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Circular No. 01/2025

Bolzano, 4 January 2025

Subject: Changes regarding company cars from 1 January 2025

The new per-kilometre costs under the ACI scale for 2025 were published in the Official Gazette of 30 December 2024. They serve, on the one hand, to determine benefits in kind for employees and, on the other, to determine the appropriate consideration for the private use of passenger cars by shareholders and by family members of companies and businesses. The per-kilometre costs for passenger cars with combustion engines have fallen by up to 2% compared with the previous year, as a result of the changes on the fuel market; conversely, those for electric motors have risen by between 0,2% and 2,4%, caused by the increase in the price of electricity.
At the same time, however, the 2025 Budget Law has sharply increased the coefficients for the private use of new company vehicles with combustion engines, and in many cases the management of the company fleet will have to be reconsidered.

<u>1. Calculation of the benefit in kind for 2025:</u>

The calculation of benefits in kind for the private use of passenger cars for the current year 2025 becomes even more complicated. Whereas up to now a distinction had to be made between cars registered or granted for mixed use before and after 1 July 2020, 1 January 2025 now applies as

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an additional cut-off date. In the current year, therefore, four categories of vehicles must be distinguished for the purpose of calculating the benefit in kind;

1. vehicles with registration (first registration) before 1 July 2020 and granted to the employee likewise before 1 July 2020,
2. vehicles with first registration after 1 July 2020 and granted to the employee likewise after 1 July 2020, and
3. vehicles with first registration before 1 July 2020, but granted to the employee for mixed use after the said cut-off date.
4. vehicles registered after 1 January 2025 and granted for mixed use after 1 January 2025:

Re 1) The benefit in kind for the private use of company vehicles granted to employees before 1 July 2020 is calculated using the specific ACI rate of the vehicle concerned for 15.000 km, namely for a (statutorily) presumed 4.500 km of private use per year (equal to 30% of 15.000 km), less any cost contribution made by the employee.

Re 2) For agreements concluded from 1 July 2020 onwards and concerning the free-of-charge granting of vehicles which were likewise registered only after that date, the benefit in kind is instead determined, pursuant to Art. 1 para. 632 Law 160/2019, on the basis of the emissions of those vehicles as follows, always with reference to the ACI rate for 15.000 km:

- up to 60 g/km: 25% of 15.000 km (corresponding to 3.750 km/year instead of the general 4.500 km),
- over 60 g/km and up to 160 g/km: 30% of 15.000 km (corresponding to the previous rule of 4.500 km/year),
- over 160 g/km and up to 190 g/km: 50% of 15.000 km (corresponding to 7.500 km/year),
- over 190 g/km: 60% of 15.000 km (corresponding to 9.000 km/year).

The presumed kilometres of private use per year determined in this way are then multiplied by the specific ACI rate of the vehicle concerned for 15.000 km, and the monetary benefit for private use results after deduction of any cost contribution made by the employee.
This procedure covers vehicles which, after 1 July 2020,

- have been registered,
- have been acquired by the employer as from that date by way of a purchase agreement, leasing or rental agreement, and
- have been granted to employees, whether against payment or free of charge, as from that date.

Re 3) The third case mentioned above, i.e. where a vehicle already registered before 1 July 2020 is granted to an employee after 1 July 2020, continues to lack any statutory regulation. And the Italian Revenue Agency (ruling No. 46 of 14 August 2020) takes the following restrictive view: according to the Agency, the value of the private use (the so-called "fringe benefit") must be determined according to the general criteria of normal value (e.g. the rate charged by professional car rental companies), less the proportionate value of the use of the vehicle in the employer's interest and less any cost contributions made by the employee. In this connection, the Agency refers to ruling No. 74 of 2017 concerning the private use of telephone equipment. One approach suggested in the specialist press is to work on a 5/7 – 2/7 ratio, on the assumption that the vehicle is used for work purposes for 5 days a week and for private purposes for 2 days. It is obvious that such calculations – also in the absence of clear official guidance – are likely to give rise to countless future assessments in the course of tax audits.

Although the specialist press has for years criticised the inappropriateness of this rule compared with the other two cases, no clarification has been provided to date.

<u>Hence our recommendation: wherever it is still possible today, an effort should be made to also have a corresponding agreement for the granting of the vehicle with the employee or director dated before 1 July 2020 in respect of vehicles with private use that were registered before 1 July 2020.</u>

Re 4) For vehicles registered after 1 January 2025 and granted for mixed use under contracts concluded after 1 January 2025, the following rule applies, always with reference to the 2025 ACI rate for 15.000 km/year:

- For hybrid (plug-in) vehicles, 20% of 15.000 km (corresponding to 3.000 km/year) is deemed to be private use.
- For electric vehicles, by contrast, 10% of 15.000 km (i.e. corresponding to 1.500 km/year) is deemed to be private use.
- And for all other vehicles a flat rate of 50% (corresponding to 7.500 km/year) is taken as private use; this corresponds to the treatment of older vehicles with emissions of over 160 g/km and up to 190 g/km.

