Partial recovery of VAT on qualifying passenger motor vehicles

This document should be read in conjunction with sections 59(2)(d), 60, 61 and 62 of the VAT Consolidation Act 2010 (VATCA 2010)

Document last reviewed December 2022

Table of Contents

Introduction

This guidance sets out how accountable persons can deduct up to 20% of the VAT incurred on the purchase, hiring, intra-Community acquisition or importation of certain qualifying vehicles, subject to the normal rules on deductibility.

This guidance does not cover the deductibility rules for motor vehicles used as stock-in-trade, for hire in a vehicle-hire business or in a driving school business which is set out separately in the Tax and Duty Manual Recovery of VAT on Motor Vehicles.

1. What is a qualifying passenger motor vehicle?

A qualifying passenger motor vehicle is a vehicle that is used for at least 60% business purposes (for a period of 2 years or more) and

- was first registered for Vehicle Registration Tax (VRT) purposes on or after 1 January 2009 up to 31 December 2020 and has CO2 emissions of less than 156g/km (i.e. CO2 emission bands A, B and C) or
- was first registered for Vehicle Registration Tax (VRT) purposes on or after 1 January 2021 and has CO2 emissions of less than 140g/km (i.e. CO2 emission bands A and B).

The motor vehicles covered are:

- estate cars
- sports motor vehicles
- station wagons
- motorcycles
- motor scooters
- mopeds
- autocycles.

The definition also includes single person vehicles but does not include vehicles designed and constructed for the carriage of more than 16 persons (inclusive of the driver) and vans, etc.

Any question as to whether a particular vehicle is, or is not, a passenger motor vehicle, as defined, should be submitted for decision, together with the manufacturer’s literature and any other relevant documentation, to your Revenue Branch.

1.1. What if the circumstances change?

If circumstances change after the purchase, acquisition or importation of a car i.e. the car is disposed of within 2 years, or it is used for less than 60% business purposes, and the VAT has been deducted, then the accountable person is required to make an adjustment in the relevant taxable period (see sections 6 and 7 below).

There is no adjustment if the vehicle was hired.

2. What is business use?

For the purposes of this provision, business use means use for either taxable activities, exempt activities or a mixture of both, but does not include private use.

The vehicle must be used for 60% business use in order for a portion of the VAT to be deductible. However, the normal rules on deductibility still apply.

Where a vehicle is used for a taxable activity, a percentage of the VAT can be deducted under the rules set out in this guidance.

Where a vehicle is used for an exempt activity, no deduction is allowed as per the normal VAT deductibility rules. However, where the vehicle is used for both taxable and exempt activities, a percentage of the VAT can be deducted under the rules set out in this guidance.

2.1. What is meant by 60% business use?

A car, which is used for business purposes for a five-day working week, can be regarded as having been used for 60% business purposes for that week.

To demonstrate that a car is being used for 60% business use, businesses can refer to current requirements in relation to the use of company cars and benefit-in-kind calculations.

The VAT cannot be deducted where intended private use is greater than 40%.

Accountable persons who have deducted the VAT on the purchase, hiring, intra-Community acquisition or importation of a car are required to ensure that the car is used for at least 60% business purposes.

2.2. Reviewing the use of the vehicle

For practical purposes, the 60% business use rule shall be examined every 6 months (up to 2 years) from the purchase, intra-Community acquisition or importation of a car.

Any adjustment which may need to be made, because a car is no longer being used for 60% business use, shall be done in the VAT return for the next taxable period following the 6-month period.

3. How much VAT can be deducted?

This is best illustrated by examples demonstrating how the VAT can be deducted. An accountable person can deduct up to 20% of the VAT incurred. In these examples, it is presumed in all cases that the car is used for at least 60% business purposes.

Example 1

A taxpayer's business use of the car is for wholly taxable activities. In this case the taxpayer can avail of the maximum 20% deductibility.

- VAT on the purchase of the car = €4,000.
- VAT deductible = €800.

In the case of leasing VAT deductibility is based on 20% of the monthly leasing charges.

Example 2

A taxpayer's business use of the car is for wholly exempt activities.

In this case the taxpayer is not entitled to any deductibility.

An accountable person is entitled to deduct VAT charged on his or her inputs only when those inputs are attributable to the supply of taxable goods or services or qualifying activities.

Example 3

A taxpayer's business use of the car is for a mixture of both taxable and exempt activities.

Where a business uses the car for both its taxable and exempt supplies, the VAT deductible is apportioned in the ratio of exempt versus taxable supplies.

Assume 70% of car use is for taxable supplies and 30% is for exempt supplies.

- VAT on the purchase of a car = €4,000
- VAT deductible is 70% of €800 = €560

If VAT on the lease of the car is €100 per month, then €14 is deductible i.e. 20% of the €70 eligible for deductibility.

