

EXPENSES & VAT DEDUCTION LIMITS FOR CARS

One of the changes introduced by the government in May as part of the so-called Tax Recovery Package is a maximum tax-deductible depreciation limit for cars. This limit will affect both corporate and individual income taxes as well as VAT deductions. Let's delve into the details of this seemingly minor adjustment.

Tax-Deductible Depreciation Limit

In the context of the consolidation package, a car with limited depreciation refers to category M1 vehicles, which are motor vehicles comprising not more than 8 seats in addition to the driver's. These cars are categorized under the 2nd depreciation group, and the standard depreciation period is set at 5 years.

From now on, the maximum deductible tax expense for these cars will be 2 mil. CZK. All depreciations exceeding this limit cannot be included in tax expenses.

In practice, this means if a company or entrepreneur purchases a personal car for business purposes worth **less than 2 mil. CZK**, they can still **claim full depreciation based on the entire purchase price**. Contrarily, those purchasing a car of this category for business purposes at a **price exceeding 2 mil. CZK** will only deduct a **proportional part of the depreciations**.

Analogously, the amendment will also limit expenses from financial leasing.

VAT Deduction Limit

The limit of deductible expenses for cars is also incorporated into the Value Added Tax Act (*Zákon o dani z přidané hodnoty*). The input tax deduction will be limited to 420,000 CZK, which corresponds to a tax base of 2 mil. CZK. Even if a taxpayer buys a car for purposes that qualify for a VAT deduction, the deduction will always be limited to the stated amount, regardless of the value of the purchased car.

Exceptions, just like in case of income taxes, include vehicles used as ambulances or hearses, or those used to operate concession-based road motor transport.

Although the main political and economic topics have, among other things, lately included the environmental impact of road transport, the forthcoming amendment does not radically favor electric cars. On the contrary, given the typically higher purchase price of electric cars, it is expected that taxpayers will not be able to claim all tax expenses and VAT



deductions for these newly acquired vehicles. It might be worth considering whether tax limitations should be based not only on car price, but also on its propulsion type.

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