

# Compilation of Input VAT Deduction for Cars

2023-06-19



# Introduction

## Assignment

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### Assignment

Unum Tax has been engaged by the Confederation of Swedish Enterprise to compile an overview of the applicable VAT legislation regarding the right to deduct input VAT on costs relating to cars.

The engagement has been divided into two separate assignments;

1. The first assignment consist of a compilation over implemented rules regarding the right to deduct input VAT on costs relating to cars in the following jurisdictions: Sweden, Denmark, Finland, the Netherlands, Germany, Norway and the UK. The overview, for all countries besides Sweden, is exclusively based on information provided by the Confederation of Swedish Enterprise, which, in principle is information which has been made public on the website of each jurisdiction's Tax Authority.
2. The second assignment consist of a compilation over EU Council decisions authorizing Croatia, Estonia, Italy, Latvia, Poland and Romania to implement derogation measures from article 168 of the VAT Directive relating to input VAT on cars. For this assignment information regarding whether any derogation has been implemented, and if so, how it has been implemented, has been out of scope.

Unum Tax assignments has not included any assessment of the correctness of the provided information. Hence, it cannot be ruled out that nuances in the assessments or local jurisprudence exist that are not accounted for in this report.

### *Key Objectives of the Report*

The report has been prepared in accordance with the Confederation of Swedish Enterprise's aim to receive a better overview of the differences of the applicable VAT rules in comparable competitor countries. Hence, the purpose of this report is to present a clear comparison between the relevant jurisdictions' regulations.

### Contact Unum Tax

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# Summary assignment one

| Overview Implemented rules on input VAT deduction relating to cars |  |   |   |   |
|--|--|---|---|---|
| Jurisdiction   | Type of car and stakeholders   | Input VAT on purchases  | Input VAT on leasing/hiring   | Input VAT on operating costs  |
| <b>Sweden</b>  | Passenger cars<br>a. Taxi, car rental, funeral homes, driving instructors<br>b. Car dealers<br>c. Other  | a. General rules<br>b. General rules<br>c. No deduction   | a. General rules<br>b. 50% deduction<br>c. 50% deduction  | a. Full deduction<br>b. Full deduction<br>c. Full deduction   |
| <b>Denmark</b>   | a. Passenger cars and motorcycles<br>b. Vans up to three tonnes<br>c. Vans over three tonnes   | a. No deduction<br>b. - Used only in VAT business: full deduction<br>- Mixed use: no deduction<br>c. General rules  | a. - Less than 6 months: no deduction<br>- Longer than 6 months: limited deduction<br>b. 33% deduction<br>c. General rules  | a. No deduction<br>b. Full deduction<br>c. General rules  |
| <b>Finland</b>   | Passenger cars, motorcycles, camping trailers and some cars of category N1<br>a. Car dealers, car rental, passenger transport, driving instructors<br>b. Other | a. General rules<br>b. - If solely used in VATable business: full deduction<br>- Otherwise: no deduction  | a. General rules<br>b. - If solely used in VATable business: full deduction<br>- Otherwise: no deduction  | a. General rules<br>b. - If solely used in a VATable business: full deduction<br>- Otherwise: no deduction  |
| <b>The Netherlands</b>   | No special regulation  | Input VAT is deductible in accordance with general rules.   | Input VAT is deductible in accordance with general rules.   | Input VAT is deductible in accordance with general rules.   |
| <b>Germany</b>   | No special regulation  | Input VAT is deductible in accordance with general rules.   | Input VAT is deductible in accordance with general rules.   | Input VAT is deductible in accordance with general rules.   |
| <b>Norway</b>  | Passenger cars<br>a. Car dealers, car rental, passenger transport<br>b. Other  | a. General rules<br>b. No deduction   | a. General rules<br>b. No deduction   | a. General rules<br>b. No deduction   |
| <b>The UK</b>  | Cars<br>a. Taxi, driving instructor<br>b. Car dealer, car rental, manufacturer<br>c. Other   | a. Full deduction<br>b. Full deduction<br>c. - If solely used for business and not available for private use: full deduction<br>- Otherwise: no deduction | a. Full deduction<br>b. - Longer than 10 days: 50% of input VAT deductible following general rules<br>- Less than 10 days for VAT business: full deduction<br>c. - Longer than 10 days: 50% of input VAT deductible following general rules<br>- Less than 10 days for VAT business: full deduction | <ul style="list-style-type: none"> <li>If car is used for business: full deduction on repairs and maintenance</li> <li>Other expenses: general rules</li> </ul> |