4. What happens if a car which had qualified for deductibility is disposed of within 2 years?

Where an accountable person disposes of a car within 2 years of purchase, intra-Community acquisition or importation an adjustment will arise.

This means that the accountable person must repay all or some of the VAT deducted depending on the period of time the car was used, in the taxable period when the car was disposed.

There is no adjustment if the vehicle was hired or leased.

The adjustment rules apply as follows:

Disposal within 6 months from date of purchase, acquisition or importation of the car.	Adjustment of all VAT deducted.
Disposal in the period 6 to 12 months from date of purchase, acquisition or importation of the car.	75% adjustment of VAT deducted.
Disposal in the period 12 to 18 months from date of purchase, acquisition or importation of the car.	50% adjustment of VAT deducted.
Disposal in the period 18 to 24 months from date of purchase, acquisition or importation of the car.	25% adjustment of VAT deducted.
Disposal after 24 months from date of purchase, acquisition or importation of the car.	No adjustment.

The adjustment is calculated according to the following formula:

$$\frac{TD \times (4-N)}{4}$$

TD is the amount of tax deducted by that accountable person on the purchase, intra-Community acquisition or importation of that car, and

N is the number of days from the date of purchase, intra-Community acquisition or importation of the car by that accountable person, to the date of disposal, divided by 182 (representing 6 months) and rounded down to the nearest whole number,

Example 4

Car disposed of after 3 months (90 days).

TD = €800

$N = \frac{90}{182} = 0.49$ and therefore rounded down to 0

Using the formula:

$\frac{800 \times (4 - 0)}{4} = 3{,}200 = €800$

In this case the full amount deducted i.e. €800 shall be accounted for to Revenue as tax due in the VAT return for the next taxable period after 6 months from the date of purchase, intra-Community acquisition or importation of the car.

Example 5

Car disposed of after 20 months (600 days).

TD = €800

$N = \frac{600}{182} = 3.29$, and therefore is rounded down to 3

Using the formula:

$\frac{800 \times (4 – 3)}{4} = 800 = €200$

In this case, the amount of €200 shall be accounted for to Revenue as tax due in the VAT return for the next taxable period after the fourth 6-month period from the date of purchase, intra-Community acquisition or importation of the car.

5. What happens if a car does not meet the business use criteria subsequent to purchase?

Similar to the rules applying to the disposal of a car, there is an adjustment of all, or part, of the amount deducted if a car is no longer used for business purposes, or is used for less than 60% business purposes, at any time within 2 years of purchase, intra-Community acquisition or importation of the car. There is no adjustment if the car was hired or leased.

The adjustment rules apply as follows:

Business use discontinues (or is used for less than 60% business use) within 6 months from date of purchase, acquisition or importation of the car.	Adjustment of all VAT deducted.
Business use discontinues (or is used for less than 60% business use) in the period 6 to 12 months from date of purchase, acquisition or importation of the car.	75% adjustment of VAT deducted.
Business use discontinues (or is used for less than 60% business use) in the period 12 to 18 months from date of purchase, acquisition or importation of the car.	50% adjustment of VAT deducted.
Business use discontinues (or is used for less than 60% business use) in the period 18 to 24 months from date of purchase, acquisition or importation of the car.	25% adjustment of VAT deducted.
Business use discontinues (or is used for less than 60% business use) after 24 months from date of purchase, acquisition or importation of the car.	No adjustment.

The adjustment is calculated in accordance with the following formula:

$$\frac{TD \times (4-N)}{4}$$

TD is the amount of tax deducted by that accountable person on the purchase, acquisition or importation of that car, and

N is a number that is equal to the number of days from the date of purchase, acquisition or importation of the car by that accountable person to the first day of the taxable period in which the car is used for less than 60% business purposes, divided by 182 (representing 6 months) and rounded down to the nearest whole number.

Example 6

Business use discontinues (or is used for less than 60% business use) after 180 days.

TD = €800

$N = \frac{180}{182} = 0.99$, and therefore rounded down to 0

Using the formula:

$\frac{800 \times (4 - 0)}{4} = 3200 = €800$

In this case the full deductible amount of €800 shall be repaid to Revenue in the next VAT return.

Example 7

Business use discontinues (or is used for less than 60% business use) after 15 months (450 days)

TD = €800

$N = \frac{450}{182} = 2.47$, and therefore is rounded down to 2

Using the formula:

$\frac{800 \times (4 – 2)}{4} = 1600 = €400$

In this case, the amount of €400 shall be repaid to Revenue in the next VAT return.

6. Is VAT chargeable on the sale of a car which has qualified for this partial VAT deductibility provision?

No, the subsequent sale of a car by an accountable person who was entitled to the partial deductibility provision described in this guidance, will be exempt from VAT.