# Car used under employment contract (3/37/20)

Company employees often use their private cars for business purposes. This article explores issues to consider and tax implications of this use being included in employment contracts.

Advantages and disadvantages

If the use of a private car is included in the employment contract, an advantage is that there is no need to enter into an additional contract (e.g. a lease or a loan for use). And the company does not have to register as holder of the car with the Highway Traffic Safety Office.

Another advantage of this form of contract is the opportunity to make exempt payments for using the car (depreciation).

Paragraph 43 of the Cabinet of Ministers' Regulation No. 899, *How to apply provisions of the Personal Income Tax Act*, states that compensation payments under this Act include any amounts the employer pays to the employee for the wear and tear of their private vehicle being used for business purposes under the employment contract, with this compensation being set at EUR 0.04 per kilometre travelled (capped at EUR 57 a month).

The Vehicle Running Tax and Company Car Tax Act provides that company car tax is payable on a light-duty vehicle that is registered in the company's ownership or possession, or lent by an individual for use, or used under an employment contract. Accordingly, opting to use a car under the employment contract does not exempt the company from paying company car tax. The company is liable to pay this tax throughout the operation of the employment contract regardless of how many days a month the car is used. Company car tax is payable monthly on or before the 15th day of the following month.

If the company opts to use the employee's private car under the employment contract, this does not release the company from the obligation to prepare route sheets.

Under section 8 of the Corporate Income Tax Act, a company's non-business expenses include the cost of fuel a vehicle subject to company car tax consumes over and above the fuel consumption rate per 100 kilometres set for the vehicle, which does not exceed the manufacturer's city-cycle fuel consumption rate by more than 20%.

Accordingly, companies should monitor fuel consumption and prepare route sheets that at least give odometer readings at the beginning and end of the month and state the amount of fuel consumed to determine whether the consumption exceeds the norm and how far.

Conclusions

When it comes to signing the employment contract, the employer should consider whether using a car under the employment contract offers any economic benefits and should also assess the tax implications of this contractual relationship.