Relief for increase in carbon tax on farm diesel

Part 23-01-36

This document should be read in conjunction with section 664A of the Taxes Consolidation Act 1997

Document last updated March 2022

The information in this document is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case.

1   Introduction

Relief for expenditure incurred in respect of an increase in the carbon tax on farm diesel is provided for by section 664A of the Taxes Consolidation Act 1997. This Tax and Duty Manual provides an overview of how the relief operates.

2   What is the carbon tax on farm diesel?

Mineral oils such as petrol, road diesel and farm diesel (marked gas oil) are subject to an excise duty called Mineral Oil Tax. The "carbon tax" referred to in section 664A refers to the carbon component of Mineral Oil Tax for farm diesel, which was introduced on 1 May 2010. The rate of the charge was increased on 1 May 2012, 1 May 2020, 1 May 2021 and will increase on 1 May 2022. The table below sets out the Mineral Oil Tax carbon component (carbon tax) rates applying to farm diesel since 2010.

Applicable time period	Rate of carbon component of MOT per 1,000 litres
1 May 2010 – 30 April 2012	€41.30
1 May 2012 – 30 April 2020	€54.92
1 May 2020 – 30 April 2021	€70.42
1 May 2021 – 30 April 2022	€90.81
w.e.f. 1 May 2022	€111.14

3   How is the relief calculated?

When the rate of the carbon tax applying to farm diesel was increased in 2012, a deduction for the additional amount of expenditure on the carbon tax incurred by persons carrying on a trade of farming on the purchase of farm diesel was introduced.

The way the relief operates is that a farmer claims an income tax or corporation tax deduction for farm diesel that is equal to the difference between the carbon tax charged and the carbon tax that would have been charged had it been calculated at the rate of €41.30 per 1,000 litres (i.e. the rate that applied from 1 May 2010 until 30 April 2012). The farmer is also entitled to claim a deduction for expenditure on the farm diesel (including the carbon tax charged in respect of the diesel).

4 Who is entitled to claim the relief?

The relief is available to any person carrying on a trade of farming in the State and who, in a year of assessment (if an individual) or an accounting period (if a company), is entitled to a deduction for expenditure incurred on the purchase of farm diesel in taxing the profits of their trade. However, the relief is not available in respect of expenditure on carbon tax on fuels other than farm diesel.

Agricultural contractors are not entitled to this relief as they are not carrying on a trade of farming. This is because farming, which is defined in section 654 of the Taxes Consolidation Act 1997, requires the occupation of farmland and agricultural contracting does not involve the occupation of farmland. However, agricultural contractors who incur expenses in relation to farm diesel in the course of their trade of agricultural contracting may claim an income tax or corporation tax deduction for those expenses, including any carbon tax charged in respect of the diesel.

5 Example

For the accounting period ended 31 December 2018, a company carrying on a trade of farming is entitled to a deduction for the cost of 10,000 litres of farm used in the course of the trade. The farm diesel cost €7,500 and this included carbon tax of €549.20 (based on the rate of €54.92 per 1,000 litres).

In accordance with the relief for increase in carbon tax on farm diesel, the company is entitled to a deduction in the amount €136.20, which is the difference between the carbon tax included in the cost of the farm diesel (i.e. €549.20) and the carbon tax that would have been included in the cost if the rate had remained at €41.30 per 1,000 litres (i.e. €413). The company is also entitled to a deduction in the amount €7,500 for the cost of the farm diesel.