

Corporate tax treatment of electric vehicle expenses 1/13/23



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There is now more talk of how to live green. Companies, too, are trying to take the green path, thinking about their sustainability, more efficient use of resources and ways of cutting costs. Demand for electric vehicles (EVs) has recently grown, as confirmed by the Latvian Road Traffic Safety Office's data for 1 January 2023 – the number of EVs has risen by 81% since the beginning of 2022. This article explores the corporate income tax (CIT) implications of buying an EV.

The Latvian CIT Act doesn't contain any special rules for EVs, so its provisions should be applied according to the same principles governing any other vehicle.

First of all, we need to understand whether our EV is treated as a luxury executive vehicle under section 1(17) of the CIT Act. If so, then all expenses incurred in buying or renting and running it are non-business expenses that go into the taxable base.

If our EV isn't treated as a luxury executive vehicle, the next step is to assess whether its running expenses are related to our business. For example, if our company incurs –

- acquisition and rental costs,
- maintenance and repair costs,
- insurance costs,
- administrative penalties related to the vehicle if our company is to blame for the breach, and
- parking costs,

then those are business expenses with no CIT implications.

Fuel represents most of a car's running expenses. In the case of an EV, this is electricity. The CIT Act contains no provisions to govern the CIT treatment of electricity consumed by EVs, yet there is a publicly available interpretation of this matter from the Latvian State Revenue Service (SRS).

CIT treatment of electricity costs

To assess the CIT implications of an EV's electricity costs, let's look at two situations.

Situation 1. The company pays company car tax

The EV can be used for private as well as business purposes and electricity consumption must be measured.

The SRS explains that an EV's electricity consumption is governed by the same conditions of the CIT Act's section 8(5)(5) as a vehicle that runs on fuel. Electricity costs will be business expenses whether or not the vehicle is used in business only, based on the number of kilometres actually travelled each month according to the prescribed electricity consumption rate per 100 km that doesn't exceed the manufacturer's city-cycle fuel consumption rate by more than 20% if:

- the company pays company car tax (EVs are taxed at a rate of EUR 10 a month); or
- the EV is exempt from company car tax; or
- the taxpayer is an eligible agricultural cooperative, forestry cooperative, or fishery operation.

As a result, the company doesn't have to keep a detailed record of trips. For CIT purposes, odometer readings must be taken at the beginning and end of each month, and the amount of electricity consumed and costs must be measured to identify any excess over the prescribed electricity consumption rate.

The company can use the manufacturer's fuel consumption rate, or if there's none, the following rates:

- The highest of electricity consumption rates specified by the manufacturer
- One of the publicly available average consumption rates
- One of the rates derived from a public test (for example)

The cost of the excess over the 20% rate should be reported on line 6.1 of the CIT return for the month in which the excess arose, and CIT should be paid.

Situation 2. The company doesn't pay company car tax

The company must keep a record of trips and install a tracking system (GPS) or prepare trip reports. In this case, electricity costs will be business expenses but the EV must be used in business only.