

VAT deduction on certain cars

This document should be read in conjunction with Part 8 Deductions, Chapter 1 of the VAT Consolidation Act 2010 (VATCA 2010)

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1. General

Finance (No. 2) Act 2008 provides that an accountable person is entitled, subject to the normal deductibility rules, to deduct up to 20% of the VAT incurred in respect of the purchase, hiring, intra-Community acquisition or importation of certain cars by businesses.

2. Scope

The provision applies to motor vehicles, as defined in section 12(3)(b) of the VAT Act, which are first registered for VRT purposes on or after 1 January 2009 and which have a level of CO₂ emissions of less than 156g/km (i.e. CO₂ emission bands A, B and C).

The motor vehicles covered by this provision are listed in Paragraph 10.8 of the VAT Guide 2008, and for the purposes of this leaflet are referred to as 'cars'. The car must be used primarily for business purposes. 'Business purposes' is defined as at least 60% business use. In addition, a car must be used for business purposes for a period of 2 years or more.

If circumstances change after the purchase, acquisition or importation of a car i.e. the car is disposed of within 2 years, or it is used for less than 60% business purposes, and VAT credit has been claimed, then the accountable person is required to make an adjustment in the relevant taxable period.

3. What is business use

For the purpose of this provision, business use means use for either taxable activities, exempt activities or a mixture of both, but does not include private use.

4. What is meant by 60% business use

A car, which is used for business purposes for a five-day working week, can be regarded as having been used for 60% business purposes for that week. To demonstrate that a car is being used for 60% business use, businesses can refer to current requirements in relation to the use of company cars and benefit-in-kind calculations. No VAT credit can be claimed on cars where intended private use is greater than 40%.

Accountable persons who have claimed VAT credit on the purchase, hiring, intra-Community acquisition or importation of a car are required to ensure that the car continues to be used for at least 60% business purposes. For practical purposes and in line with the claw-back rules, the 60% business use rule is to be examined every 6 months (up to 2 years) from the purchase, intra-Community acquisition or importation of a car. Any adjustment which may need to be made, as a result of a car no longer being used for 60% business use, is to be done in the Revenue VAT return for the next taxable period following the 6-month period.

5. How much VAT can be deducted

This is best illustrated by examples. It is presumed in all cases that the car is used for at least 60% business purposes.

Example 1

Taxpayer's business use of the car is for wholly taxable activities. In this case the taxpayer can avail of the maximum 20% deductibility.

VAT on the purchase of the car = €4,000

VAT deductible = €800

In the case of leasing VAT deductibility is based on 20% of the monthly leasing charges.

Example 2

Taxpayer's business use of the car is for wholly exempt activities

In this case the taxpayer is not entitled to any deductibility. An accountable person is entitled to deduct VAT charged on his or her inputs only when those inputs are attributable to the supply of taxable goods or services or qualifying activities.

Example 3

Taxpayer's business use of the car is for a mixture of both taxable and exempt activities

Where a business uses the car for both its taxable and exempt supplies, VAT deductible is apportioned in the ratio of exempt versus taxable supplies.

Assume 70% of car use is for taxable supplies and 30% is for exempt supplies.

VAT on the purchase of a car = €4,000

VAT deductible is 70% of €800 = €560

If VAT on the lease of the car is €100 per month, then €14 is deductible i.e.

20% of the €70 eligible for deductibility.

6. What happens if a car which had qualified for deductibility is disposed of within 2 years

Where an accountable person disposes of a car within 2 years of purchase a clawback will arise. This means that the accountable person must repay all or some of the VAT deducted depending on the period of time the car was used, in the taxable period during which the car was disposed. The clawback rules apply as follows:

Disposal within 6 months from date of purchase, acquisition or importation of the car	Clawback of all VAT deducted
Disposal in the period 6 to 12 months from date of purchase, acquisition or importation of the car	75% clawback of VAT deducted
Disposal in the period 12 to 18 months from date of purchase, acquisition or importation of the car	50% clawback of VAT deducted
Disposal in the period 18 to 24 months from date of purchase, acquisition or importation of the car	25% clawback of VAT deducted
Disposal after 24 months from date of purchase, acquisition or importation of the car	No clawback

