

Estonian tax news (1) (3/26/17)

This article highlights key points of the latest proposals for amending the Estonian income tax and VAT legislation on the use of employer cars.

Taxation of employer cars used for business and private purposes (mixed use)

The current system provides for taxing the private use of employer-owned cars according to kilometres travelled, but this involves keeping logbooks to report private use and business use, a complicated and burdensome requirement since the two uses are often hard to tell apart.

The price per km of private use for a car more than five years old with an engine capacity of up to 2,000 cu.cm is put at €0.2 (€0.3 in other instances). If no logbook is kept, but private trips are made nevertheless, then regardless of the actual mileage, the estimated tax base per car is €256 a month, which attracts about €170 in income tax and social tax.

A kW based calculation to replace a km based calculation

According to proposals for amending the Income Tax Act, the cost of private use of a company car would no longer depend on kilometres travelled according to logbooks, but rather on its engine capacity. The only way of reporting private trips would be a kilowatt (kW) based calculation regardless of whether the car was actually used for private purposes. Without a km based record, reimbursing private-use expenses to the employer would not help avoid the tax liability. The km based calculation would become impossible, as the Finance Minister's Rule §2(1) of 13 January 2011 is to be abolished (it currently allows a km based record to be kept with a logbook).

If the employer still allows the private use of a car, the tax base for fringe benefit taxation purposes would be €1.96 per kW based on information available from the traffic register.

As a result, the cost of cars below 130 kW would become lower, while those over 130 kW would cost more. Most company cars are in the 50–130 kW range. According to the Finance Ministry, the capacity based calculation is the best solution in terms of strengthening the link between the benefit from private use and the tax base of a fringe benefit, and it keeps the system simple, as linkage to the market price of vehicles would be complicated and burdensome to administer. Since assets like vehicles generally go down in value over time, as with the current system, cars more than five years old would have a lower tax base (€1.47 per kW), making it 25% less compared to new vehicles.

Income tax and social tax liability

The income tax and social tax liability is approximately €1.3 per kW a month with a tax base of €1.96 per kW.

For example, the tax base for private use of a 111 kW Toyota RAV4 first registered in 2015 would be €217.56, with a monthly tax cost of €144 (currently these figures would be €256 and €170 without a logbook).

(to be continued next week)