

Capital Allowances for Taxes

Part 11-00-04

This document should be read in conjunction with section 286 of the Taxes Consolidation Act 1997

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Note: This manual is currently subject to review and may not reflect up-to-date position.

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Introduction

Most vehicles qualify for wear and tear allowances as plant and machinery under section 284 TCA 1997 at the rate of 12.5% per annum.¹ Taxi signs/plates also qualify for this rate of allowances. In contrast, the actual taxi can qualify for accelerated wear and tear allowances under section 286 TCA 1997.² To qualify for accelerated allowances a taxi must be the type of vehicle that is normally used as a private car and be fitted with a taximeter. Hackneys do not qualify for accelerated allowances as they are not fitted with a taximeter.

To qualify for accelerated allowances a car must be used as a taxi for at least 75% of the time it is available for use. This requirement is regarded as having been satisfied in a period where only 50% of the use of the car is as a taxi if in the immediately preceding or following period the car is used as a taxi for 75% of the time it is available for use. The allowances must be apportioned where the car is also used for non-business purposes (see section 2 of Tax and Duty Manual (TDM) [Part 11-00-01](#)).

Following the deregulation of the taxi market in 2001 a temporary arrangement applied whereby wear and tear allowances were available in respect of expenditure on certain taxi licences. This is outlined in section 3.

Taxis are not subject to the specified limits on the allowable expenditure for the purposes of determining capital allowances and other deductible expenses as outlined in the TDM [Part 11-00-01](#).

¹ This is the rate that applies for expenditure incurred on or after 4 December 2002. See section 4 of Tax Instruction 11.0.1 for details of earlier rates.

² Accelerated wear and tear allowances are also available for 'short-term hire' cars (defined in section 286 TCA 1997).

³ The 'reducing balance' basis was used for plant and machinery where expenditure was incurred before 1 January 2001. It was replaced by the 'straight-line' basis.

⁴ The TWDV is the amount of allowable expenditure still to be written off after a portion of the wear and tear allowances have been deducted. With the 'reducing balance' method the annual rate of wear and tear allowance is applied to the TWDV and not to the original allowable expenditure.

1. How the allowances operate

Section 286(2) provides for an increased wear and tear allowance of 40% per annum. The allowances are given on the 'reducing balance' basis rather than on the usual 'straight-line' basis.³ This means that the 40% rate is applied to the 'tax written down value' (TWDV) of the allowable expenditure at the end of each year so that the allowances are higher in the earlier years.⁴

Example

A taxi cost €50,000 in October 2015 and is used exclusively for the trade of operating a taxi. The accounts are made up each year to 31 December. Wear and tear allowances are calculated as follows:

| | € |
|----------------------|--------|
| Cost of Taxi | 50,000 |
| W & T @ 40% for 2015 | 20,000 |
| TWDV 31/12/2015 | 30,000 |
| W & T @ 40% for 2016 | 12,000 |
| TWDV 31/12/2016 | 18,000 |
| W & T @ 40% for 2017 | 7,200 |
| TWDV 31/12/2017 | 10,800 |
| W & T @ 40% for 2018 | 4,320 |
| TWDV 31/12/2018 | 6,480 |

As set out in section 286(2) TCA 1997, the wear and tear allowances are given in taxing the trade of operating a taxi. This means that the accelerated allowances are not available to a lessor who leases the car to the person carrying on the taxi trade.

2. Taxi Sign/Plate

Expenditure incurred on the acquisition of a taxi sign/plate qualifies for normal plant and machinery wear and tear allowances, currently 12.5% per annum on a straight-line basis over 8 years.

3. Taxi Licence

While a taxi licence is treated as a capital asset, capital allowances are not available for the cost of acquiring such a licence. However, a special capital allowances scheme was introduced as a temporary measure to compensate those people who had incurred significant expenditure on the acquisition of a taxi licence that was reduced to a negligible value following the deregulation of the taxi market on 21 November 2000.⁵ The provisions are contained in section 286A TCA 1997.

Under the scheme capital allowances were available on a straight-line basis over 5 years at an annual rate of 20%. The scheme operated retrospectively as the qualifying expenditure was deemed to have been incurred on 21 November 1997, or, if later, the date the taxi trade commenced. This retrospective availability of capital allowances for the year 1997/98 onwards may have resulted in repayment (without interest) of overpaid income tax and also PRSI and levies as capital allowances are deducted in calculating liability to PRSI and levies.

To qualify for the scheme, an individual must have acquired a taxi licence on or before 21 November 2000. The individual must have used the licence for his or her taxi trade and not rented out the licence or taxi to another person. However, the allowances were available where a licence owner, in addition to using the licence for the purpose of the trade, let the licensed taxi but, where more than one taxi was so used, the allowances were available in respect of the cost of one licence only.

Where a licence was inherited on or before 21 November 2000 and, inheritance tax or probate tax had been paid in respect of the inheritance, the allowances were available to the beneficiary where the licence was used by that beneficiary for his or her taxi trade.

The allowances were available to the spouse of a deceased individual where the deceased spouse had acquired the licence on or before 21 November 2000 and had carried on a taxi trade. The surviving spouse could have carried on a taxi trade or let the licence or the taxi to another person to use in that person's taxi trade. Where more than one licence or taxi was let the allowances were available in respect of the cost of one licence only.

The expenditure that qualified for allowances was:

- where the licence was purchased, the cost incurred in purchasing the licence;

⁵ Scheme introduced in section 51 Finance Act 2001.

- where the licence formed part of an inheritance and inheritance tax or probate tax was paid in relation to the licence, the market value of the licence used for inheritance or probate tax purposes, if that amount is higher than the original cost of the licence; or
- where the licence was inherited from a deceased spouse/civil partner and the licence is being let by the surviving spouse/civil partner, the original cost incurred by the deceased spouse/civil partner in acquiring the licence.

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