



Article – Capital Allowances and Leasing Charges – Motor Cars.

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Examiner: Formation 2 – Taxation.

The Finance Act 2008 introduced changes and new restrictions to both the calculation of capital allowances and the amount of business leasing expenses allowed for passenger motor cars. The new changes apply **when the expenditure is incurred on the provision of a business car on or after 1st July 2008.**

(a) CAPITAL ALLOWANCES:

Car provided before 1st July 2008:

- The specified amount of €24,000 applies to passenger motor cars acquired for business use in chargeable periods ending on or after 1st January 2007.
- For expenditure incurred on or after the 4th December 2002, the rate of the allowance is 12.5%.
- The % is applied to the lower of cost **OR** the specified amount.

Calculation of capital allowances on or after 1st July 2008:

- The specified amount of €24,000 continues to apply.
 - The rate of calculation remains at 12.5%.
 - The car is now **classified A – G** depending on the carbon emissions level.
- N**
- Category A B or C: 12.5% is applied to a cost figure of €24,000 **when the car cost is less.**
- E**
- Categories D and E: 12.5% is applied to **HALF of the lower of** actual cost **OR** €24,000.
- W**
- Categories F and G: **No** capital allowances are available.

See next page for Business Leasing Expenses

(b) BUSINESS LEASING EXPENSES:

Car leased before 1st July 2008:

- The allowable leasing charges will be restricted if the cost of the car exceeds the specified amount, by reference to the formula

$$A \times \frac{B - \underline{\text{€}24,000}}{B}$$

[A = lease charges. B = cost of vehicle.]

Car leased on or after 1st July 2008:

- The same formula above is used i.e. as before the 1st July 2008
- The rate at which leasing charges are allowed **mirrors** the new capital allowances regime outlined in part (a) on previous page for categories

N A - G.

- When the car **cost is below** the specified amount, an additional deduction is available in the same proportion that the specified amount actually bears to the cost price e.g.

E Car cost €16,000.

W Lease expenses €1,000:

Additional deduction $\text{€}1,000 \times \frac{(16-24)}{16} = \text{€}500$

[Alternative: $\text{€}1,000 \times \frac{24}{16} = \text{€}1,500 - \text{€}1,000$]