The clawback is calculated according to the following formula:

$$\frac{TD \times (4-N)}{4}$$

TD is the amount of tax deducted by that accountable person on the purchase, acquisition or importation of that car, and

N is a number that is equal to the number of days from the date of purchase, acquisition or importation of the car by that accountable person to the date of disposal by that person, divided by 182 (representing 6 months) and rounded down to the nearest whole number,

Example 4

Car disposed of after 3 months (90 days)

TD = €800

$N = \frac{90}{182} = 0.49$ and therefore rounded down to 0

Using the formula:

$$\frac{800 \times (4 - 0)}{4} = 3,200 = \text{€}800$$

In this case the full amount deducted i.e. €800 is to be accounted for to Revenue as tax due in VAT return for the next taxable period after 6 months from the date of purchase, intra-Community acquisition or importation of the car.

Example 5

Car disposed of after 20 months (600 days)

$$\text{TD} = \text{€}800$$

$$N = \frac{600}{182} = 3.29, \text{ and therefore is rounded down to } 3$$

Using the formula:

$$\frac{800 \times (4 - 3)}{4} = 800 = \text{€}200$$

In this case, the amount of €200 is to be accounted for to Revenue as tax due in VAT return for the next taxable period after the fourth 6-month period from the date of purchase, intra-Community acquisition or importation of the car.

7. What happens if a car does not meet the business use criteria subsequent to purchase

Similar to the rules applying to the disposal of a car, there is a clawback of all or part of the amount deducted if a car is no longer used for business purposes, or is used for less than 60% business purposes, at any time within 2 years of purchase, intra-Community acquisition or importation of the car.

The clawback rules apply as follows:

Business use discontinues (or is used for less than 60% business use) within 6 months from date of purchase, acquisition or importation of the car	Clawback of all VAT deducted
Business use discontinues (or is used for less than 60% business use) in the period 6 to 12 months from date of purchase, acquisition or importation of the car	75% clawback of VAT deducted
Business use discontinues (or is used for less than 60% business use) in the period 12 to 18 months from date of purchase, acquisition or importation of the car	50% clawback of VAT deducted
Business use discontinues (or is used for less than 60% business use) in the period 18 to 24 months from date of purchase, acquisition or importation of the car	25% clawback of VAT deducted
Business use discontinues (or is used for less than 60% business use) after 24 months from date of purchase, acquisition or importation of the car	No clawback

The clawback is calculated in accordance with the following formula:

$$\frac{TD \times (4 - N)}{4}$$

TD is the amount of tax deducted by that accountable person on the purchase, acquisition or importation of that car, and

N is a number that is equal to the number of days from the date of purchase, acquisition or importation of the car by that accountable person to the first day of the taxable period in which the car is used for less than 60% business purposes, divided by 182 (representing 6 months) and rounded down to the nearest whole number,

Example 6

Business use discontinues (or is used for less than 60% business use) after 180 days

TD = €800

$N = \frac{180}{182} = 0.99$, and therefore rounded down to 0

Using the formula:

$$\frac{800 \times (4 - 0)}{4} = 3200 = \text{€}800$$

In this case the full deductible amount of €800 is to be repaid to Revenue in the next VAT return.

Example 7

Business use discontinues (or is used for less than 60% business use) after 15 months (450 days)

$$\text{TD} = \text{€}800$$

$$N = \frac{450}{182} = 2.47, \text{ and therefore is rounded down to } 2$$

Using the formula:

$$\frac{800 \times (4 - 2)}{4} = 1600 = \text{€}400$$

In this case, the amount of €400 is to be repaid to Revenue in the next VAT return.

8. Is VAT chargeable on the sale of a car which has qualified for this partial VAT deductibility provision

No, the subsequent sale of a car by the taxable person who was entitled to the partial deductibility provision described in this leaflet will be exempt from VAT. The operation of the special scheme for motor vehicles applies where that sale is to a taxable dealer within the meaning of Section 12B.