveraged lease if it meets one of the above criteria and both of the following two criteria:

43. Collectability of the lease payments is predictable.

44. There are no material uncertainties surrounding the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

See ASC 840-10-25 for further guidance on accounting for sales-type, direct financing and leveraged leases.

5.4. Operational lease

In the United States a company will account for a lease as an operational lease only if it does not qualify as a capital lease (lessee) or a sales-type/direct financing lease/leveraged lease (lessor). See the criteria in section 5.3 above entitled "Capital lease".

5.4.1. Lessee

The lessee should record lease expense as the lease payments become payable. When payment terms vary throughout the contract, the expense should be recognised on a straight-line basis over the contract term.

5.4.2. Lessor

When a lease qualifies as an operational lease, the lessor should maintain the asset on its balance sheet and record depreciation expenses according to company policy for fixed assets. In addition, it should recognise rental revenue as it becomes receivable according to the contract terms. When payment terms vary throughout the contract, the revenue should be recognised on a straight- line basis over the contract term.

6. Sales and use tax

6.1. 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 3.2.3, 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% district tax 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.

6.2. 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.

6.3. 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.

6.4. 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. There are, however, special rules regarding the appropriate treatment of sales taxes paid during the year.

6.4.1. 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.

6.4.2. 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.

7. *Company car*

7.1. 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.

7.1.1. 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

Automobile fair market value		*Annual lease*	*Automobile fair market value*		*Annual lease*
Min.	*Max.*	*value*	*Min.*	*Max.*	*value*
0 USD	999 USD	600 USD	8,000 USD	8,999 USD	2,600 USD
1,000 USD	1,999 USD	850 USD	9,000 USD	9,999 USD	2,850 USD
2,000 USD	2,999 USD	1,100 USD	10,000 USD	10,999 USD	3,100 USD
3,000 USD	3,999 USD	1,350 USD	11,000 USD	11,999 USD	3,350 USD
4,000 USD	4,999 USD	1,600 USD	12,000 USD	12,999 USD	3,600 USD
5,000 USD	5,999 USD	1,850 USD	13,000 USD	13,999 USD	3,850 USD
6,000 USD	6,999 USD	2,100 USD	14,000 USD	14,999 USD	4,100 USD
7,000 USD	7,999 USD	2,350 USD	15,000 USD	15,999 USD	4,350 USD
16,000 USD	16,999 USD	4,600 USD	34,000 USD	35,999 USD	9,250 USD
17,000 USD	17,999 USD	4,850 USD	36,000 USD	37,999 USD	9,750 USD
18,000 USD	18,999 USD	5,100 USD	38,000 USD	39,999 USD	10,250 USD
19,000 USD	19,999 USD	5,350 USD	40,000 USD	41,999 USD	10,750 USD
20,000 USD	20,999 USD	5,600 USD	42,000 USD	43,999 USD	11,250 USD
21,000 USD	21,999 USD	5,850 USD	44,000 USD	45,999 USD	11,750 USD
22,000 USD	22,999 USD	6,100 USD	46,000 USD	47,999 USD	12,250 USD
23,000 USD	23,999 USD	6,350 USD	48,000 USD	49,999 USD	12,750 USD
24,000 USD	24,999 USD	6,600 USD	50,000 USD	51,999 USD	13,250 USD
25,000 USD	25,999 USD	6,850 USD	52,000 USD	53,999 USD	13,750 USD
26,000 USD	27,999 USD	7,250 USD	54,000 USD	55,999 USD	14,250 USD
28,000 USD	29,999 USD	7,750 USD	56,000 USD	57,999 USD	14,750 USD
30,000 USD	31,999 USD	8,250 USD	58,000 USD	59,999 USD	15,250 USD
32,000 USD	33,999 USD	8,750 USD			

For automobiles with a fair market value of more than $59,999, the annual lease value equals (.25 x the fair market value of the automobile) + $500. If the employer has 20 or more vehicles available for business and personal use and each individual vehicle is worth less than 21,300 USD, the average of the entire fleet may be used in determining the annual lease value.

7.1.2. Vehicle cents-per-mile rule

For 2014, employers may elect to use the vehicle cents-per-mile rule, if the automobile has a fair market value of 16,000 USD or less (17,300 USD for a truck or van) 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.

7.1.3. 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 (an elected official or an employee whose compensation is at least as great as a federal government executive level V, which is 147,200 USD in 2014).

7.2. 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.

8. Income taxes – drivers' personal taxation

8.1. Private use

See section 7 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 6.4.2 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 9 for the personal income tax implications of selling a vehicle.

8.2. Commuter traffic

The distance of one's commute depends on where one's tax home is. 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 his place of business. When an employee uses his 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.

8.3. 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 itemised deduction on the individual's personal tax return. For 2014, 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.

9. Selling a car

9.1. Sales tax

See section 6 regarding sales tax on the sale of a vehicle

9.2. 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.

9.3. 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 amortisation 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.

9.4. 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.

10. 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.

11. 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)

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