# Summary assignment two

| Overview authorization to derogating VAT measures regarding cars |  |  |  |   |
|--|--|--|--|---|
| Jurisdiction   | Period*                                      | Deduction limitation   | VAT on self-supply   | Aim   |
| <b>Croatia</b>   | 1 January 2019 – 31 December 2024            | 50% for cars not wholly used for business purposes           | Croatia shall not tax self supplies if limitation applies            | Simplify the VAT procedure and counter evasion while allowing the deduction of VAT on passenger cars used partially for business purposes |
| <b>Estonia</b>   | 7 November 2014 – 31 December 2020 (expired) | 50% for passenger cars not wholly used for business purposes | Estonia should not tax self supplies if limitation applied           | Remove the need to keep records on the non-business use of cars   |
| <b>Italy</b>   | 18 June 2007 – 31 December 2025              | 40% for vehicles not wholly used for business purposes       | Italy shall not tax self supplies if limitation applies              | Simplify the VAT procedure and prevent evasion through incorrect record keeping   |
| <b>Latvia</b>  | 1 January 2016 – 31 December 2024            | 50% for cars not wholly used for business purposes           | Latvia shall not tax self supplies if limitation applies             | Simplify VAT collection and prevent evasion through incorrect record keeping  |
| <b>Poland</b>  | 1 January 2014 – 31 December 2025            | 50% vehicles not wholly used for business purposes           | Poland is authorized to not tax self supplies if limitation applies  | Simplify the VAT procedure and prevent evasion through incorrect record keeping and false declarations                                    |
| <b>Romania</b>   | 26 April 2012 – 31 December 2023             | 50% for vehicles not wholly used for business purposes       | Romania is authorized to not tax self supplies if limitation applies | Simplify the VAT procedure and prevent evasion through incorrect record keeping and false declarations                                    |

\*Date of first authorization decision until end of latest decision.



# Assignment 1

Implemented input VAT deduction relating to cars



# Implemented input VAT deduction relating to cars

## Sweden

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### Passenger cars

From a Swedish VAT perspective, there are special rules regarding the right to deduct input VAT on costs related to passenger cars. For VAT purposes, a passenger car is any of the following:

- Vehicles defined in the Act on Road Traffic Definitions as passenger cars, not including “Class 2” passenger cars whose gross weight exceeds 3’500 kg or whose driving cab is separate from the rest of the body,
- Vans registered as goods vehicles with van body without separate driver’s cab and with a gross vehicle weight under 3’500 kg, and
- Buses and minibuses with a gross vehicle weight of under 3’500 kg.

### Input VAT on acquisition of passenger cars

A company that acquires a passenger car that shall be used in any of the following businesses, may apply general VAT rules and recover the full input VAT amount on the acquisition.

- Resale in car dealership
- Rental in a car rental business
- Passenger transport according to the tax traffic act,
- Transport of deceased persons, or
- Driving instruction.

When acquiring a car for other purposes than to be used in any of the above listed businesses, the input VAT is non-deductible.

### Input VAT on leasing of passenger cars

Input VAT on leasing/rental costs for passenger cars in any of the businesses listed above, less than resale, is deductible in accordance with general VAT rules.

For other businesses, 50% of the input VAT is deductible if the car is used more than insignificantly (1’000km per year) in a business subject to VAT. This is regardless of whether the car is also partly used in a VAT exempt business.

### Input VAT on operating costs for passenger cars

If the car is a fixed asset (an asset item) or has been leased/rented for use in activities liable for VAT, the input VAT on operating costs is fully deductible. It is only necessary that the car is partly used in the VAT liable activities. Hence, input VAT is deductible even if the car is also used privately or for VAT exempt activities.

Operating costs include costs for petrol, service, repairs, maintenance and safety inspections etc.

If the car instead is a current asset (intended to be sold), input VAT on operating costs is only deductible when the car is used in a business subject to VAT (i.e., general VAT rules applies). The same applies if the car is not owned or have been leased/rented exclusively for VAT exempt activities.

### VAT on self-supply

If a taxable person been entitled to fully deduct input VAT on the acquisition or the leasing/rental of a passenger car (i.e. passenger cars used in businesses listed above), private use could be subject to VAT on self-supply.