Contrary to the previous rule, in the case of combustion engines the emission level is therefore no longer decisive; instead, the sole criterion is the vehicle's type of propulsion: purely electric propulsion (BEV) and plug-in hybrid propulsion (PHEV) on the one hand, and all other types of propulsion on the other, entirely irrespective of the level of emissions. In the case of low-emission vehicles with combustion engines, the new rule generally leads to an almost twofold increase in the previous benefit in kind. Conversely, users of large electric vehicles can be pleased: here the burden is reduced by around 50% compared with the previous year.

As in the past, the presumed kilometres of private use per year determined in this way are multiplied by the specific ACI rate of the vehicle concerned for 15.000 km, and the monetary benefit for private use results after deduction of any cost contribution made by the employee.

2. Fringe benefit and the effects on income tax:

Where the company vehicle is granted for mixed use to an employee for more than half of the financial year, not only 20% but 70% of the acquisition and operating costs are deductible for tax purposes pursuant to Art. 164 para. 1 letter b-bis Income Tax Code (TUIR); in addition, the ceiling of 18.075,99 Euro on acquisition costs does not have to be observed, so that the costs exceeding that amount may also be depreciated for tax purposes.

These reliefs apply provided that the vehicle is granted to the employee for mixed use for the predominant part of the tax period. According to Circular No. 48/1998, this condition is met if the vehicle is granted for at least half of the tax period plus one day.

Please note: the relief described applies only to employees, but not to self-employed collaborators such as, for example, directors; in their case, even with mixed use, the deductibility of the expenses (net of any additional payments or benefits in kind charged to the collaborator) remains limited to 20%, and the ceiling of 18.075,99 Euro for the acquisition costs recognised for tax purposes also continues to apply.

The main point of criticism, incidentally, is that the aforementioned cost threshold of 18.075,99 Euro, which was introduced back in the 1990s, has once again not been adjusted for inflation this year.

3. Fringe benefit and the effects on value added tax:

For VAT purposes, particularly where acquisition and operating costs are high, it is advantageous from the company's perspective not to grant the vehicle to the employee free of charge, but rather to invoice the private use to the employee applying VAT at 22%. This is because a full input VAT deduction for acquisition and operating costs is then granted both in the case of employees and in the case of collaborators treated as such, and thus in particular also in the case of directors. If, on the other hand, the monetary benefit is merely taken into account as a benefit in kind on the employee's payslip but is not invoiced, the general ceiling of 40% applies to the deduction of input VAT on acquisition and operating costs; the Italian Revenue Agency most recently confirmed this in reply No. 631 of 29 December 2020. However, since invoicing will ultimately be linked to the remuneration of the employees, each individual case must in the end be examined separately.

As a matter of principle, however, it must be noted that invoicing the private use is all the more worthwhile for the company the higher the acquisition and operating costs of the vehicle are. In order to benefit from the full input VAT deduction, it will be necessary to take the above classifications (see cases 1-4 above) into account for invoicing purposes for VAT purposes as well.

4. Benefits in kind for managing shareholders and family members

Managing shareholders who use a company car for mixed use must, under the law in force, where the vehicle is granted free of charge (loan agreement), tax between 1.500 and 9.000 km (depending on the emission class and year of registration – see above!) at the ACI rate for 15.000 km as a benefit in kind within their employment income. This obligation ceases if an invoice for the private use is issued to them for this amount as well; however, unlike in the case of employees, this does not entitle the company to deduct the costs to the extent of 70%! At least, however, the company can deduct the VAT in full.

In this connection, we also remind you once again that the monetary benefit arising from private use is taxable for shareholders and family members. Art. 2, paras. 36-terdecies and 36-duodevicies Law Decree 138/2011 introduced a rule under which, in the case of the private use of business assets by shareholders of partnerships and corporations and, in addition, by family members of sole proprietorships and by shareholders, the monetary benefit is taxable as other income, in so far as they use business assets partly or exclusively for private purposes and do not pay the company appropriate consideration for this. At the same time, restrictions were introduced on the deductibility, at the level of the companies, of the acquisition and operating costs relating to these assets. With regard to passenger cars, the tax authorities established, by Circular No. 36/E of 24 September 2012, that the monetary benefit is calculated using the ACI rate as set out above. Conversely, if this amount is invoiced, no other income arises.

5. The new ACI tables

In a press release, the Italian Revenue Agency has set up permanent access to the current ACI tables with reference to the Official Gazette. The ACI rates applicable for the current year for the relevant vehicle can be retrieved at the following address:
https://www.gazzettaufficiale.it/https://www.gazzettaufficiale.it/eli/id/2024/12/30/24A07021/SG

The "fringe benefit annuale" shown in the relevant table indicates the monetary benefit of private use for the whole of 2025 at the rate for 15.000 km and already includes VAT. If, therefore, the private use is to be invoiced for one month, for example, the value shown in the table must be divided first by 12 and then by 1,22, and VAT at 22% is then calculated on that amount. In each case the appropriate column will have to be selected on the basis of the percentage indicated under point 1 (10% to 60%).

We remain at your disposal for any further information.

Yours sincerely
Josef Vieider