

## 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

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A more recent version of this manual is available.

## 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 (“TCA 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 TCA 1997 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 to €151.81 per 1,000 litres with effect from 1 May 2024. The table below sets out the Mineral Oil Tax carbon component (carbon tax) rates applying to farm diesel since its introduction in 2010.

<b>Applicable time period</b>	<b>Rate of carbon component of MOT per 1,000 litres</b>
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
1 May 2022 – 30 April 2023	€111.14
1 May 2023 – 30 April 2024	€131.47
w.e.f. 1 May 2024	€151.81

## 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, in computing profits of a farming trade, a farmer may claim 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.

This was the rate applicable from 1 May 2010 when carbon tax was introduced and which applied 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 TCA 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 Examples

##### Example 1

For the accounting period ended 31 December 2024, a company carrying on a trade of farming is entitled to a deduction for the cost of 10,000 litres of farm diesel used in the course of the trade. The farm diesel cost €7,500 and this included carbon tax of €1,518.10 (based on the rate of €151.81 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 €1,105.10, which is the difference between the carbon tax included in the cost of the farm diesel (i.e. €1,518.10) 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.

##### Example 2

For the accounting period ended 31 December 2023, a company carrying on a trade of farming is entitled to a deduction for the cost of 10,000 litres of farm diesel used in the course of the trade. 4,000 litres were purchased in the 4-month period up to 1 May 2023 and cost €3,000 and this includes carbon tax of €444.56 (based on a rate of € 111.14 per 1,000 litres). 6,000 litres were purchased in the 8-month period ending on 31 December 2023 and cost €4,500 and this includes carbon tax of €788.82 (based on a rate of €131.47 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 respect of the 4,000 litres purchased prior to 1 May 2023 of €279.36 which is the difference between the carbon tax included in the cost of the farm diesel (i.e. €444.56) and the carbon tax that would have been included if the rate had remained at €41.30 per 1,000 litres (i.e. €165.20).

Likewise, the company is entitled to a deduction in respect of the 6,000 litres purchased in the eight months from 1 May to 31 December 2023 in the amount of €541.02, which is the difference between the carbon tax included in the cost of the farm diesel (i.e. €788.82) and the carbon tax that would have been included if the rate had remained at €41.30 per 1,000 litres (i.e. €247.80).

The company is also entitled to a deduction of €7,500 in respect of the cost of the 10,000 litres of farm diesel purchased in the 12-month accounting period ending on 31 December 2023.

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