

Tax treatments on private cars used in business

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In brief

- » There are tax issues to consider on the practice of using private cars in business on a corporate compensation basis.
- » Companies adopting this practice needs to address the corporate income tax (CIT), value-added tax (VAT) and individual income tax (IIT) implications before implementation.

Feedback

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In Detail

For frugality reasons, the practice of allowing employees to claim business usage for private cars is gaining its popularity, as an alternative to company cars. There are frequently asked questions regarding what correct tax treatments are for CIT, VAT and IIT purposes. The Guangxi tax authority's recent and detailed response to some questions has shed some light on the complexity.

» Can private-car costs such as fuel, toll and repair fees be deductible for CIT?

Yes. As long as they are reasonable and actual business expenses, they are deductible per the CIT Law. The car rental agreement should have specified the company's obligation to bear the expenses, and be supported by valid invoices (or receipts) for the rental and miscellaneous expenses.

» Are the insurance premium and vehicle and vessel tax deductible for CIT – if the company (the car lessee) has reimbursed the vehicle owner for the costs?

No. Any costs arising from the car ownership, e.g. vehicle and vessel tax, insurance premium, vehicle purchase tax and depreciation, are not deductible corporate expenses.

» Are fuel costs deductible expenses to the company - if the invoices carry only a car plate number?

No. Per the relevant invoice administration measures (*ref. SAT Order, No. 25, and Guo-shui-fa [2008] No. 80*), the invoices should be issued to the company's name (it may bear the car plate number as a remark).

» Can the VAT cost, incurred on fuel spending of a car rented by a company from its shareholder, be treated as creditable input VAT?

Yes. The input VAT incurred on leased assets are all allowed to be creditable against output VAT, disregarding the fact that the company is adopting a normal VAT taxation or a simplified taxation method, or is subject to VAT exemption, or has used the assets for staff welfare or personal consumption, per the tax circular governing the treatments of input VAT (*ref. Cai-shui [2017] No. 90*).

» Is there any deduction limitation in individual income tax (IIT) calculation for employees receiving an allowance from their employer for using private cars in business trips?

Yes, there is a two-tier deduction limitation (maximum RMB 1,950 / head / month for management personnel, or RMB 1,200 / head / month for general staff). This limitation applies to all state-owned and private companies with a formal company policy in place allowing private cars for business travels. It has taken effect from 1 September 2018, per the relevant tax circular issued by the Guangxi tax authority (*ref. Announcement of Guangxi Zhuang Autonomous Region Tax Bureau, [2018] No. 12*). In addition, the part of the allowance exceeding the said limit should be taxed as employment income.

WTS observation

Companies using private cars for business usually involve two types of payments, a rental fee or an allowance:

- A rental fee (subject to IIT, and deductible for CIT, except car ownership-related expenditure); or
- An allowance (deductible for IIT within a limit, and deductible for CIT).

Using private cars in business could trigger complicated tax implications to the expenses. Proper company policies should be tailored to ensure strict compliance in CIT, VAT and IIT regimes.

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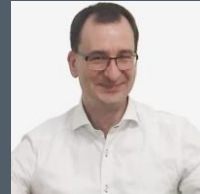
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