Notes for Guidance - Taxes Consolidation Act 1997

Finance Act 2024 edition

Part 11C

Emissions-based limits on capital allowances and expenses for certain road vehicles

December 2024

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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PART 11C
EMISSIONS-BASED LIMITS ON CAPITAL ALLOWANCES AND EXPENSES FOR CERTAIN ROAD VEHICLES

Overview

This Part provides for a scheme of capital allowances and leasing expenses for business cars based on the level of CO_2 emissions from the cars concerned.[1] Section 19 of Finance Act 2019 revised downwards the emissions thresholds on which capital allowances and leasing expenses are based. Section 14 Finance Act 2020 made some technical amendments to the scheme as a result of the introduction of the new EU emissions testing regime from 1 January 2021. The definition of CO_2 emissions in section 380K and the category references which determine eligibility for capital allowances and leasing expenses were updated.

Section 33 Finance Act 2024 further reduced the emissions thresholds on which the capital allowances and leasing expenses are based. This change will apply to expenditure incurred from 1 January 2027.

Cars are categorised by reference to CO_2 emissions. There are effectively 3 groups of cars to which different capital allowances arrangements apply:

- The first group covers cars with emissions of up to and including 140 grammes of CO_2 per kilometre driven. From 1 January 2027 this group is limited to cars with emissions of up to 120 grammes of CO_2 per kilometre driven.
- The second group is for cars with emissions of over 140 grammes and up to and including 155 grammes of CO_2 per kilometre driven. From 1 January 2027 this group includes cars with emissions of over 120 grammes and up to and including 140 grammes of CO_2 per kilometre driven.
- The third group includes cars with emissions of over 155 grammes of CO_2. From 1 January 2027 this group includes cars with emissions of over 140 grammes of CO_2 per kilometre driven.

For the purposes of capital allowances, cars in the first group have a car value threshold or limit of €24,000 which applies regardless of the cost of the car. This means that in the case of low emissions cars, capital allowances of €24,000 are available even if the car costs less than that.

Cars in the second group qualify for allowances of either half the car value threshold of €24,000 or half the cost of the car, whichever is the lower. This means that the maximum capital allowances available for cars in this group is €12,000.

Cars in the third group do not qualify for capital allowances.

Capital allowances are spread over 8 years at the rate of 12.5 per cent per annum.

For leasing expenses, cars in the lowest emitting group benefit from a proportionately higher deduction than the actual leasing expenses where the cost of the car is less than €24,000. Cars in the second group get half of the leasing expenses incurred where the

[1] Part 11C was inserted into the Taxes Consolidation Act (TCA) 1997 by section 31 Finance Act 2008 with effect from 1 July 2008. The previous scheme of capital allowances and leasing expenses contained in Part 11 TCA 1997 was based on the cost of the vehicles concerned.

cost of the car is €24,000 or less or, for cars costing over that amount, the leasing expenses are reduced in the proportion which half the specified amount bears to the cost. Cars in the third group get no deduction for leasing expenses. These expenses are allowed over the period of the primary lease, (***section 380M***).

Provision is made to address circumstances in which a car which had been leased is ultimately acquired by the lessee (***section 380O***) or where a car reverts to the original owner having first been the subject of a hire purchase agreement (***section 380N***).

Cars acquired for short term hire, such as taxis, car rental etc., are outside the ambit of these provisions, (***section 380P***).

Where expenditure was incurred or a lease was entered into before 1 January 2021 and the first payment under that lease was made prior to that date, the provisions of the regime as introduced by Section 31 Finance Act 2008 apply.

Where expenditure was incurred or a lease was entered into after 1 January 2021 and first payment under that lease was made prior to that date, the provisions of the regime as amended by Finance Act 2019 and Finance Act 2020 apply.

Where expenditure was incurred or a lease was entered into after 1 January 2027 and first payment under that lease was made prior to that date, the provisions of the regime as further amended by Finance Act 2024 apply.

380K Interpretation and general (*Part 11C*)

Summary

Capital allowances and leasing expenses for business cars are based on the level of a car's CO_2 emissions. This section categorises cars by reference to CO_2 emissions. Based on these categories sections 380L and 380M effectively divide cars into 3 groups to which different capital allowances and leasing treatments apply.

Section 14 Finance Act 2020 made some technical amendments to the scheme as a result of the introduction of the new EU testing regime from 1 January 2021. The definition of CO_2 emissions was updated, and the previous vehicle categories A, B, C, D, E, F and G were revised to A, B, C, D, E and F.

The emission categories as amended by Finance Act 2020, apply to expenditure incurred on the provision or hiring of a car on or after 1 January 2021. However, the amended regime does not apply to leasing expenses where the lease was entered into before 1 January 2021 provided the first payment under that lease was made prior to that date[2].

The capital allowances are spread over 8 years at the rate of 12½% per annum.

Details

Private passenger-type cars are identified as the target of these provisions and ***Part 11***, which provided for the scheme up to 1 July 2008, is disapplied. ***(1)***

[2] The CO_2 emissions regime as introduced in section 31 Finance Act 2008 with effect from 1 July 2008 continues to apply to such expenses.

A business can choose to avail of either the ***Part 11C*** provisions or accelerated capital allowances for fuel-efficient cars under the scheme for energy-efficient equipment in ***section 285A***[3].

