Notes for Guidance - Taxes Consolidation Act 1997
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Part 11C Emissions-based limits on capital allowances and expenses for certain road vehicles

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

Overview

This Part provides that, with effect from 1 July 2008, the scheme of capital allowances and leasing expenses for business cars will be based on the level of CO₂ emissions from the cars concerned, rather than on the cost of the vehicles, as had previously been the case (sections 380K and 380L).

Cars are categorised by reference to CO₂ emissions, and are consistent with emission bands applicable under the VRT system. There are effectively 3 categories of cars to which different capital allowances arrangements apply:

- The first category covers cars with emissions of up to and including 155 grammes of CO₂ per kilometre driven. For cars in this category, the car value threshold or limit of €24,000 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.

- The second category is for cars with emissions of over 155 grammes and up to and including 190 grammes of CO₂ per kilometre driven. Cars in this emissions range 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 cars in this range get capital allowances of a maximum of €12,000 no matter how expensive they are.

- Cars with emissions of over 190 grammes of CO₂ per kilometre driven get no relief at all.

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 category benefit from a proportionately higher deduction that the actual leasing expenses where the cost of the car is less than €24,000. Cars in the second category get the lesser of half of the leasing expenses incurred or half the leasing expenses on a car costing €24,000. Cars with emissions of over 190 grammes of CO₂ per kilometre driven or over get no deduction for leasing expenses. These expenses are allowed over the period of the primary lease, (section 380M).

Finally, 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).

As with the current arrangements, cars acquired for short term hire, such as taxis, car rental etc., are ambit the terms of these provisions, (section 380P).

380K Interpretation and general (Part 11C)

Summary

A new regime of capital allowances and leasing expenses for business cars came
into effect from 1 July 2008. Capital allowances and leasing expenses are now based on the level of a car’s CO₂ emissions. Cars are categorised by reference to CO₂ emissions, with the categories being fewer than, but consistent with, emission bands applicable under the VRT system. There are now effectively 3 categories of cars to which different arrangements apply.

The new regime applies to expenditure incurred on the provision or hiring of a car on or after 1 July 2008 (section 31(2) Finance Act 2008). However, in practice Revenue will not seek to impose the new rules where a lease was entered into before 1 July 2008 but the lease payments are made after that date.

As is the case under the previous capital allowances regime, the 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 provides for the scheme up to 1 July 2008, is disapplied. A company 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.

Various categories of car (A to G) are defined to which the new provisions apply. These categories are based on CO₂ emissions as set out in the Table to the section and by reference to the relevant emissions certificate.

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 G, in respect of which no deduction is allowed.

The “specified amount” is defined as €24,000 for an accounting period or basis period ending on or after 1 January 2007, and “CO₂ emissions” as the vehicle emissions measured in accordance with the relevant EU Council Directive.

This Part is construed together with Part 9.

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.

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

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, B or C, €24,0000,
- cars in category D or E, the lesser of €12,000 or half the cost of the car, and
- cars in category F or G, zero.

Any calculation of balancing allowances or balancing charges will—

- for cars in category A, B or C be modified in the proportion the specified amount bears to the actual expenditure,
• for cars in category D or E —
  - 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 F or G, be nil.

The same computation of balancing allowances or balancing charges is applied to categories A to G where a car is subsequently sold on to another purchaser or lessee.

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 G is disregarded.

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

This section provides for the allowable expenses arising from leasing a car:

• where the car is in category A, B or C 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 D or E 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 F or G, nil.

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

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

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

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

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

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.

The same limitations are disappplied 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 restrospectively.

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.