

## VAT-DEDUCTION LIMITATIONS ON CARS

Changes in the tax-deductible expenses limitations on cars, brought by the Recovery Tax Package, also impact the Value Added Tax (VAT) law. In this part of our series on the Recovery Tax Package, we will focus specifically on VAT deductions.

### Limitations on VAT Deductions

As mentioned in our previous articles, both tax-deductible expenses for the purchase of a vehicle and VAT deductions are limited. The maximum deductible tax expense is 2 million CZK, which also corresponds to the tax base for deductible VAT. Therefore, VAT registered companies will now be able to claim the maximum deduction from newly acquired cars of 420,000 CZK.

*Let's illustrate this with a specific example:*

*A VAT-registered company/entrepreneur purchases a car for 5 million CZK, excluding VAT. According to the current legislation, they would claim VAT amounting to 1,050,000 CZK. However, according to the amended VAT law, they are entitled to a deduction of only 420,000 CZK.*

In cases where a company or entrepreneur purchases a car for the purpose of further sale (i.e., it is not a long-lived asset but goods), the deduction can be claimed in full, without limitation, in accordance with the law.

However, if there is a change and the car purchased for sale is later classified as a long-term asset, the VAT registered company/entrepreneur is obliged to reduce the claimed deduction so that it amounts to a maximum of 420,000 CZK. The reduced deduction should be stated in the company's/entrepreneur's tax return for the tax period in which the car was classified as a long-lived asset.

### Selling Cars With Limited VAT Deduction

When selling a car, the limitation on the possibility to claim on-input tax deduction is not considered.

In practice, this can lead to a significant discrepancy between the claimed deduction and the VAT payment.

*Let's follow up with our previous example:*

*After one year, the VAT registered company/entrepreneur sells the purchased car for 4 million CZK (excluding VAT). Regardless of the originally claimed VAT, they must pay VAT from the entire tax base. In our case, they will pay 840,000 CZK.*

## Reduced VAT Deduction

A common occurrence for VAT registered companies and especially for natural persons is the use of a company car also for private purposes. This affects the deduction they can claim.

*Continuing with our example:*

*The VAT registered company/person uses the car for business activities 60% of the time and for private purposes 40% of the time. Therefore, they can only claim 60% of the 420,000 CZK. For the VAT registered entity, this means that they will not receive 630,000 CZK, but only 252,000 CZK for the VAT deduction.*

	Tax base	VAT deduction	Reduced deduction (60% – used for business activities; 40% – used for private purposes)
Real values (currently valid)	5 000 000	1 050 000	630 000
Limited values (according to the amendment)		420 000	252 000

Although electromobility has been a major favored topic in recent years, there are no exemptions for low-emission or zero-emission vehicles from the rules mentioned above. Thus, limited VAT deductions apply regardless of the type of propulsion of the purchased vehicle.

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