Otherwise, private use is not subject to VAT on self-supply.

*Public sources:*

<https://www4.skatteverket.se/rattsligvagledning/edition/2023.8/323871.html>

<https://www4.skatteverket.se/rattsligvagledning/edition/2023.8/322334.html>



# Implemented input VAT deduction relating to cars

## Denmark

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### Type of car

The treatment of input VAT relating to cars differs depending on what type of car it is. For VAT purposes, there are three categories of cars.

- Passenger cars and motorcycles,
- Vans and trucks up to and including three tonnes, and
- Vans, trucks and buses over three tonnes.

### Passenger cars

For passenger cars (for 9 persons or less) and motorcycles, no right to deduction exists for input VAT on acquisition, short-term leasing (less than six months) nor operating costs.

For long-term leasing (over six months), a limited right to deduction exist according to a special scheme if at least 10% of the driving relates to business activities liable to VAT.

However, no limitation for input VAT deduction exists for car dealers, car rental companies or driving schools.

### Vans and trucks up to an including three tonnes

For cars and trucks not exceeding three tonnes, full right to deduction exist if the car is solely used in a business subject to VAT. However, if the car is used both for business subject to, and exempt from, VAT or for private purposes, no right to deduct input VAT on acquisition costs exist.

A third of the input VAT on leasing costs and all input VAT on operating costs can be deducted if the business sales subject to VAT exceed DKK 50'000 per year. Otherwise, no right for deduction exist.

### Vans, trucks and buses over three tonnes

For vans, trucks and buses over three tonnes full right to deduction exist if the car is solely used in a business subject to VAT.

If the car is used for both VAT exempt business activities and activities subject to VAT, partial deduction based on the ratio between VATable and total turnover can be made. Similarly, if the car is used for both private purposes and activities subject to VAT, a partial deduction can be made for the part of the input VAT which is estimated to relate to the business subject to VAT.

### Private use tax

If a car which is registered for business purposes (yellow license plates) will be used for private purposes once in a while, a special *day pass* can be bought. A day pass enables the car with a total weight of up to four tonnes to be used privately and can be bought in an app available in App Store and Google Play. A maximum of 20 day passes can be bought per car and year. Input VAT on day passes is non-deductible.

When a car is used for private purposes, a separate private use tax must be paid.

Public source: <https://skat.dk/data.aspx?oid=2234581>



# Implemented input VAT deduction relating to cars

## Finland

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### Input VAT

From a Finnish VAT perspective, there are special rules regarding the right to deduct input VAT on costs related to passenger cars, motorcycles, camping trailers and cars of category N1 which in addition to the driver's seat and the seats next to it, are equipped with other seats or devices for adding seats. For costs relating to those categories of cars, input VAT is non-deductible unless any of the following two exceptions is applicable.

#### 1. *Type of business*

If the car is acquired for any of the following business purposes, the input VAT is deductible in accordance with the general rules.

- Resale,
- Rental,
- Passenger transport, or
- Driving instruction.

#### 2. *Passenger cars exclusively used in a business subject to VAT*

If a passenger car is acquired exclusively for the use in a business which entitles a right of deduction, the input VAT may be deducted. However, if the car is used for VAT exempt purposes or for private purposes, even only to a limited extent, no input VAT can be deducted at all.

In order to be able to claim a deduction of input VAT relating to cars, the business must keep a driving record.

Public source: <https://www.vero.fi/sv/foretag-och-samfund/skatter-och-avgifter/momsbeskattning/fordon/>





# Implemented input VAT deduction relating to cars

## The Netherlands

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### Input VAT

All input VAT is deductible insofar as the car is used for taxable turnover.

If the car is also used for private purposes, including commuting, output VAT for private use should be reported on the private use. If the taxpayer has insufficient records to show the amount of private use, the output VAT to report can be calculated on a flat rate scheme, stating that 2.7% of the car's list price should be reported as output VAT.

Partial deduction based on turnover is applicable if the car is used in a business both subject to, and exempt from, VAT. If so, any output VAT following from applying the above-mentioned flat rate scheme for private use is also reduced in proportion to the taxable turnover in relation to total turnover.

*Public source:*

<https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/btw+afrekken/btw+en+de+auto/privegebruik+auto+van+de+zaak/>



# Implemented input VAT deduction relating to cars

## Germany

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### **Input VAT**

All input VAT is deductible insofar as the car is used for business activities which allows for input VAT deduction. If a car is only partially used for such purposes only the corresponding deduction is allowed.

