

# FOCUS ON ...

**TAX**March  
2024

## Buying a passenger car in 2024?

**There are many points to bear in mind when buying a passenger car, and the consequences can be significant.**

**The acquisition of a passenger car has a number of accounting and tax implications that need to be fully understood.**

### Which vehicles are affected?

These are vehicles registered in the passenger car category (including *estate, commercial and Canadian cars*) and N1-approved vehicles intended for passenger transport.

### Ecological Malus

#### What is it?

The "malus écologique" is a tax payable on the first registration of a passenger car in France. The more polluting the vehicle, the higher the tax.

This varies according to :

- Carbon dioxide (CO<sub>2</sub>) emissions,
- The administrative authority, And/or
- The weight of the vehicle exceeds the thresholds in force.

### Which vehicles are affected?

The ecological penalty applies to passenger cars emitting more than 117g of CO<sub>2</sub>/km from 1 January 2024 for cars that have been granted EC type-approval or EC type-approval, or with a tax rating of more than 4 horsepower (HP) for vehicles that have not been granted EC type-approval.

**Please note:** the environmental penalty is payable when the vehicle is first registered in France, not when the vehicle is ordered or purchased.

Certain vehicles are also exempt:

- Wheelchair-accessible vehicles,
- Vehicles acquired by a person holding a "mobility inclusion" card marked "invalid" or a military invalidity card, or having a minor or dependent child who holds a CMI marked "invalid",
- Vehicles powered exclusively by electricity, hydrogen or a combination of the two.

### What is the environmental penalty scale?

The scale is calculated according to the amount of carbon dioxide emitted per kilometre. It is progressive and ranges from €50 (from 118 g CO<sub>2</sub>/km on 1 January 2024) to €60,000 (from 193 g CO<sub>2</sub>/km on 1 January 2024).

For vehicles that have not been granted EC type-approval, the scale will be based on fiscal power.

You can find the two scales [HERE](#).

### When can the penalty be reduced?

The environmental penalty may be reduced in the following cases:

- The carbon dioxide rate is reduced by 20 grams per kilometre per dependent child, from the third child onwards and within the limit of a single vehicle with five or more seats per household, or reduced by one administrative horse per child,
- Vehicles specially equipped to run on E85 superethanol benefit from a 40% reduction in carbon dioxide emissions. This allowance does not apply to vehicles with carbon dioxide emissions of more than 250 g/km,
- A reduction of 10% from the first registration applies to converted vehicles (e.g. commercial vehicle converted into a category M 1 vehicle), provided that the registration resulting from the conversion of the vehicle takes place 6 months or more after the first registration.

### **Is depreciation excluded from deductible expenses by tax provision?**

This applies to vehicles registered in the passenger car category (including estate cars, commercial vehicles and Canadian cars) and, for financial years ending on or after 1 October 2010, to N1-approved vehicles used for passenger transport.

*On the other hand*, the restriction does not apply to vehicles that are strictly necessary for the company's business, mainly passenger transport companies (ambulances, taxis, driving schools) and vehicle rental companies.

The following table shows the deductible base according to :

- The vehicle's registration date,
- CO2 emissions.

CO2 emissions (from 2021)	Limit
> 20 g of CO2 per km	30 000 €
From 20 to 59 g of CO2 per km	20 300 €
From 60 to 130 g of CO2 per km	18 300 €
More than 130 g of CO2 per km	9 900 €

When calculating tax, for companies subject to income tax or corporation tax, the depreciation allowance for passenger cars must be added back for the portion of the purchase price (including tax) exceeding the limit.

In the case of leasing charges for passenger vehicles or leasing of passenger vehicles for more than 3 months, any proportion that would not have been deductible if the company had owned the vehicle must be added back, whether the company is subject to income tax or corporation tax.

**Specificity concerning accumulators (batteries)**

Batteries needed to run electric vehicles or specific equipment for using liquefied petroleum gas (LPG) or natural gas for vehicles (NGV) may not be taken into account when applying the depreciation limit set by article 39.4 of the General Tax Code if they are subject to :

- Separate invoicing or a separate statement enabling them to be identified when vehicles are purchased,
- Which are capitalised and depreciated independently.

**What about VAT?**

As far as VAT is concerned, the right to deduct VAT on the purchase of a passenger car is excluded, as is VAT on acquisition costs, spare parts, repairs and leasing relating to these vehicles.

