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| A car in your company - Leasing as an alternative to purchasing

Introduction

When we need to have a new car dedicated for business use in Poland, there may be a question on how we will pay for it – buy or lease? In such situations, the decision makers consider the phase of their company's development, cash-flow or other financial factors rather than the tax consequences, to make the correct decision. Sometimes non-business reasons prevail as one may feel an irresistible urge to have his own car whilst somebody else needs a luxury car for a relatively short period of time and so such a significant once-off expenditure is unnecessary.

Nevertheless, thinking of the leasing alternative, the tax perspective should be taken into account, particularly in Poland, where the tax law includes a number of specific provisions and requirements uncommon to the tax systems of other EU Countries. Hence, for the foreign entrepreneur, the appropriate care may mitigate tax risks existing under the Polish regulations which are subject to constant changes (mostly because of the process of harmonizing Polish law with EU law).

In the following article, we will take a quick look at the tax consequences of leasing a car which may help you to decide whether this form of financing may be an attractive solution for your company.

Leasing – General information

Leasing is one of the most popular non-bank forms of financing. Lease agreements are regulated by the Polish Civil Code. Generally, it is an agreement where the lessor (leasing company) undertakes to purchase an asset (car in our case) from a seller and release it to the lessee for use. Under such agreement, during the agreed period,

Corporate Income Tax („CIT“) consequences

the entrepreneur (as the lessee) pays the lessor a fee for the use of the car in agreed installments.

In the case of car leasing, an operating lease is the most popular and practical form (finance leasing, as a second option, is more similar to a loan and is not commonly used here). To qualify for an operating lease, a relevant agreement should be concluded for a definite period constituting at least 40% of the normative depreciation period of the car (such period is 5 years) whilst the total fee (excluding VAT) cannot be less than the initial value of the car. Under an operational lease the entrepreneur (lessee) uses the car which is still owned by the leasing company.

Principally, under an operating lease, the total amount of rental payments constitute a tax-deductible cost for the entrepreneur who uses the car. However, depreciation write-offs are made by the leasing company. Under a financial lease, which is less popular, the capital element of lease payments is tax-neutral for corporate income tax purposes. Hence, only the interest element constitutes a tax deductible cost for the entrepreneur.

For comparison let's shortly analyse a situation where the entrepreneur does not want to enter into a lease agreement, rather taking a loan instead to finance the purchase of a vehicle. In such a case, a company which is party to the loan agreement (as a borrower) may include interest paid and bank commission into its tax deductible costs and for tax calculation purposes, it can depreciate the purchased vehicle for 5 years in most cases.

VAT consequences

Unfortunately, there is a specific exception to this rule for passenger cars purchased with a value exceeding EUR 20,000. If the price of such car exceeds the said threshold, the deductible part is restricted to the portion of the cost up to EUR 20,000 only. Also, the expenditure related to non-compulsory insurance of passenger cars with a value exceeding EUR 20,000 cannot be treated as tax deductible costs in the full amount.

In accordance with Polish VAT Law, an entrepreneur is allowed to deduct input VAT resulting from the purchase invoices issued by a car leasing company in the VAT settlement for the period when the invoice is received or for the two following periods. Nevertheless, entrepreneurs using passenger cars (or other cars of a maximum load weight less than 3.5 tons) are entitled to deduct only 60% of input VAT resulting from such invoice whilst the total amount of deducted input VAT with regard to a given car cannot exceed PLN 6,000. The presented limitation is similar when buying a new passenger car instead of leasing one.

In a nutshell

It is difficult to generally assess whether the leasing of a car may be an interesting alternative for foreign entrepreneurs paying taxes in Poland, as each case may be different.

In terms of financing, in a long-term perspective, leasing can be more expensive than a loan, however, leasing is more accessible in Poland being more commonly offered by dealers as an alternative to car purchasing.

On the other hand, for some of us it is more sensible to pay for the use rather than for the ownership of a car which is an asset of quickly depreciating value.



Although one can debate on whether the worldwide financial crisis is over or not, leasing may be regarded as a more popular option in our uncertain times where companies strive to cut costs trying to make smarter financial decisions. What is underlined by the experts, by choosing the leasing option, entrepreneurs may channel their monthly payment savings into other beneficial investments, such as shares or bonds.