### **VAT on self-supply**

Any private use of cars used for business activities is taxed as benefit in kind for both VAT purposes and wage tax purposes, i.e., VAT on self-supply should be reported.

*Public source:*

[https://www.bundesfinanzministerium.de/Content/DE/Downloads/BMF\\_Schreiben/Steuerarten/Umsatzsteuer/Umsatzsteuer-Anwendungserlass/Umsatzsteuer-Anwendungserlass-aktuell.pdf?\\_\\_blob=publicationFile&v=67](https://www.bundesfinanzministerium.de/Content/DE/Downloads/BMF_Schreiben/Steuerarten/Umsatzsteuer/Umsatzsteuer-Anwendungserlass/Umsatzsteuer-Anwendungserlass-aktuell.pdf?__blob=publicationFile&v=67)



# Implemented input VAT deduction relating to cars

## Norway

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### Passenger cars

From a Norwegian VAT perspective, there are special rules for input VAT on costs related to passenger cars. For VAT purposes, a passenger car is any of the following.

- Motor vehicle registered as a passenger car or van class 1,
- Motor vehicle registered as a moped, motorcycle or tracked motorcycle and which is not mainly designed for the transport of goods,
- Tracked vehicle registered for more than two people, including the driver,
- Camping car or registered camping trailer,
- Motor vehicle registered as a bus under six meters with up to 17 seats, and
- Vehicles which do not use an engine for propulsion, and which are mainly designed for passenger transport.

### Input VAT on costs relating to passenger cars

With exception for the following businesses, input VAT on acquisition, maintenance, use (including rental/leasing) and operation of passenger cars is non-deductible.

- Sales commodities,
- Rental vehicles as part of commercial rental activity, or
- Passenger transport in return for a consideration in a passenger transport enterprise.

If the car is used in any of the businesses mentioned above, input VAT may be deducted in accordance with the general rules.

*Public source:*

<https://www.skatteetaten.no/rettskilder/type/handboker/merverdiavgiftshandboken/gjelden/de/M-8/M-8-4/>



# Implemented input VAT deduction relating to cars

## The UK

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### Passenger cars

From a UK VAT perspective, there are special rules for input VAT on cars. For VAT purposes, a car is any motor vehicle of a kind normally used on public roads which has 3 or more wheels and either:

- Is constructed or adapted mainly for carrying passengers, or
- Has roofed accommodation to the rear of driver's seat that's fitted with side windows or that's constructed or adapted for the fitting of side windows.

However, the following vehicles are not deemed to be cars for VAT purposes.

- Vehicles capable of accommodating only one person or suitable for carrying 12 or more people including the driver,
- Caravans, ambulances and prison vans,
- Vehicles of not less than 3 tonnes unladen weight,
- Special purpose vehicles, such as ice cream vans, mobile shops, hearses, bullion vans, and breakdown and recovery vehicles, and
- Vehicles with a payload of one tonne or more

### Input VAT on acquisition of cars

As a general rule, input VAT on purchases of cars is non-deductible. However, full deduction can be made if the car

- Is a stock in trade of a motor manufacturer or dealer,
- Is intended to be used primarily as a taxi, driving instruction car, or self-drive hire, or
- Will be used exclusively for the purposes of a business and will not be made available for the private use of anyone.

### Input VAT on leasing of cars

For input VAT on leasing costs on a "qualifying car" (a car which has not been subject to the full input tax block on acquisition described above), 50% of the input VAT is deductible according to the general rules.

However, if the car is leased for less than 10 days and specifically for a business subject to VAT, as well as if the car is leased primarily for taxi or driving instructions, input VAT can be deducted in full.

### Input VAT on operating costs for cars

If a car is used for business purposes, input VAT on repairs and maintenance can be deducted in full as long as the business paid for the work. It does not matter if the car is also used for private purposes.

Input VAT charged on all other business motoring expenses (e.g., fleet management charges or parking charges) is subject to deduction in accordance with the general rules.

### Private use

If all input VAT has been deducted and the car is then used for private purposes, output VAT may have to be reported. However, this is not the case if the 50% input VAT block has been applied, since this block is a proxy for the private use of the car.

This removes the need for the hirer or lessee of a business car to keep records of private mileage travelled in that car or to account for VAT on the actual private mileage travelled in that car.

