

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

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Introduction

Section 561 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides for the treatment of wasting assets qualifying for capital allowances. Wasting assets used for the purposes of a trade or profession, in respect of which capital allowances have or could have been claimed, do not qualify for exemption from Capital Gains Tax (“CGT”) under **section 603 TCA 1997**. **Section 561 TCA 1997** ensures that the provisions of **section 560 TCA 1997** for writing off expenditure at a uniform rate do not apply to such assets. This is because of the special provisions of **section 555 TCA 1997** restricting losses by reference to capital allowances. Thus, in the case of wasting assets qualifying for capital allowances, **section 555 TCA 1997** applies instead of **section 560 TCA 1997**.

17.1 Application

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 and Duty Manual \(TDM\) Part 19-02-12](#) 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 **para 17.2**), the part which has qualified for capital allowances being dealt with in accordance with [TDM Part 19-02-12](#).

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 (TDM Part 19-02-12)	NIL	Chargeable gain €5,000

Example 2

Y is the proprietor of a business in which she hires out cabin cruisers for holidaymakers. In 2005, 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 ("IT") purposes, she claims capital allowances in respect of one-quarter of the total cost of the cruiser.

Y sells the cruiser in 2019 for €400,000. The capital allowances given for IT purposes will be adjusted by way of a balancing charge so that the net total is $\frac{1}{4}$ (€500,000 less €400,000) = €25,000. For CGT, the part of the expenditure to which the IT capital allowances relate is considered without reference to the wasting assets provisions, as follows:

Cost price	€500,000	x	$\frac{1}{4}$	=	€125,000
Sale price	€400,000	x	$\frac{1}{4}$	=	€100,000
Loss					€25,000

Since capital allowances of this amount have been given for IT 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 under **section 603 TCA 1997**, which has not qualified for capital allowances.

17.2 Apportionment of disposal price

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 CGT.