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## **CARS IN COMPANY'S ASSETS**

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### **ABSTRACT**

Upon performing its business activities a company may use the cars owned by the company or the cars leased according to the agreement on financial lease. The taxation and the accounting treatment of a company's car depends on the way it has been purchased and the fact whether such a car is to be used for the transportation of employees, board members or for performing a business activity. In terms of taxation, the cars used for the personal transportation of employees and board members have a less favourable tax position according to the VAT Act and the Profit Tax Act, compared to the cars used for performing a business activity.

*Keywords: cars; assets; financial lease; taxation; value added tax.*

### **1. INTRODUCTION**

Entrepreneurs (companies) often use their own cars for business purposes, which are recorded as a part of the company's fixed assets. Such cars are either owned by the particular entrepreneur (as an economic or a legal owner) or are just possessed by them (personal cars purchased through the financial lease).

A car is a motor vehicle used for transportation of persons, which has the maximum of 8 seats plus a driver's seat. 1 According to the Book of Regulations on Technical Conditions of Vehicles in Road Traffic<sup>2</sup> cars are classified in the M1 Vehicle Category. A company may also use the vehicles which belong to the N1 Vehicle Category<sup>3</sup>, which comprises the motor vehicles used for transporta-

tion of freight of up to 3,500 kilo mass. In terms of taxation, such vehicles have a more favourable tax position under the specific conditions. According to the provisions of the Value Added Tax Act<sup>3</sup> (Art.4.,Par.2) transportation vehicles are road motor vehicles of the engine capacity of more than 48 cm<sup>3</sup> or of the engine power of more than 7.2 kW. A new car is a vehicle which fulfils the above state conditions for road motor vehicles, including the fact that it was delivered in the period of up to six months since its first use and has not done more than 6,000 km. Only one of the above stated conditions should be fulfilled,<sup>1,2</sup> in order to classify a certain vehicle as the new one, i.e. it is not necessary to fulfil both conditions. The vehicle which does not fulfil any of the above stated conditions is regarded as a used vehicle.

Before purchasing a car, an entrepreneur should take into consideration all the possibilities and choose the one which is the most favourable one in terms of prices and taxation. The tax position of a purchased car depends on whether the car has been bought in a foreign country or in Croatia and whether such a car is new or already used, as well as for which purpose it is going to be used.

## **2. CARS AS A PART OF COMPANY'S FIXED ASSETS**

The cars purchased for the purpose of performing business activities are recorded as fixed tangible assets. Such cars may be used for transportation of employees and the board members or for performing of the specific activities, such as rentals, provision of services, transportation of persons and goods etc.

Each group is treated differently in terms of taxation and accounting.

### **2.1. CARS USED FOR TRANSPORTATION OF EMPLOYEES AND BOARD MEMBERS**

The cars purchased for the purpose of transportation of employees and the board members do not subject to the pre-tax deduction. According to the Art. 61, Par. 1 of the VAT Act<sup>3</sup> *the tax payer is not allowed to deduct a pre-tax upon the purchase of cars and other means for personal transportation, including the purchase of all goods and services regarding such goods.* The vehicles, the purchase of which does not subject to the pre-tax deduction according to the Art. 61, Par.1 of the VAT Act, include the motor vehicles stated in the Customs Tariff under the tariff mark 8703 which are primarily constructed for transportation of persons (except the vehicles stated in the Customs Tariff under the tariff

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<sup>1</sup> Act on Safety of Road Traffic (Official Gazette no.67/08-64/15)

<sup>2</sup> Official Gazette no. 51/10-83/15

<sup>3</sup> Art.2, Par. 1 of the Rulebook on Technical Conditions of Vehicles in Road Traffic

mark 8702), including a station wagon, a van, a race car and a pick-up vehicle, which are not classified under the tariff mark 9704 of the Customs Tariff. Accordingly, the VAT amount calculated upon the purchase of the car is to be included into its purchase price.

