

Recovery of VAT on Motor Vehicles

This document should be read in conjunction with sections 59, 60 and 61 of the
Value-Added Tax Consolidation Act 2010

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Table of Contents

Introduction	3
1. General rules on recovery of VAT on motor vehicles.....	3
2. Commercial vehicles.....	4
3. Restrictions on recovering VAT	4
4. Second-hand vehicles.....	4
5. Converted vehicles	5
5.1. Self-supply upon reconversion of a vehicle.....	5
6. Recovery of VAT on motor vehicles by certain traders	6
6.2. Recovery of VAT by motor dealers	6
6.3. Recovery of VAT by driving schools.....	6
6.4. Recovery of VAT by hire / lease providers.....	6
6.5. Recovery of VAT under hire-purchase agreements.....	7

Introduction

This guidance sets out how VAT on motor vehicles can be recovered by VAT registered persons and certain types of traders.

The guidance on partial recovery of VAT on qualifying passenger motor vehicles is dealt with separately in the [VAT Tax and Duty Manual](#).

1. General rules on recovery of VAT on motor vehicles

The general rule for VAT-registered traders is that they are entitled to deduct VAT charged to them on purchases made for business purposes. However, in the case of motor vehicles, there are some limitations to this entitlement.

For practical purposes, an attempt has been made to match the VAT legislation to the Vehicle Registration Tax (VRT) categories. Motor vehicles are divided into a number of different categories for VRT purposes. Vehicles may be liable to different rates of VRT and different registration procedures depending on the category.

Vehicles used for commercial purposes will generally come within Categories B and C and will be liable to VRT at lower rates than Category A vehicles. Further details of the VRT Categories are available on the [Revenue website](#).

VAT registered traders generally may not deduct VAT incurred on the hire, leasing or purchase of passenger motor vehicles for use in their businesses where these vehicles are classed as Category A for VRT purposes. The vehicles that come within VRT Category A include:

- saloons,
- estates,
- hatchbacks,
- convertibles,
- coupés,
- MPVs,
- jeeps,
- SUVs,
- minibuses with no more than 8 seating positions (in addition to the driver's seating),
- motorcycles,

- motor scooters.

However, certain traders are entitled to recover VAT on these vehicles for use as stock-in-trade, or in a driving school or car-hire business (see [section 6](#)).

2. Commercial vehicles

A VAT registered trader is generally entitled to deduct VAT charged on the purchase or hire of a motor vehicle for use in his or her business if the vehicle comes within the definitions of Category B or Category C vehicles for the purposes of Vehicle Registration Tax (VRT). If such a vehicle is used exclusively for business purposes, the VAT is deductible in the normal way.

Vehicles within VRT Categories B and C, such as vans, lorries, pick-ups and crew-cabs are generally deductible for VAT, and these are often referred to as commercial vehicles for VAT purposes. However, buses or minibuses with more than 8 seating positions (in addition to the driver's seating position) are not generally deductible for VAT, although they come within Category C, as they are normally used for the exempt activity of carrying passengers.

N1 vehicles within VRT Category A, that have more than one row of seats (4 or more seats) and to which a [BE bodywork code](#) has not been assigned are also considered commercial vehicles for VAT purposes.

Vehicles that come within VRT Category D, and other vehicles not in Categories A, B, or C may be deductible, depending on whether the purchasers are registered for VAT and the uses to which the vehicles are put.

VAT-registered traders are also entitled to deduct some or all of the VAT incurred on expenses such as the purchase of diesel (but not petrol), road tolls, and the repair or servicing of vehicles (petrol is not included).

For converted vehicles please refer to [section 5](#) for further information.

3. Restrictions on recovering VAT

If the vehicle is used partly for business and partly for non-business use, then the trader can only deduct a portion of the VAT incurred to reflect the amount of business use [as per the normal rules](#).

4. Second-hand vehicles

If the vehicle is purchased from a motor dealer operating the Margin Scheme, then the purchaser has no right to recover any VAT charged.

5. Converted vehicles

Converting a vehicle involves any modification to the vehicle which changes the details recorded at registration for VRT purposes and this may impact on whether or not the VAT incurred on its purchase can be deducted.

Where a vehicle is converted after registration in the State, it must conform to the specifications for the new VRT category to which it has been converted. In general, this will be evident from Revenue records held for the vehicle. However, Revenue may require proof of conversion and may inspect the vehicle before a VAT refund will be issued. Where a vehicle does not conform to the VRT category specifications, Revenue will not consider the vehicle to have been properly converted and will not accept the conversion for VAT purposes.

Further guidance on converted vehicles is set out in the VRT Tax and Duty Manual ['Conversions'](#).

5.1. Self-supply upon reconversion of a vehicle

Where VAT is reclaimed on a converted vehicle and the vehicle is subsequently reconverted to a non-deductible vehicle, the trader will be required to account for VAT on the self-supply of the vehicle.

6. Recovery of VAT on motor vehicles by certain traders

In addition to the above rules, certain traders are entitled to recover VAT on passenger motor vehicles in full, such as:

- Motor dealers who purchased them as stock-in-trade (see [6.1](#) below).
- Driving schools that purchased them for teaching purposes (see [6.2](#) below).
- Car-hire companies that purchased them for hiring out (see [6.3](#) below).
- Financial services companies selling vehicles by hire-purchase arrangements or leasing vehicles (see [6.4](#) and [6.3](#)).

6.2. Recovery of VAT by motor dealers

Motor dealers who are registered for VAT are entitled to deduct the full amount of the VAT incurred on the purchase of all types of vehicles for use as stock-in-trade.

Motor dealers are also entitled to deduct some or all of the VAT incurred on expenses such as the repair, maintenance or servicing of vehicles.

There are special rules on the VAT treatment of a vehicle (Demonstration vehicle) where the motor dealer registers the vehicle in their own name. Further guidance on demo models is set out in the VAT Tax and Duty Manual [VAT and VRT on Transactions Involving Motor Vehicles](#).

6.3. Recovery of VAT by driving schools

Driving training schools are entitled to deduct VAT on all vehicles purchased to be used by them for the purpose of their taxable business activity.

6.4. Recovery of VAT by hire / lease providers

A company that operates a business, hiring or leasing out vehicles, is entitled to deduct the VAT on any vehicles purchased or hired by it for onward hiring to customers.

The hire company must charge and account for VAT on any subsequent sale or disposal of vehicles that were used for hiring out.

6.5. Recovery of VAT under hire-purchase agreements

A hire-purchase agreement is one whereby a customer hires a vehicle from a provider (usually a bank or finance company) for a specified period of time, with an option to purchase the vehicle after the period of hire. An agreement is drawn up providing for regular repayments of equal amounts. Generally, the actual legal transfer of ownership of the vehicle occurs with the last payment.

For VAT purposes, however, the supply of the vehicle takes place at the time that it is handed over by the supplier to the customer. Therefore, a customer who is registered for VAT receives a VAT invoice (from the hire-purchase provider) for the value of the vehicle, not including any finance charges that might apply.

If the vehicle is a commercial one, then the VAT-registered customer is entitled to deduct the full amount of the VAT at the time that he or she takes delivery of the vehicle. The actual legal transfer of ownership of the vehicle (at the time of the final payment) is, therefore, ignored for VAT purposes.

If a second-hand vehicle is sold by hire-purchase arrangement, the Margin Scheme will apply. A customer acquiring such a vehicle will not be entitled to deduct any VAT charged to him / her. Further information on the Margin Scheme is available on the Revenue [website](#).