

CHANGES IN THE SETTLEMENT OF CAR COSTS 2019

LEASING AND USING PASSENGER CARS IN BUSINESS HAVE BECOME LESS COST-EFFECTIVE

By the end of October 2018, Polish parliament has completed works on the draft of the Act amending the Personal Income Tax Act and Corporate Income Tax Act, which provides for an increase in the tax burden related to using company cars.

The law awaits the signature of the president and its announcement. After the entry into force of the new regulations, the method of settling expenses related to using company cars in business activity will undergo a considerable change.

CURRENT REGULATIONS

- **Own fixed asset.** Currently, tax-deductible expenses do not include depreciation write-offs from cars, whose value exceeds EUR 20,000 in the part exceeding this value. There is a similar exclusion for insurance premiums.
- **Third party fixed asset.** As of now, expenses incurred in relation to the use of a vehicle that has not been included in the fixed asset register are not included in tax- deductible expenses in part exceeding the limit obtained by multiplying the actual vehicle mileage and the rate per 1 km, defined in separate legislation by the competent minister. In order to determine the actual vehicle mileage, the taxpayer is obliged to keep a mileage log book.
- **Leasing.** Current regulations do not contain any restriction on including payments for *operating lease*, rental and leasing vehicles in tax-deductible expenses. They are fully deductible.

PLANNED CHANGES

New regulations are to become effective as of January 1, 2019.

In the case of vehicles used for the business operation purposes only (a detailed mileage logbook will be required), the taxpayer will still have the right to include 100% of the incurred expenses (e.g. on fuel, maintenance and repairs) in tax-deductible costs. In the case of passenger vehicles for business and personal use, 75% of the incurred expenses will be tax deductible. The draft provides for the unification of the rules governing the settlements of expenses on using a passenger car in business operations, regardless of the ownership title and the type of the agreement under which the taxpayer uses the car. Therefore, in the case of using own fixed asset as well as vehicles used under leasing, rental, lease, or other agreements, the taxpayer will have the right to recognize as tax-deductible only 75% of expenses related to the usage of the vehicle (such as costs of vehicle technical inspection, fuel, changing tires, etc.) being the subject of the agreement.

This limit will also apply when expenses on vehicle usage will be included in the fee (rent) under the said agreements.

The depreciation limit in the case of purchase of cars will be increased (currently it is EUR 20,000) to the amount of PLN 150,000 for internal combustion engine and hybrid cars, and PLN 225,000 for electric cars.

The limit of PLN 150,000 (internal combustion and hybrid cars) and PLN 225,000 (electric cars) will also apply to operating lease of passenger vehicles (currently, there is no limit). This means that the limit will be imposed on including the above-mentioned expenses in tax-deductible costs. The taxpayer will be entitled to deduct only this part of expenses under the above-mentioned agreements proportional to the ratio of the amount of PLN 150,000 or PLN 225,000 to the value of the car (the so-called proportional deduction).

Expenses related to lease will not be subject to the 75% tax-deductibility limit, provided that if the maintenance costs (e.g. servicing, tire re-fitting) are included in the lease instalment, this part of the instalment will be subject to the 75% limit, while the financing cost won't be.

ACT'S PLANNED ENTRY INTO FORCE

The Act is to become effective as of January 1, 2019. Pursuant to the published draft, the lease agreements for passenger cars concluded before January 1, 2019 will be subject to the provisions of the acts currently in force. In the case of amending or renewing the lease agreement after December 31, 2018, new regulations will have to be applied.

In the case of cars that are fixed assets, the new regulations will apply to passenger cars entered in the fixed asset register after December 31, 2018.

CONTACT US

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