Whereas the purchase of a new car subjects to the VAT payment, the purchase of the used car in some cases subjects to the payment of the tax on the purchase of the used car of 5%. According to the Art.26, Par.1 of the Act on the Special Tax on Motor Vehicles<sup>2</sup> *legal and physical persons with the headquarters or the residence in the Republic of Croatia are obliged to pay a special tax on the purchase of used motor vehicles in the Republic of Croatia, if such a purchase does not subject to the VAT taxation or the inheritance and gift taxation according to the specific regulations.*

When cars are purchased from the other EU country or the third country (import) directly from the supplier or the car dealer in the Republic of Croatia, such a purchase subjects to the payment of the special tax on motor vehicles according to the Art. 5., Par. 1 of the Act on the Special Tax on Motor Vehicles, depending on the value of the vehicle, the type of fuel and the CO<sub>2</sub> emission. The purchase of both, the new and the used cars from abroad, subjects to the payment of the compensation for disposal of waste vehicles. The special tax on motor vehicles and the compensation for disposal of waste vehicles are paid according to the calculated customs duties. The compensation for identification i.e. homologation of the vehicle is to be paid for all the types of vehicles.

The following table shows all the tax and other liabilities which arise upon the purchase of new or used cars from abroad:

**Table 1.** Liabilities upon purchase of new and used cars from abroad <sup>4</sup>

<i>Seller</i>	<i>Liabilities of the buyer in the Republic of Croatia</i>
The tax payer from the other EU country who applies the regular taxation procedure (purchase of a new or a used car)	<ul style="list-style-type: none"> <li>• to calculate 25% VAT</li> <li>• to record VAT liability in the VAT Form</li> <li>• to record the purchase in the PDV-S Form</li> <li>• to record the purchase in the Stjecanje NPS Form (for new cars, only)</li> <li>• to submit the invoice or other document to the Tax Administration, which approves it by putting the seal on it and notifies on the liability of recording the purchase in the corresponding forms</li> <li>• to pay a special tax on motor vehicles according to the calculation of the authorized customs office</li> <li>• to pay the compensation for disposal of waste vehicles</li> <li>• to pay the compensation for homologation of the vehicle</li> </ul>
The tax payer from the other EU country who applies a special margin taxation procedure (purchase of the used car from a dealer <sup>2</sup> )	<ul style="list-style-type: none"> <li>• no VAT liabilities in the Republic of Croatia</li> <li>• the purchase is not recorded in the PDV or PDV-S Form</li> <li>• to pay a special tax on motor vehicles according to the calculation of the authorized customs office</li> <li>• to pay the compensation for disposal of waste vehicles</li> <li>• compensation for homologation of vehicle</li> </ul>
The citizen or the small tax payer from the other EU country (purchase of the used car)	<ul style="list-style-type: none"> <li>• no VAT liabilities in the Republic of Croatia</li> <li>• the purchase is not recorded in the PDV or PDV-S Form</li> <li>• to pay 5% of the tax on purchase of used cars according to the ruling by the Tax Administration</li> <li>• to pay a special tax on motor vehicles according to the calculation of the authorized customs office</li> <li>• to pay the compensation for disposal of waste vehicles</li> <li>• compensation for homologation of vehicle</li> </ul>
Import of a new or used car	<ul style="list-style-type: none"> <li>• to pay VAT and customs duties (if determined) according to the ruling of the customs office)</li> <li>• to pay a special tax on motor vehicles according to the calculation of the authorized customs office</li> <li>• to pay the compensation for disposal of waste vehicles</li> <li>• compensation for homologation of vehicle</li> </ul>

<sup>4</sup> Art.136, Par. 3 of the Rulebook on Value Added Tax (Official Gazette no. 79/13 -130/15), hereinafter called the Rulebook on VAT

In view of the data presented in the Table 1 it can be concluded that the lowest tax on the purchased used cars in the Republic of Croatia is the tax determined by the special procedure of the margin taxation. Such vehicles have the most favourable price if the company has purchased them for the purpose of a personal transportation.

