Corporate tax and VAT law to be amended on long-term luxury executive vehicle running expenses 1/44/23

The Ministry of Finance has suggested how tax legislation should be amended from 2024. This article explores proposals for amending the Corporate Income Tax (CIT) Act and the VAT Act relating to luxury executive vehicles (LEVs).

Current rules

Section 1(17) of the CIT Act defines an LEV as a vehicle whose value excluding VAT exceeds EUR 75,000 and which is:

- A light passenger vehicle with up to eight seats in addition to the driver's, except for an emergency vehicle or a special light passenger vehicle (an ambulance, a camper van, a hearse, or a light passenger vehicle specially equipped to carry disabled persons in wheelchairs) or a new light passenger vehicle that an authorised dealer uses as a demo vehicle
- A goods vehicle with a full mass of up to 3,000 kg that is registered as a goods van and has more than three seats (including the driver's) if it's classified as a goods vehicle (category N1) but is essentially a light passenger vehicle (category M1)

Changes have been made in 2023 to increase the LEV value of EUR 50,000 to EUR 75,000 applicable to vehicles purchased or leased after 31 May 2023.

If a company's vehicle qualifies as LEV then all expenses incurred in buying and running it become non-business expenses that must be included in the taxable base and charged to CIT. For VAT purposes, any input tax paid on those expenses is not deductible.

Proposed changes from 2024

CIT

The current proposals for amending the CIT Act change section 8 to prescribe a period of 60 months after which the owner or possessor of an LEV is permitted to treat its fuel and running costs as business expenses, i.e. apply the general CIT rules to it along with other vehicles.

It's proposed that from 1 January 2024 this treatment will also apply to LEVs purchased before 2024, meaning a change to the CIT rules for LEVs used for more than 60 months.

VAT

Since the CIT rules are linked with the VAT rules, proposals for amending the VAT Act provide that the restriction on input tax deduction applies to an LEV's running costs (including repairs and fuel) incurred over a 60-month period, counting from the date the vehicle is registered in a taxable person's ownership or possession. So, if an LEV is used for business and other purposes after the 60-month period, the company may deduct 50% of the input tax paid on its running costs, except for cases that are listed in section 100(3) of the VAT Act and do not restrict the exercise of input tax deduction rights.

In summary, an LEV is to be subject to the LEV tax scheme on purchases and running expenses for 60 months (counting from the date it’s registered in ownership or possession) and to the general CIT and VAT rules after that.