

Tax implication – Company car vs car allowance

In practice, there are a few typical scenarios:

- Use company car
- Use employee's personal car for business purposes
 - Reimbursement based on distance
 - Reimbursement based on actual cost
 - Grant monthly fixed car allowance

Use of company car

When a car is registered under the company's name and provided to an employee for business purposes, all related expenses—including fuel, parking, repairs, and maintenance—can be recorded as company expenses. These costs are generally tax-deductible for the company, provided they are supported by valid business invoices. Under such circumstances, the employee's use of the company car does not give rise to personal income tax liability.

Taiwan's tax regulations do not require companies to disclose detailed usage records of company cars. As a result, tax officers often lack effective means to verify whether the vehicle was used exclusively for business purposes. In practice, this creates opportunities for business owners to abuse the system by claiming company expenses for vehicles that may also be used for personal purposes.

Use employee's car

- Reimbursement based on distance

In accordance with MOF ruling dated 2nd July 1980, TaiTsaySui 35247, if an employee were to use his or her own car for business purposes, the employer can reimburse the employee based on actual kilometer covered. Such reimbursement shall be limited to taxi fare or equivalent train ticket rate.

Current taxi fare rate in Taiwan is approximately TWD 20 per kilometer. Such reimbursement is not taxable in the hands of the employee.

- Reimbursement based on actual cost

In accordance with MOF ruling dated 22nd April 1986, TaiTsaySui 7523491, if a marketing division employee were to use his or her own car for business purpose, the employer can reimburse the employee based on actual cost incurred. However, the following criteria must be met.

The employee must belong to the Company's marketing division (Please note that there is a tax ruling to state that this arrangement is not applicable for general manager of a Company).

- There needs to be a written contract between

employer and employee on the subject matter.

- Reimbursement shall be limited to petrol, repairs, parking, and highway toll expense. License fee, depreciation and insurance are excluded.

- Granting a Monthly Fixed Car Allowance

This refers to situations where an employer agrees to pay an employee a fixed monthly amount as compensation for using the employee's personal car for business purposes. Such a fixed monthly allowance is treated as part of the employee's salary and is fully taxable in the employee's hands.

**THE TAX LEGISLATION IN TAIWAN IS COMPLEX -
YOU ARE STRONGLY RECOMMENDED TO SEEK
PROFESSIONAL ADVICE BEFORE CONCLUDING
IMPORTANT TAX DECISIONS.**

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