**Example 1** – Purchase of the used car from a dealer in the other EU country

The Company A (d.o.o.) has purchased from the dealer in Hungaria a used car invoiced to the amount of 5,100.00 EUR. The amount in HRK is determined according to the foreign exchange rate – 1 EUR=7.562 HRK (38,556.20 HRK). The Customs Administration has issued the ruling on the calculated special tax on motor vehicles to the amount of 6,670.00 HRK. The vehicle weighs 842 kg. The compensation for homologation of the vehicle to the amount of 625.00 HRK has been paid.

Calculation of the compensation for disposal of waste vehicles:

$$(832 \text{ kg} - 75 \text{ kg} - 40 \text{ kg}) \times 0.60 \text{ HRK} = 717 \text{ kg} \times 0.60 \text{ HRK} = 430.20 \text{ HRK}$$

$$\text{Purchase price of the car} = 38.566.20 \text{ HRK} + 6,670.00 \text{ HRK} + 430.20 \text{ HRK} + 625.00 \text{ HRK} = 46,291.40 \text{ HRK}$$

Recording:

No.	DESCRIPTION	Account	Amount	
			Debit	Credit
1.	Investing into car Suppliers from goods from EU <i>For invoice of car suppliers</i>	03730 2210	38,566.20	38,566.20 (5.100 EUR)
2.	Investing into car Liability for special tax on motor vehicles <i>For calculation of special tax on motor vehicles</i>	03730 24490	6,670.00	6,670.00
3.	Investing into car Transaction account <i>For payment of compensation for disposal of waste vehicles</i>	03730 1000	430.20	430.20
4.	Investing into car Transaction account <i>For payment of compensation for homologation of vehicle</i>	03730 1000	625.00	625.00
5.	Investing into car <i>For putting car into operation</i>	03200 03730	46,291.40	46,291.40
6.	Liability for special tax on motor vehicles Transaction account <i>For payment of special tax on motor vehicles</i>	24490 1000	6,670.00	6,670.00

As it has been shown in the above stated Example, the liability for the VAT payment does not arise in the Republic of Croatia due to the fact that it has been calculated by the dealer from the realized margin.

If an entrepreneur wants to purchase a car for personal transportation in the Republic of Croatia, all the liabilities which arise upon the purchase of a new or used car should be taken into consideration.

Table 2. shows all the liabilities which arise upon the purchase of a new or used car in the Republic of Croatia.

**Table 2.:** Tax liabilities of the buyer of a car for personal transportation in the Republic of Croatia

Type of vehicle	Dealer	Tax liabilities	
New car	Motor vehicle dealer (e.g. car dealer)	1. VAT calculated on purchase price 2. Special tax on motor vehicles 3. VAT and special tax on motor vehicles presented in invoice issued by dealer	
Used cars	Dealer with used motor vehicles (applies regular taxation procedure)	Vehicle, not registered in the Republic of Croatia (purchase from EU or third country)	1. VAT calculated on purchase price 2. Special tax on motor vehicles according to ruling of Customs Administration
		Vehicle, registered in the Republic of Croatia	VAT calculated on purchase price
	Dealer	1. calculates VAT from realized margin 2. if margin not realized → VAT is not calculated, neither 5% tax on purchase of used motor vehicles	
	Tax payers who sell their fixed assets	VAT calculation on purchase price if a pre-tax was used upon purchase of vehicle to the full amount or partially (vehicles purchased before 1.3.2012)	
		Sales of vehicles purchased after 1.3.2012, for which was not possible to use a pre-tax: • VAT free delivery • 5 % tax on purchase of used car according to ruling of Tax Administration	
		Sales of vehicle purchased from citizen, small tax payer or dealer → VAT calculation on purchase price	
	Small tax payer	• no VAT calculation	
Citizen or any other person who is not a tax payer	• 5 % tax on purchase of used car according to ruling of Tax Administration		
Leasing company sells the vehicle after cancellation of contract on lease	• calculates VAT on purchase price • not repaid part of special tax on motor vehicles → is recorded as a transferable item		

The analysis of the tax burden upon purchase of the used car in the Republic of Croatia has shown that the purchase of a used car from the dealer subjects to the lowest tax burden due to the fact that VAT is calculated from the realized margin, only.