Public sources: <https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D2230>



# Assignment 2

Authorization to derogating measures relating to cars



# Authorization to derogating measures relating to cars

## Introduction

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- The EU Council, acting unanimously on a proposal from the EU Commission, may authorize a Member State to apply special measures for derogation from the provisions of the EU VAT Directive in order to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance.
- On the following pages is a compilation over EU Council decisions authorizing Croatia, Estonia, Italy, Latvia, Poland and Romania to implement derogation measures from articles 26, 168 and 168a of the VAT Directive relating to VAT on cars.



# Authorization to derogating measures relating to cars

## Croatia and Italy

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### Croatia

Croatia is authorized to limit the right to deduct VAT on expenditure related to passenger cars that are not wholly used for business purposes to 50%. However, this limitation does not apply to

- Vehicles used for the training of drivers, vehicle testing, repair services, an economic activity involving the transport of passengers and goods, the transport of the deceased or rent; or
- vehicles purchased for the purpose of resale.

The private use of a passenger car subject to the deduction limitation shall not be treated as supplies of services for consideration.

The underlying reason for the special measures is to simplify the VAT procedure and to counter VAT evasion while allowing the deduction of VAT on passenger cars partially used for business purposes. Prior to the authorization, input VAT on costs related to passenger cars partially used for business purposes was non-deductible.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02018D1994-20211117&qid=1686745097963>

### Italy

In order to simplify the procedure for charging VAT and to prevent evasion through incorrect record keeping, Italy is authorized to limit the right to deduct VAT charged on vehicles not wholly used for business purposes to 40%. This limitation does not apply for vehicles which

- Forms part of the taxable person's stock-in-trade in the exercise of his activity,
- Is used as a taxi,
- Is used for instruction by a driving school,
- Is used for hire or leasing, or
- Is used by sales representatives.

If applied, Italy is required not to charge VAT on the use for private purposes of vehicles which have been subject to the deduction limitation.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02007D0441-20221209>



# Authorization to derogating measures relating to cars

## Latvia and Romania

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### Latvia

To simplify VAT collection and prevent evasion through incorrect record keeping, Latvia is authorized to limit the right to deduct VAT on expenditure on passenger cars not wholly used for business purposes to 50%. This limitation does not apply for cars

- Purchased for resale, hire or lease,
- Used for transportation of passengers for a fee, including taxi services,
- Used for transportation of goods,
- Used for driving lessons,
- Used for guard services,
- Used as emergency vehicles, or
- Used as car sales demonstration vehicles.

If a car has been subject to the deduction limitation, VAT shall not be charged on any private use of that car.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02015D2429-20220101>

### Romania

To simplify the VAT procedure and to prevent VAT evasion through incorrect record keeping and false VAT declarations, Romania is authorized to limit the right to deduct VAT related to vehicles not used exclusively for business purposes to 50%. This limitation does not apply for vehicles which is

- Used exclusively for emergency services, for security, protection and courier services,
- Used by sales agents and by purchasing agents,
- Used for the transport of passengers for consideration, including taxi services,
- Used for the supply of services for consideration, including hire or driving lessons provided by driving schools,
- Used for hire or leasing, or
- Used as commodities for trading purposes.

Romania is authorized not to treat the private use of a vehicle subject to the deduction limitation, as a supply of services for consideration.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02012D0232-20200910>





# Authorization to derogating measures relating to cars

## Poland and Estonia

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### Poland

To simplify the VAT procedure and to prevent VAT evasion through incorrect record keeping and false VAT declarations, Poland is authorized to limit the right to deduct VAT on vehicles not entirely used for business purposes to 50%. The limitation does, however, not apply to vehicles with more than 9 seats including the driver's or with a total maximum weight of more than 3 500 kg.

Poland is authorized not to treat the private use of a vehicle subject to the limitation, as a supply of services for consideration.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02013D0805-20221207>

### Estonia

Estonia has earlier been authorized to limit the right to deduct VAT on expenditure on passenger cars not entirely used for business purposes to 50%. The limitation did not apply to passenger cars weighing more than 3 500 kg or which had more than eight seats in addition to the driver's seat. If applied, Estonia should not treat the use of a passenger car for private purposes as a supply of services.

However, this authorization, which was sought to remove the need for record keeping of non-business use of cars, expired on December 31, 2020.

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014D0797-20180101>



