

Recovery of VAT on Motor Vehicles

This document should be read in conjunction with sections 59, 60 and section 61 of the Value-Added Tax Consolidation Act 2010

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Introduction

This guidance sets out how VAT on motor vehicles can be recovered by VAT-registered persons and certain types of traders.

The guidance on partial recovery of VAT on qualifying passenger motor vehicles is dealt with separately in the [VAT Tax and Duty Manual](#).

1. General rules on recovery of VAT on motor vehicles

The general rule for VAT-registered traders is that they are entitled to deduct VAT charged to them on purchases made for business purposes. However, in the case of motor vehicles, there are some limitations to this entitlement.

For practical purposes, an attempt has been made to match the VAT legislation to the Vehicle Registration Tax (VRT) categories. Motor vehicles are divided into a number of different categories for VRT purposes. Vehicles may be liable to different rates of VRT and different registration procedures depending on the category. Vehicles used for commercial purposes will generally come within Categories B and C, and will be liable to VRT at lower rates than Category A vehicles. Further details of the VRT Categories are available on the [Revenue website](#).

VAT-registered traders generally may not deduct VAT incurred on the hire, leasing or purchase of passenger motor vehicles for use in their businesses where these vehicles are classed as Category A for VRT purposes. The vehicles that come within VRT Category A include saloons, estates, hatchbacks, convertibles, coupes, MPVs, jeeps, etc., minibuses with less than 12 permanently fitted passenger seats, motorcycles, motor scooters or similar vehicles of all kinds. However, certain traders are entitled to recover VAT on these vehicles for use as stock-in-trade, or in a driving school or car-hire business (see section 3).

1.1. Commercial vehicles

A VAT-registered trader is generally entitled to deduct VAT charged on the purchase or hire of a motor vehicle for use in his or her business if the vehicle comes within the definitions of Category B or Category C vehicles for the purposes of Vehicle Registration Tax (VRT). If such a vehicle is used exclusively for business purposes, the VAT is deductible in the normal way.

Vehicles within VRT Categories B & C, such as vans, lorries, pick-ups and crew-cabs are generally deductible for VAT, and these are often referred to as commercial vehicles for VAT purposes. However, buses or minibuses suitable for carrying between 12 and 16 persons (including the driver) are not generally deductible for VAT, although they come within Category C, as they are normally used for the exempt activity of carrying passengers.

N1 vehicles within VRT Category A, that have 4 or more seats and to which a [BE bodywork code](#) has not been assigned are also considered commercial vehicles for VAT purposes.

Vehicles that come within VRT Category D, and other vehicles not in Categories A, B, or C may be deductible, depending on whether the purchasers are registered for VAT and the uses to which the vehicles are put.

VAT-registered traders are also entitled to deduct some or all of the VAT incurred on expenses such as the purchase of diesel (but not petrol), road tolls, and the repair or servicing of vehicles (petrol is not included).

1.1.1. Restrictions on recovering VAT

If the vehicle is used partly for business and partly for non-business use, then the trader can only deduct a portion of the VAT incurred to reflect the amount of business use [as per the normal rules](#).

1.1.2. Second-hand vehicles

If the vehicle is purchased from a motor dealer operating the Margin Scheme, then the purchaser has no right to recover any VAT charged.

2. Recovery of VAT on motor vehicles by certain traders

In addition to the above rules, certain traders are entitled to recover VAT on passenger motor vehicles in full, such as:

- Motor dealers who purchased them as stock-in-trade.
- Driving schools that purchased them for teaching purposes.
- Car-hire companies that purchased them for hiring out.
- Financial services companies selling vehicles by hire-purchase arrangements or leasing vehicles.

2.1. Recovery of VAT by motor dealers

Motor dealers who are registered for VAT are entitled to deduct the full amount of the VAT incurred on the purchase of all types of vehicles for use as stock-in-trade.

Motor dealers are also entitled to deduct some or all of the VAT incurred on expenses such as the repair, maintenance or servicing of vehicles.

There are special rules on the VAT treatment of a vehicle (Demonstration vehicle) where the motor dealer registers the vehicle in their own name. Further guidance on demo models is set out in the VAT Tax and Duty Manual (section 7 of [‘VAT and VRT on Transactions Involving Motor Vehicles’](#)).

2.2. Recovery of VAT by driving schools

Driving training schools are entitled to deduct VAT on all vehicles purchased to be used by them for the purpose of their taxable business activity.

2.3. Recovery of VAT by hire / lease providers

A company that operates a business, hiring or leasing out vehicles, is entitled to deduct the VAT on any vehicles purchased or hired by it for onward hiring to customers.

The hire company must charge and account for VAT on any subsequent sale or disposal of vehicles that were used for hiring out.

2.4. Recovery of VAT under hire-purchase agreements

A hire-purchase agreement is one whereby a customer hires a vehicle from a provider (usually a bank or finance company) for a specified period of time, with an option to purchase the vehicle after the period of hire. An agreement is drawn up providing for regular repayments of equal amounts. Generally, the actual legal transfer of ownership of the vehicle occurs with the last payment.

For VAT purposes, however, the supply of the vehicle takes place at the time that it is handed over by the supplier to the customer. That is, a customer who is registered for VAT receives a VAT invoice (from the hire-purchase provider) for the value of the vehicle, not including any finance charges that might apply.

If the vehicle is a commercial one, then the VAT-registered customer is entitled to deduct the full amount of the VAT at the time that he or she takes delivery of the vehicle. The actual legal transfer of ownership of the vehicle (at the time of the final payment) is, therefore, ignored for VAT purposes.

If a second-hand vehicle is sold by hire-purchase arrangement, then, subject to the conditions set out, the Margin Scheme will apply. A customer acquiring such a vehicle will not be entitled to deduct any VAT charged to him / her.