

Private and professional use of a car: how about VAT?

VAT paid for a company car that is used both for private and professional purposes is not fully deductible. This 'new rule' applies since beginning 2011. The calculation of the private part created quite some uncertainty. By means of an addendum the tax authorities have provided more explanation now. These rules apply as from 1 January 2013.

The tax authorities promised end 2011 more explanation concerning her point of view and the calculation of the private use. End 2012 the addendum finally was published. The tax authorities propose three methods according to which the professional and private use of a car can be determined.

Before further elaborating on this, please remember that commuting is considered as private use. Moreover, next to these special rules the deduction limitation of 50% for car expenditure applies: you can never deduct more than 50% on the purchase of a company car, even if you use the car almost solely professionally.

First method: trip administration

As can be deduced from the term 'trip administration', following this method the company should keep an administration.

For each professional trip you should note the following information:

- date;
- start and end location;
- mileage;
- total mileage per day.

On the basis of these data the total professional mileage can be determined. Subsequently you calculate the fraction of the professional mileage compared with the total mileage per year.

Example

You are the director of a company and you note your mileage in detail: during the year you did 7.500 professional kilometers. At the start of the year the mileage of your company car was 8.300 kilometer and at the end of the year it was 27.050 kilometer. During that year you drove in total 18.750 kilometer, of which 7.500 or 40% ($7.500/18.750$) for professional purposes.

Second method: lump sum formula

The second method is a formula, combined with a lump sum of 6000 kilometers for 'pure' private mileage (other than commuting). With this formula you calculate the private mileage:

$(\text{commuting distance} \times 2 \times 200 + 6.000) / \text{total mileage per year}$

The '200' in the formula is the number of working days and is fixed determined, this means that vacation, illness and occasional work at home are taken into account.

Example

You are the director of a company. You live at 27 kilometer from your job. In total you drive 28.000 kilometers. Your private use amounts to: $27 \times 2 \times 200 + 6.000 = 16.800$ kilometers. That is 60% of the total mileage. Consequently the professional use is 40% (100% - 60% private use).

Imagine you obtain your car in the course of the year: in this case you can apply the lump sums, i.e. '6.000 kilometer' and '200 days' pro rata. So if you obtain the car in the middle of the year, 3.000 kilometer and 100 days.

Third method: a general lump sum of 35%

The last method is a special lump sum of 35%: this method can only be applied by company having a car fleet of at least four cars. When opting for this method, it should be applied for at least four years.

Combining methods

Method (3) cannot be combined with other methods. Method (1) and (2) apply per car. A company can therefore apply method (1) for car A and method (2) for car B.

How about the VAT deduction?

You can only deduct VAT to the extent of the professional use of the car. This limitation applies for all expenditure made by the VAT payer for the car: purchase, but also fuel, repair, maintenance, ..

Example

Your company buys a car in the course of 2011 for an amount of 50.000€ and pays 10.500€ VAT. This car is put at your disposal, as director. Your private mileage according to method (1) (as described above) amounts to 60%. This means that 40% of the VAT paid is deductible. The company can recuperate 4.200€.

Revision?

When applying method (1) and (2), you do not know at the start of the year the private/professional mileage. Therefore when using a car you should make an estimation under supervision of the VAT authorities. If at the end of the year it shows that there is a deviation between the estimate and the actual use, a revision should be made. Under method (3) no revision is made.

Example

During 2012 you move to another part of the country. Therefore your private mileage increases, but your professional mileage decreases to 6.500 kilometer. In total your private mileage following the method applied by you (1 or 2) increases to 75%. The professional use decreases to 25%.

For each year that this deviation applies, you should revise the VAT deduction with 1/5.

This means: the deduction you performed (40% or 4.200€) minus the VAT deduction following your professional use (25% or 2.625). And this result divided by 5.

The formula then becomes: $((10.500 \times 40\%) - (10.500 \times 25\%)) \times 1/5 = 315\text{€}$

This 315 was deducted in excess and should be refunded to the Treasury.

What if you should pay for your company car?

When you pay for the private use of a company car as director or employee, this is a taxable service to which the issue of the VAT limitation for private/professional use does not apply. The fact that you provide labour for the company, is not qualified as the consideration for the use of the car.

Applicable as from when?

In fact these rules are already applicable since 1 January 2012 (as indicated in the circular letter of 20 October 2011).

Fortunately there is a transition period: as from 2013 the new rules apply fully. For 2012 you can apply the old calculation methods. However you can opt to apply the new system also for 2012.

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