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By PwC Deutschland | 06. März 2013

Company car benefit – 1% rule confirmed

The Supreme Tax Court has held that there is no constitutional objection to valuing the private use of a company car at 1% per month of the manufacturer’s list price when new, given the alternative of assessing the benefit at actual cost.

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The private use of a company car may be valued at 1% per month of the manufacturer's list price of the car when new – the "1% rule". However, it is open to the taxpayer to value the private-use benefit at actual cost to the company allocated between business and private travel on the basis of an accurate and detailed log of all business travel – the "log rule". A general manager with the private use of a luxury car leased by the company after it had been used for three years has challenged the list price of the car when new as the basis for the 1% rule on the grounds that it was irrelevant to his personal circumstances. The Supreme Tax Court has now rejected this challenge.

The court took the view that the 1% rule was an intentional generalisation. As such it could not lead to an accurate result in specific cases. It was therefore, on its own terms, not open to attack on specific aspects. As a generalisation ignoring such basic aspects as actual private mileage and actual running costs of the vehicle, it was constitutionally acceptable, given that each and every taxpayer had the alternative of keeping a proper log as a basis for applying the log rule. Thus, even if the taxpayer's complaint were justified in the present instance, he was not prevented from taxing his benefit on the basis of its actual cost. There was thus no breach of the constitution.

Supreme Tax Court judgment VI R 51/11 of December 13, 2012, published on March 6, 2013

Schlagwörter

1% rule, company car