Due to the more favourable model of financing, entrepreneurs often decide to purchase cars through financial leasing. According to the Art.5.Par.2 of the Leasing Act<sup>2</sup> *financial leasing represents a legal deal in which the lessee during the period of use of the leased object pays to the lessor a compensation which comprises the total amount of the value of the leased object, bears the costs of the amortization of the leased object and has the option to buy and thus come into possession of such a leased object at the specific price, which is at the moment of the exercised option lower than its real value, whereas the risks and the benefits relation to the possession of the leased object are transferred to the lease in their larger part.* When a vehicle is purchased on financial leasing, the lessor delivers the vehicle and the entrepreneur records fixed tangible assets and long-term liabilities in their business records. In the case of the financial leasing, an entrepreneur does not have the right to the recognized pre-tax based on the received invoice since the vehicle has been leased for the purpose of personal transportation.

## 2.2. CARS PURCHASED FOR THE PURPOSE OF PERFORMING BUSINESS ACTIVITIES

In view of the VAT Act, the cars purchased by a company for performing their business activities have a better tax position compared to the tax position of the cars used for personal transportation of employees and the board members. According to the Art. 1 of the VAT Act, the pre-tax can be deducted if cars and other means of personal transportation have been purchased for the purpose of training drivers, drive testing, provision of services, transportation of passengers and goods, transportation of the diseased persons, rentals or further sales. The cars purchased with the purpose of performing business activities subject to the payment of the special tax on motor vehicles depending on their value and CO<sub>2</sub> emission. The base for the calculation of the special tax is determined in percentages on the purchase price with the included VAT.

In the case of the purchased new car in the Republic of Croatia, which is to be used for performing of the specific kinds of business activities, the same rules are applied as those<sup>5</sup> applied on the cars for personal transportation. The only difference is the fact that the company has the right to the pre-tax to the full amount upon purchase of the car used for performing business activities, which is then not included in the purchase price.

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<sup>5</sup> A dealer is, according to the Art. 95, Par. 1 of the VAT Act, a tax payer who within its business activities buys or imports used goods for further sales

**Example 2.** – Purchase of the new car to be used for performing business activities

The Company B (d.o.o.) has purchased a new car from the car dealer in the Republic of Croatia. The purchased car is to be used for rentals, which is the core business activity of the Company. The received invoice totals 260,680.31 HRK (value of the car 191,325.00 HRK + 25% VAT amounting to 47,831.25 HRK + special tax on motor vehicles of 21,524.06 HRK).

Cost of car purchase: 212,849.06 HRK = 191,325.00 HRK + 21,524.06 HRK

Recording:

No.	DESCRIPTION	Account	Amount	
			Debit	Credit
1.	Investing into car	0373	212,849.06	260,680.31
	Pre-tax – 25 %	140012	47,831.25	
	Supplier	2202		
	<i>For purchase of car</i>			
2.	Car	032001	212,849.06	212,849.06
	Investing into car	0373		
	<i>For putting car into operation</i>			

A tax payer may determine specific accounts for cars in the Ledger. Such accounts will record the cars used for performing business activities (for rentals, in this case) and thus are different from the accounts which record the cars used for transportation of employees or the board members, which have a special tax position.

Due to the fact that the purchase of the car to be used for performing business activities subjects to the deduction of the pre-tax, it is recommended to purchase a car for which the VAT has been calculated on the total amount. Accordingly, it is not cost-effective to purchase a car from a car dealer because they have calculated the VAT from the realized margin and the VAT amount cannot be recorded on the issued invoice, which means it cannot be used as a pre-tax by the company.

**3. CARS AS PART OF COMPANY'S SHORT-TERM ASSETS**

The cars purchased for the purpose of further sales (commodity) or will be used as test vehicles are to be entered in a company's business records as short-term assets. Due to the fact that such vehicles are not to be used for transportation of employees or the board members, their purchase subjects to the deduction of the pre-tax. In terms of taxation, such vehicles are not classified as *cars*. However, such vehicles should only be used for the purpose for which they have been purchased, in order to keep their tax status, not for performing business activities.



