

Proof of using a passenger car in business

The statement that a car is used exclusively for business purposes can also be made by the company representative only orally, and this is one of the pieces of evidence in the inspection of the circumstances related to the use of the car. However, such a statement can be considered general if it is not possible to determine how and in what way the use of the car exclusively for business purposes is specifically guaranteed. Although the law does not explain what evidence the taxpayer must use to prove that the expenditure is related to business (and taxable supply), the courts have explained that the taxpayer must organise its business activities in such a way that economic transactions are properly documented and important circumstances for determining tax liability are verifiable [1]. In addition, the court has stated that economic transactions may be certified only by invoices, but in this case they must be clear, credible and specific [2].

[1] Decision No. 3-3-1-15-13 of the Supreme Court of Estonia of 04.06.2013

[2] Decision No. 3-09-773 of the Tallinn Circuit Court of 22.10.2010

The same conditions apply to the deduction of input value added tax on the expenses related to passenger cars (including acquisition) and to proving the use of the passenger car exclusively in business – this means that the use of the passenger car during the taxation period must be verifiable and, at the request of the tax authority, certified by the taxpayer (there is a company decision, employees have been informed and the use is monitored).

The following are simplified questions to which the owner/responsible user of a passenger car used exclusively for business must **pay attention** if the tax authority wishes to check the purpose of use of the passenger car. The list of questions is not exhaustive.

- ✓ How is it ensured that the car is not used for private rides?
- ✓ What is the monthly mileage of the car?
- ✓ Where is the car kept during non-working hours?
- ✓ Who uses/can use the car?
- ✓ What is the fuel consumption of the passenger car (in a situation where the company has several vehicles, it is important to understand the fuel consumption of each passenger car)?
- ✓ Which rides have been made with the car – how is the mileage related to business?

- ✓ Has (have) the driver(s) of the car been fined during the inspection period (traffic fines, parking fines)?
- ✓ If there are more vehicles than employees, there must be a reasonable explanation.

The fact that it is not a car used exclusively in business is indicated by the following circumstances:

- ✓ persons not related to the company are indicated in the passenger car's technical passport;
- ✓ non-business-related equipment is installed in the car (ski box, bike rack for cars, safety seat, etc.);
- ✓ the company has more cars than users, and it cannot be reliably explained that the cars were acquired based on business rather than following the interests of related parties;
- ✓ in a company with only one board member (who can be the sole shareholder at the same time) and no employees, the board member or his or her family does not have another vehicle with which to make private rides.

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