

Increased threshold for luxury executive vehicles and new rates of company car tax 1/20/23



Senior Consultant, Tax Reporting,
Accounting and Strategy, PwC Latvia
Santa Klavina

On 27 April 2023, Parliament approved amendments to the Corporate Income Tax (CIT) Act in their final reading. The amendments set a higher threshold for luxury executive vehicles – EUR 75,000 instead of EUR 50,000 (excluding VAT). The new threshold will apply to company cars acquired after 1 June 2023.

Determining the value of a luxury executive vehicle

The CIT Act provides that a company's non-business expenses include those associated with a luxury executive vehicle – its acquisition cost as well as rental and running costs.

A vehicle's luxury executive status is determined according to the higher of its acquisition cost or book value throughout the period of use. The cost of any improvements made to a luxury executive vehicle over a 12-month period after its acquisition is taken into account in determining the acquisition cost for tax purposes under section 8(9) of the CIT Act.

When it comes to determining luxury executive status of a passenger vehicle held under:

- a finance lease, reference is made to the value of the vehicle stated in the finance lease agreement;
- an operating lease, reference is made to the value of the vehicle stated in the insurance agreement, unless it is stated in the lease agreement.

Why amendments are necessary

In response to global price increases, representatives of NGOs, including the Auto Association, the Latvian Employers Confederation, the Latvian Chamber of Commerce and Industry and the Latvian Financial Industry Association, asked the government to revise the CIT Act's threshold for luxury executive vehicles. Proposals for amending the CIT Act aim to raise the threshold of EUR 50,000 for luxury executive vehicles set in section 1(17) to EUR 75,000 (ex VAT). Paragraph 51 of the CIT Act's transitional provisions, which is included in the proposals, is meant to explain that the proposed changes relating to the threshold for luxury executive vehicles (EUR 75,000 ex VAT) are applicable to vehicles acquired after 1 June 2023. So vehicles purchased or leased before this date are subject to the current threshold of EUR 50,000 (ex VAT).

The fiscal impact on tax revenues

Raising the threshold for luxury executive vehicles will increase the acquisition amounts that escape CIT. A higher threshold for luxury executive vehicles is expected to increase the number of vehicles and the level of maintenance expenses subject to input tax deductions, meaning a negative fiscal impact on VAT revenues. The average value of vehicles that are registered for the first time and are not treated as luxury executive will rise, increasing the amount of deductible input tax on those vehicles, with a negative fiscal

impact on VAT revenues. To create a compensatory mechanism for the fiscal impact of the amendments made to the CIT Act, amendments to the Vehicle Running Tax and Company Car Tax Act were approved at the same time. The amendments provide that tax rates for company cars will be set according to maximum engine power in kilowatts (kW), rather than engine capacity as before. Changes in company car tax rates prescribed by the amendments will compensate for the negative effect on CIT and VAT revenues and will have an overall positive fiscal effect.

The new rates of company car tax

Company car tax rates based on maximum engine power will apply to vehicles that are registered for the first time after 2008 and whose registration certificate states their maximum engine power as follows:

1. EUR 33 a month for up to 110 kW
2. EUR 0.3 per kW a month from 111 kW to 130 kW
3. EUR 0.35 per kW a month from 131 kW to 150 kW
4. EUR 0.5 per kW a month from 151 kW to 200 kW
5. EUR 0.7 per kW a month over 200 kW

The rate of EUR 10 for corporate e-vehicles has also been raised to EUR 15 a month. Plug-in hybrid vehicles will have a rate of EUR 25. The other vehicles will have a rate of EUR 60 instead of EUR 49 a month.