**Example 3.** – Purchase of used car from other tax payer from EU

The Company BV (d.o.o.), which has a valid VAT ID number, has purchased a used car from the tax payer in Germany for the purpose of testing. The supplier has applied the regular taxation procedure (it is stated on the invoice that it is a free delivery). The received invoice amounts to 10,000.00 EUR. The tax base for the VAT calculation is determined on the basis of the middle exchange rate of the CNB on the date of the invoice (1 EUR=7.598 HRK) and amounts to 75,980.00 HRK. The VAT amounts to 18,995.00 HRK. The Customs Administration has sent the ruling on the payment of the special tax on motor vehicles to the amount of 3,200.00 HRK, including the ruling on the payment of the compensation for disposal of waste vehicles amounting to 825.00 HRK (paid from the transaction account).

Recording:

No.	DESCRIPTION	Account	Amount	
			Debit	Credit
1.	Purchase price of test vehicle	650	75,980.00	
	Suppliers of goods from EU <i>For invoice of supplier of test vehicle</i>	2210		75,980.00
2.	Pre-tax from purchased goods from EU – 25 %	14022	18,995.00	
	VAT liability for purchase from EU – 25 % <i>For calculation of VAT on purchase from EU</i>	24022		18,995.00
3.	Special tax on motor vehicles	653	3,200.00	
	Liability for special tax on motor vehicles <i>For calculation of special tax on motor vehicles</i>	24490		3,200.00
4.	Other purchase costs	6519	825.00	
	Transaction account <i>For compensation for disposal of waste vehicles</i>	1000		825.00
5.	Freight vehicle	6602	80,005.00	
	Calculation of purchase – cost of purchase <i>For purchase of freight vehicle</i>	659		80,005.00

In order to secure the proper use of freight vehicles and to prevent a possible misuse, companies are obliged to keep the records on the use of freight vehicles according to the provisions of the Act on the Special Tax on Motor Vehicles and the Ordinance on the Special Tax on Motor Vehicles.

**4. CONCLUSION**

The assets of a company comprise the cars used for personal transportation and the cars used for performing business activities, which are specifically determined by the provisions of the VAT Act. If a car has been purchased for personal transportation and the VAT has been calculated upon the purchase, the VAT cannot be deducted as a pre-tax and is included in the purchase price

of the car. The purchase price includes a special tax on motor vehicles paid upon the purchase of the car which was not previously registered in the Republic of Croatia. If the purchase of a car does not subject to the VAT calculation, this should be reported to the authorized office of the Tax Administration in order to pay 5% tax on purchase of motor vehicles. The purchase of the cars to be used for performing business activities, such as rentals or transportation of passengers subjects to the deduction of the pre-tax if it has been calculated on the invoice.

Upon making a decision on the purchase of a car an entrepreneur should take into consideration all the potential costs and decide on the purchase of the car which is the most favourable one in terms of taxation and cost-effectiveness.

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## OSOBNI AUTOMOBILI U IMOVINI PODUZETNIKA

### SAŽETAK RADA:

Poduzetnik za potrebe svog poslovanja koristi osobne automobile koji mogu biti u njegovu vlasništvu ili ih koristi po osnovi ugovora o financijskom leasingu. Ovisno o tome od koga se vozilo nabavlja te je li riječ o vozilu koje će se koristiti za potrebe osobnog prijevoza zaposlenika i članova uprave ili za obavljanje djelatnosti, razlikujemo porezni i računovodstveni položaj osobnih automobila. Osobni automobili koji se koriste za osobni prijevoz zaposlenika i članova uprave imaju nepovoljniji porezni položaj s motrišta Zakona o porezu na dodanu vrijednost i Zakona o porezu na dobit u odnosu na vozila koja se koriste za obavljanje pojedinih djelatnosti.

*Ključne riječi: osobni automobili; imovina; financijski leasing; oporezivanje; porez na dodanu vrijednost*