**This does not apply to :**

- Vehicle manufacturing companies,
- Vans and tractors,
- Public transport: taxis, ambulances, boats, coach and aircraft operators, vehicle rental companies,
- Vehicles with more than 9 seats used by companies to bring their staff to work,
- Commercial vehicles,
- Vehicles derived from passenger cars.

**What about fuels?**

- Diesel fuel and E85 superethanol are deductible up to 80% of the tax if the fuel is used for a vehicle not eligible for deduction, and fully deductible for vehicles eligible for deduction,
- VAT deductible in full on petroleum gas and other hydrocarbons in a gaseous state used as fuel for vehicles eligible for deduction and VAT deductible up to a limit of 50% if the fuel is used for a vehicle not eligible for deduction,
- Lubricants for vehicles not eligible for deduction,
- VAT on LPG or CNG used as fuel is deductible regardless of the vehicle used.

**Specific taxes**

From 1 January 2022, private vehicles used in France for business purposes will be subject to 2 annual taxes:

- A tax on carbon dioxide emissions,
- A tax on emissions of atmospheric pollutants.

These taxes are payable by companies that :

- Or hold "vehicles used for economic purposes",
- Or as part of a rental or hire arrangement (long-term rental, i.e. for a period of more than one calendar month or 30 consecutive days),
- Or pay the costs of acquiring or using these vehicles.

**Passenger cars subject to these taxes are still those :**

- From category M 1, with the exception of special purpose vehicles that are not wheelchair accessible,
- Category N 1 "Pick-up truck" bodywork with at least 5 seats,
- Multi-purpose vehicles in category N 1 intended for the carriage of passengers and their baggage or goods.

**The following vehicles are exempt from these 2 taxes:**

- Electric and hybrid vehicles (with carbon dioxide emissions of less than 60 g/km),
- Cars combining electricity and E85,
- Cars running on LPG and CNG,
- Vehicles that can accommodate a wheelchair user.

*For more information: see the focus on...The end of the TVS, updated to February 2024.*

## The benefit in kind vehicle

When an employee is granted the use of a company car for both business and personal purposes, the use for private purposes constitutes a benefit in kind. It makes no difference whether the employer owns or leases the vehicle.

The employer has the choice of assessing this benefit in kind either on the basis of the expenses actually incurred, or using a lump sum.

No benefit in kind applies in the following cases where :

- The employee must return the vehicle to the employer during each weekly rest period and during holiday periods,
- Employees have permanent access to a vehicle, but are strictly forbidden to use it during weekly rest periods and holidays. This prohibition must be communicated in writing, whether through the internal regulations, a professional circular or correspondence, whether in paper or electronic form, from management. If the prohibition on use during the weekly rest period is recorded in writing, the employer is not obliged to record any benefit in kind relating to the company fuel card,
- The employee must return the vehicle during the weekly rest period and holidays, but still benefits from the use of a company vehicle for travel between home and work. This is possible if the employer can demonstrate that the use of the vehicle is essential to the business. It is up to the employer to prove that the employee is unable to use public transport because of an unserved or poorly served route, or because of specific working conditions or hours,
- The employee pays a financial contribution in excess of the actual or flat-rate amount of the benefit in kind.

**Note:** if the financial contribution is less than the actual or flat-rate amount, the benefit in kind is deemed to exist and is subject to contributions. This benefit is determined by calculating the difference between between the amount of its assessment and the financial contribution paid by the employee.

## How do you assess the benefit in kind?

The employer has the option of assessing the benefit in kind in one of two ways:

- On the basis of expenses actually incurred,
- On an annual flat-rate basis.

### Actual expenditure method

**In the case of an acquired vehicle, actual expenditure includes :**

- Depreciation of the purchase value of the vehicle, including all taxes, over 5 years at a rate of 20% per year,
- Insurance,
- Maintenance costs (servicing, tyre changes, oil changes, etc.) inclusive of all taxes.

If the vehicle is more than 5 years old, the depreciation percentage is 10%.

The value of the benefit in kind is calculated as follows:

- By applying to the total thus obtained the ratio existing between the mileage travelled by the employee for personal purposes and the total mileage,
- And adding, where applicable, the cost of fuel used for private purposes and paid for by the employer.

### Fixed-price valuation

If the vehicle is made available during the year, regardless of whether it is purchased, leased or leased with a purchase option, the lump-sum valuation must be adjusted in proportion to the number of months it is made available. If the vehicle is made available during the course of a month, the full month is taken into account.

**For a vehicle purchased,** the benefit is 9% of the purchase cost including tax (compared with 6% if the vehicle is more than 5 years old).