Various categories of car (A to F) are defined to which the provisions apply. These categories are based on CO_2 emissions as set out in the Table to the section and by reference to the relevant emissions certificate. ***(2)***

As amended in Finance Act 2020, the categories are:

- Category A up to and including 120g/km,
- Category B more than 120g/km up to and including 140g/km,
- Category C more than 140g/km up to and including 155g/km,
- Category D more than 155g/km up to and including 170g/km,
- Category E more than 170g/km up to and including 190g/km,
- Category F more than 190g/km.

Where the Revenue Commissioners are not satisfied with the accompanying documentation or where there is no documentation, then the vehicle is deemed to be in Category F, in respect of which no deduction is allowed. ***(3)***

The "specified amount" is defined as €24,000 for an accounting period or basis period ending on or after 1 January 2007, "CO_2 emissions" as the vehicle emissions measured in accordance with the relevant EU Council Directive, and vehicle "registration certificate" by reference to the relevant EU Council Directive and/or Commission Regulation. ***(4)***

This Part is construed together with ***Part 9***. ***(5)***

380L Emissions-based limits for certain cars

The necessary cross-reference between this Part and ***section 284*** are made which provides for the wear and tear allowances. ***(1)***

The provisions of the Tax Acts relating to balancing allowances and balancing charges are based on an amount calculated in accordance with this Part. ***(2)***

For expenditure incurred prior to 1 January 2027, the provision of this section as amended in Finance Act 2019 and 2020 will apply. The actual cost of the car for the purposes of the wear and tear allowance is modified in the following way: ***(3)***

- cars in category A or B, €24,000,
- cars in category C, the lesser of €12,000 or half the cost of the car, and
- cars in category D, E or F, zero.

Any calculation of balancing allowances or balancing charges will—

[3] Finance Act 2016 extended the provisions of section 285A to non-incorporated businesses for capital expenditure incurred on or after 1 January 2017. Previously only companies could claim accelerated capital allowances under section 285A.

- for cars in category A or B be modified in the proportion the specified amount bears to the actual expenditure,
- for cars in category C —
  - be reduced by 50% if costing less than €24,000, or
  - be reduced by the proportion which €12,000 bears to the actual expenditure for a car costing more,

and

- for the cars in category D, E or F, be nil.

For expenditure incurred from 1 January 2027, the actual cost of the car for the purposes of the wear and tear allowance is modified in the following way:

- cars in category A, €24,000,
- cars in category B, the lesser of €12,000 or half the cost of the car, and
- cars in category C, D, E or F, zero.

Any calculation of balancing allowances or balancing charges will—

- for cars in category A be modified in the proportion the specified amount bears to the actual expenditure,
- for cars in category B —
  - be reduced by 50% if costing less than €24,000, or
  - be reduced by the proportion which €12,000 bears to the actual expenditure for a car costing more,

and

- for the cars in category C, D, E or F, be nil.

The same computation of balancing allowances or balancing charges is applied to categories A to F where a car is subsequently sold on to another purchaser or lessee. ***(5)***

A modified balancing charge or allowance is made where a car is replaced. Expenditure in excess of the limits set out in respect of cars in category A to F is disregarded. ***(6)***

380M Limit on deductions, etc., for hiring cars

This section provides for the allowable expenses arising from leasing a car. Where the lease was entered into before 1 January 2027 and first payment under that lease was made prior to that date, the provisions of this section as amended in Finance Acts 2019 and 2020 continue to apply:

- where the car is in category A or B then the lease amount is increased or reduced in the proportion which €24,000 (the specified amount) bears to the price of the car,
- where the car is in category C and costs less than the specified amount, the deduction is reduced by half and where greater than the specified amount, is reduced in the proportion which half the specified amount bears to the new price, and
- where the car is in category D, E or F, nil.

Where the lease was entered into after 1 January 2027 (or where the first payment under that lease was made after that date) then the provisions of this section as amended in Finance Act 2024 will apply:

- where the car is in category A then the lease amount is increased or reduced in the proportion which €24,000 (the specified amount) bears to the price of the car,
- where the car is in category B and costs less than the specified amount, the deduction is reduced by half and where greater than the specified amount, is reduced in the proportion which half the specified amount bears to the new price, and
- where the car is in category C, D, E or F, nil.

380N Cars: provisions as to hire-purchase, etc.

Subsections (2) to ***(4)*** are applied in these circumstances. ***(1)***

Capital allowances are disapplied where a hire-purchase contract ends without the hire-purchaser becoming the owner of the vehicle. ***(2)***

The payments are treated as leasing expenses and deductible in accordance with ***section 380M***. ***(3)***

The payments are apportioned as between capital and revenue where the hire-purchaser becomes the owner of the vehicle. ***(4)***

380O Cars: provisions where hirer becomes owner

This section provides that where a vehicle is leased and ultimately passes into the ownership of the lessee, then the total amount paid will be apportioned. A cost equal to the purchase price of the car will be treated as having been incurred at the time the primary leasing period began. Any balance is adjusted proportionally on the basis of the emissions category of the car and treated as an expense of leasing.

380P Provisions supplementary to section 380L to 380O

The limitations imposed by this Part are disapplied where a vehicle is acquired, wholly or mainly for short-term hire, i.e. taxis. ***(1)***

The same limitations are disapplied where the vehicle is provided for the purposes of testing. This is subject to the proviso that if the car is put substantially to ordinary use within the first 5 years, then the limitations imposed by ***Part 11C*** apply retrospectively. ***(2)***

All necessary additional assessments are provided for the purposes of applying ***section 380N(2)*** and ***(3)***, ***section 380O*** and ***subsection (2)*** of this section. The subsection also provides that such assessments may, if necessary, apply to the estate of a deceased person. ***(3)***