



Company cars

'My car, my liberty' was a popular slogan in the sixties. It has become a liberty with a hefty price tag, especially if you think of the rising cost of the fuel.

Cars are expensive to buy and to keep on the road. There is not only the purchase price, and the insurance and the cost of maintenance and, of course, the cost of the fuel. And then the government wants its share in taxes: apart from the initial tax to put the car on the road and the annual road tax, there is the VAT on the purchase and on the maintenance, the taxes on the insurance and all the taxes on the fuel.

A company car is therefore a perk that no one will refuse, especially since the Belgian tax regime for company cars is one of the most favourable in Europe.

There is no benefit-in-kind tax for company cars that are used for work only. But those are rare, in general the employee can use the car to commute, and during the weekends, for shopping or for travelling. It is for those private kilometres that the employer has to withhold tax.

In the past, the employer had to calculate the private kilometres to determine the benefit-in-kind, but the taxman was apprehensive that the figures he received would not be accurate. In the end he accepted a calculation on 5,000 or 7,500 depending on whether or not the employee lives within 25 kilometres from the office. That is an average based on a normal number of working days a year, and on the fact that some people (just think of sales reps) do not drive to the office every day. Even then, the employer can come to an agreement with the tax authorities on the number of private kilometres that is even more advantageous in the specific situation of the employee.

Next we need to look at the tax horsepower of the car. The tax horsepower is an ancient system to rate motor vehicles, where cars are ranked on the basis of their tax horsepower between 4 and 21 CV, even if the real power is often ten times the tax horsepower. Belgium uses that system to charge the road taxes, and the benefit-in-kind tax for company cars. Depending on the tax horsepower, the value of the benefit varies between € 0.1649 and 0.4541.



Fringe benefit per kilometre in function of the tax horse power of the car (1 January 2007)	
4 CV → € 0.1649	12 CV → € 0.3609
5 → € 0.1936	13 → € 0.3836
6 → € 0.2139	14 → € 0.3980
7 → € 0.2366	15 → € 0.4147
8 → € 0.2581	16 → € 0.4267
9 → € 0.2808	17 → € 0.4350
10 → € 0.3107	18 → € 0.4458
11 → € 0.3406	≥ 19 → € 0.4541

Typically a good company car would have a tax horsepower of 11, and a rate of € 0.3406. For an employee living 20 kilometres from work, the fringe benefit would be $5,000 \times € 0.3406 = € 17,030$ per year. That is the theory because most employees pay a personal contribution for the use of the car. And that contribution is deducted from the benefit-in-kind. Moreover, if the employee's contribution is calculated on the real number of private kilometres, that number will be used to calculate the value of the fringe benefit.

In Belgium, the cost of commuting is a private cost that is why the distance between home and work is the basis for the fringe benefit. However, because the commute is necessary to work, the employee can deduct € 0.15 per kilometre but that is not necessarily a good idea. That number of kilometres will also be used to calculate the fringe benefit. And the employee will lose the allowance for work related expenses (usually over € 3,000), and he will have to prove all expenses he claims.

If he opts for the allowance, the employee can claim the exemption of his employer's intervention in the cost of commuting. All the employer must do is split out the benefit in kind for the commute and for other travel on the payslip. However, this only works for employees, not for company directors.

On that benefit income tax is due, but no social security. The employer will report the benefit-in-kind on the pay slip and withhold the tax from his salary.

It did not take employers long to figure out that a company car is a tax effective way of paying part of the salary or a bonus. That explains why there are some 300,000 company cars on the Belgian roads.

The government is caught between the devil and the deep blue sea. The tax is very low, but it does not want to charge more tax from these 300,000 taxpayers. That is why it is increasing the tax burden for employers. A couple of years ago, it introduced a solidarity contribution, calculated at 33 % of the value of the



fringe benefit. However, too many company cars escaped the tax, because the employee paid for the use of the company car. The solidarity contribution is now calculated on the carbon dioxide emissions of the company car. And last year, employers were penalised even more for company cars with a high CO₂ – emission. For cars with a higher CO₂ –emission, the tax deductible part of the car expenses was reduced. Since 1 April 2007, percentage of the deduction varies with the carbon dioxide emissions of the car and mostly, it will go down :

CO ₂ emission (in grams/km)		Deduction of car expenses
Diesel	Petrol	
< 105	< 120	90 %
105-115	120-130	80 %
116-145	131-160	75 %
146-175	161-190	70 %
> 175	> 190	60 %

Employers see green: company cars may have become greener, but at their expense. Leasing companies report that employers now go for smaller company cars with less carbon dioxide emissions.

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