If the employer covers the cost of fuel, this additional benefit is taken into account :

- Either for the actual amount,
- Or by increasing the above percentages to 12% of the purchase cost including VAT (compared with 9% if the vehicle is more than 5 years old).

**In the case of a leased vehicle or a vehicle leased with a purchase option,** where the employee pays the fuel costs, the valuation resulting from personal use is equal to 30

% of the total annual cost including VAT, including hire, maintenance and insurance.

When the employer pays for the fuel, the assessment is made :

- Up to 30% of the total annual rental cost (rental, maintenance, insurance) plus actual costs (based on invoices) of fuel for personal use,

**or**

- Up to 40% of the total annual rental cost (rental, maintenance, insurance and total cost of fuel for business and personal use).

This valuation is limited to that resulting from the rule applied in the case of a purchased vehicle (the reference price of the vehicle being the purchase price, inclusive of tax, of the vehicle by the lessor, including discounts, up to a limit of 30% of the manufacturer's recommended price for the sale of the vehicle on the day the contract begins).

**Good to know:** if an employer provides an employee, between 1 January 2020 and 31 December 2024, with a vehicle that runs solely on electric power :

- Electricity costs paid by the employer are not to be taken into account when calculating the benefit in kind,
- A deduction of 50% is to be applied to the benefit in kind in its entirety. The amount of this deduction is capped at €1,964.90 in 2024 (€1,917 in 2023) per year.

## Methods for calculating benefits in kind

	The employer pays the fuel	The employer does not charge the fuel
Purchased vehicle (less than 5 years old)	$\left[ \frac{20\% \text{ purchase price incl. VAT per year} + \text{insurance} + \text{maintenance}}{\text{Total km} + \text{actual fuel costs for private use}} \right] \times \text{km for private use} \times \text{staff}$	$\frac{[20\% \text{ purchase price incl. VAT per year} + \text{insurance} + \text{maintenance}] \times \text{km for private use}}{\text{Total km}}$
Purchased vehicle (over 5 years old)	$\frac{[(10\% \text{ purchase price incl. VAT per annum} + \text{insurance} + \text{maintenance}) \times \text{km for private use}] + \text{Total km} + \text{actual fuel costs for personal use}}{\text{Total km} + \text{actual fuel costs for personal use}}$	$\frac{[(10\% \text{ purchase price incl. VAT per year} + \text{insurance} + \text{maintenance}) \times \text{km for private use}]}{\text{Total km}}$
Leased vehicle (with or without purchase option)	$\frac{[(\text{total annual rental cost} + \text{insurance} + \text{maintenance}) \times \text{km for private use}] + \text{Total km} + \text{actual fuel costs for personal use}}{\text{Total km} + \text{actual fuel costs for personal use}}$	$\frac{[(\text{overall annual rental} + \text{insurance} + \text{maintenance cost}) \times \text{km for private use}]}{\text{Total km}}$

## Examples of how to calculate the benefit in kind

Actual expenses	Expenses calculated on the basis of a fixed price	Expenses calculated on the basis of a fixed price
<p><b>Leased vehicle:</b> cost of rental: €5,500/year Maintenance: €1,650 per year Insurance: €1,650 per year Total: €8,800 per year</p> <p>Annual kilometres travelled by the vehicle: 33,000 km Annual kilometres travelled Private: 19,800 km</p> <p>Benefit in kind before allowance: €8,800 × 19,800 km / 33,000 km = €5,280</p> <p>Application of the 50% : 5 280 × 50% = 2 640 € Capping the allowance 1,964.90 per year</p> <p><b>The value of the benefit in kind is</b> <b>5 280 - 1 964,90 = 3 315,10 €</b></p> <p>Electricity costs are not taken into account</p>	<p><b>Vehicle purchased:</b> €22,000 and less than 5 years old The flat rate applied is 9% of the purchase price 9% × 22 000 = 1 980 €</p> <p>Application of the 50% : 1 980 × 50% = 990 €</p> <p><b>The value of the benefit in kind is</b> <b>1 980 - 990 = 990 €</b></p> <p>Electricity costs are not taken into account</p>	<p><b>Leased vehicle:</b> total annual cost (rental, maintenance and insurance) : 12,600 per year The flat rate applied is 30% of the total annual cost 12 600 × 30% = 3 780 €</p> <p>Application of the 50% : 3 780 × 50% = 1 890 €</p> <p><b>The value of the benefit in kind is</b> <b>3 780 - 1 890 = 1 890 €</b></p> <p>Electricity costs are not taken into account</p>



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