# Wasting assets qualifying for capital allowances

## Part 19-02-17

This manual should be read in conjunction with Section 561 of the Taxes Consolidation Act 1997

Document last reviewed May 2018

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Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

**17.1** The straight-line restriction of allowable expenditure on wasting assets should not be applied to assets the allowable expenditure on which has qualified in full for capital allowances (including renewals allowance). They should be dealt with in accordance with **Tax Instruction** Part 19-02-12 **Par. 2** (restriction of losses by reference to capital allowances) with the result that there is, in general, no chargeable gain (and no allowable loss) unless the disposal proceeds exceed the first cost (see Example 1 below).

Where the allowable expenditure on an asset has qualified for capital allowances only in part, the cost of the asset should in effect be apportioned (see **Par. 2**), the part which has qualified for capital allowances being dealt with in accordance with **Tax Instruction** Part 19-02-12 **Par. 2**.

In the following examples, indexation relief, where applicable, has been ignored for ease of illustration.

**Example 1**

| | First Asset | | Second Asset |
|---|---|---|---|
| | € | | € |
| Cost | 50,000 | | 50,000 |
| Sale price | 20,000 | | 55,000 |
| Net capital allowances | 30,000 | | NIL |
| Loss on sale | 30,000 | Gain on sale | 5,000 |
| Allowable loss (**Tax Instruction 19.2.12 Par. 2**) | NIL | Chargeable gain | 5,000 |

**Example 2**
Y is the proprietor of a business in which she hires out cabin cruisers for holiday-makers. In 2002, she purchases for €500,000 a new cruiser largely for her own private use, but hires it out for some months in every year. Its predictable life is then 40 years and its scrap value €20,000. The amount of expenditure less the scrap value is thus €480,000. In computing her trading profits for Income Tax purposes, she claims capital allowances in respect of one-quarter of the total cost of the cruiser.

Y sells the cruiser in 2007 for €400,000. The capital allowances given for Income Tax purposes will be adjusted by way of a balancing charge so that the net total is ¼ (€500,000 less €400,000) = €25,000. For Capital Gains Tax, the part of the expenditure to which the Income Tax capital allowances relate is considered without reference to the wasting assets provisions, as follows:

| | | |
|---|---|---|
| | | € |
| Cost price 500,000 | x ¼ | 125,000 |
| Sale price 400,000 | x ¼ | 100,000 |
| Loss | | 25,000 |

Since capital allowances of this amount have been given for Income Tax purposes, the €25,000 is not an allowable loss.

The balance of the cost and the sale price is not considered for capital gains purposes since it refers to a wasting chattel which has not qualified for capital allowances.

**17.2** If any apportionment of the disposal price has been made for the purpose of capital allowances (or a balancing charge), that apportionment should be employed also for the Capital Gains Tax.