Value added tax calculation related to passenger cars

A procedure applies to passenger cars and the goods and services purchased for their use, according to which instead of taxing the self-supply of a passenger car, **the deduction of the value added tax (VAT) paid on the purchase of the passenger car** (including renting, leasing) **and the goods and services for its use is limited. The overall limit for the deduction of input VAT is 50%.**

Therefore, when **purchasing a car to use in business-related activities** or **using it based on a usage agreement** and **receiving goods and services for this car, 50% of the input VAT is generally deducted** from the calculated VAT. Essentially, 50% is considered to be the percentage of using a car in business.

The limitation of deducting input VAT applies to a vehicle of category M1 (including M1G) the gross weight which does not exceed 3,500 kilograms and which does not have more than 8 seats in addition to the driver's seat.

If a taxable person also has **supply exempt from tax or activities that are not considered business,** then these circumstances must also be taken into account when deducting input VAT.

Car-related costs are, for example, motor fuel, spare parts, maintenance, repairs, parking fees, costs for car transport (ferry tickets).

The following **are not considered as the costs** of a passenger car:

- ✓ the costs of placing advertisements on vehicles – these costs are not related to using vehicles, but to advertising;
- ✓ purchase or rent of a trailer.

If, **in addition to business rides, private rides** are made **with a passenger car purchased for a company,** then 50% of input VAT (or less, for example, if part of the company's supply is exempt from tax) is deducted from VAT upon the purchase or use of a passenger car used for business under a contract of use and upon receipt of goods and services for it. Therefore, regardless of the extent to which the vehicle used for business is used for private consumption, the input VAT can be deducted to the extent of 50%.

The transport of employees between the place of residence and the place of work with the employer's passenger car **is not deemed to be use of a passenger car for private purposes (i.e., it is deemed to be use of a passenger car for business purposes), if the conditions provided for in subsection 5[1] of § 48 of**

the Income Tax Act are met. Read more from the article „**Transport of employees to work and home pursuant to subsection 5[1] of § 48 of the Income Tax Act**".

EXAMPLES OF DEDUCTING INPUT VAT

Example 1
A passenger car is **both in business and in private consumption.** The car is used for taxable supply in the extent of 60% and for tax-exempt supply in the extent of 40%.
Motor fuel was bought at a price of 50 euros + VAT 11 euros.
3.30 euros of input VAT can be deducted (11 × 0,5 × 0,6).

Example 2
A passenger car is used **exclusively for business purposes.** The car is used for taxable supply in the extent of 60% and for tax-exempt supply in the extent of 40%.
Motor fuel was bought at a price of 50 euros + VAT 11 euros.
6.60 euros of input VAT can be deducted (11 × 0,6).

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