

Corporate Income Tax Act amended on treatment of luxury executive vehicle running costs 1/10/24



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The CIT Act requires companies to assess whether they have incurred expenses in acquiring and maintaining a luxury executive vehicle (LEV) for each tax period. This article explores how to determine the value of an LEV and what costs are chargeable to CIT, as well as looking at the new CIT treatment effective from 1 January 2024 of LEVs that are used for a long time.

Determining LEV status

The CIT Act treats a vehicle as LEV if its ex-VAT value exceeds EUR 75,000. A threshold of EUR 50,000 applies to vehicles acquired (leased) up to 31 May 2023. We also need to bear in mind that an LEV is:

- A passenger vehicle with up to eight seats in addition to the driver's seat
- A goods vehicle with a gross weight of up to 3,000 kg registered as a cargo van with more than three seats (including the driver's seat) if it's classified as a goods vehicle (category N1) but is essentially a passenger vehicle (category M1)

The law lists exclusions when a vehicle is not considered an LEV although its value exceeds the statutory threshold, for example:

- An emergency vehicle
- A special passenger vehicle (ambulance, motorhome or hearse)
- A passenger vehicle specially equipped to carry disabled persons sitting in wheelchairs
- A new passenger vehicle used as an authorised vehicle dealer's demonstration vehicle
- A vehicle used to provide passenger vehicle rental services if this revenue makes up at least 90% of the company's total revenue.

What expenses go into the initial value of a vehicle?

The initial value includes:

- The vehicle's ex-VAT acquisition value (the value specified in the invoice or contract, an independent expert valuation, or public advertisements)
- Improvement costs within 12 months after the acquisition (e.g. the cost of installing a car alarm and enabling extra functions).

The value of a leased vehicle is determined as follows:

- A finance lease – the vehicle value is the one specified in the lease agreement.
- An operating lease – if the lease agreement does not specify the vehicle value, then it's the value stated in the insurance agreement.
- Motor insurance (OCTA, KASKO), tyres, fuel, finance lease interest, roadworthiness inspections, GPS costs, etc. are recognised as running expenses and stay out of the initial

value under the CIT Act.

New CIT treatment

All expenses incurred in buying, leasing and running an LEV, such as repairs, fuel, insurance and tyres, are treated as the taxpayer's non-business expenses. These expenses are included in the taxable base and charged to CIT. The CIT rules restricting LEV business expenses are closely linked with the restriction on input tax recovery under the VAT Act, i.e. VAT paid on these expenses is not deductible.

From 1 January 2024 a new CIT treatment applies to LEVs that are used for a long time. If a vehicle qualifies as LEV at the time of acquisition, it will keep this status for 60 months after being registered in the taxpayer's ownership or possession. When the vehicle becomes an LEV in long-time use, its running expenses will be treated as business expenses and enjoy the general CIT and VAT treatment as other vehicles. When it comes to determining the extent to which expenses attract CIT, you need to consider whether your company is paying company car tax (*UVTN*) and whether your fuel consumption has exceeded the statutory rate.

LEV costs have been taxable since 1 January 2018, when the CIT regime was changed. To calculate your monthly tax base, starting from 2024 you need to assess whether any LEV registered in your ownership or possession has become an LEV in long-time use, which qualifies for the new rules.

The CIT Act does not lay down any special rules for electrical vehicles. This means the CIT Act's provisions should be applied using the same principles as for any other type of vehicle.