

GMS Flash Alert

2023-072 | March 31, 2023



Ireland – Revisions to Taxation of Company Cars Rules

In mid-2022, Irish Revenue announced significant changes to the taxation of company cars in Ireland. These changes took effect from 1 January 2023, and are summarised below.

For many employees, the impact of these changes was a significant increase in the tax liability arising in respect of their company car. At a time when the cost-of-living crisis is impacting many households, such increases were considered ill-timed, to such an extent that the Department of Finance decided to intervene.

Accordingly, on 7 March, temporary measures were introduced for the 2023 tax year which apply retrospectively to 1 January 2023.¹ The measures are as follows:

- a reduction of €10,000 to the Original Market Value (“OMV”) of vehicles in “A” to “D” categories;
- the upper limit of the highest mileage band (originally set at 52,00KM) has been reduced by 4,000KM to 48,001KM for 2023 (KM = kilometers).

WHY THIS MATTERS

For many employees, these temporary measures will be welcome, and should mitigate the financial impact of the original changes.

For employers, the impact of these changes will be as follows:

- 1 Payroll processes will need to be updated again to account for the temporary measures.
- 2 Given the retrospective application, it will be necessary to reconcile the year-to-date position to account for the changes.
- 3 Where employees benefit from the changes, the employer PRSI liability on company cars will fall, reducing the cost to the company.

KPMG INSIGHTS

There is no reduction to the OMV for cars in the “E” emissions category, meaning that where the emissions exceed 180 CO₂g per KM, the employee does not benefit from the €10,000 reduction to OMV. Employees in this category may therefore still be significantly worse off as a result.

More Details

Approach to Calculating Benefits-in-Kind (BIK) on a Company Car up to 31 December 2022

Previously, the BIK of an employer-provided vehicle was simply calculated based on the OMV of the car and the amount of business kilometers travelled by the employee during a tax year.

By using the OMV and annual business KM driven, a “cash equivalent” was determined by reference to a percentage value of the OMV, as per the following table:

Up to 31 December 2022	
Annual Business KM	% of OMV
Up to 24,000	30%
24,001 - 32,000	24%
32,001 - 40,000	18%
40,001 - 48,000	12%
48,001 +	6%

Source: KPMG in Ireland

For example, if an employee drove 49,000KM in a year and the OMV of his company-provided car was €65,000, the value of his annual company car BIK was €3,900 (i.e., €65,000 * 6%). Assuming the employee paid tax at the marginal rate of tax of 52 percent, his annual tax liability in respect of the company car would be €2,028.

Tax Changes from 1 January 2023

With effect from 1 January 2023, the car’s CO₂ emissions need to be considered when calculating the benefit-in-kind. The new rates are set out in the table on the next page.

From 1 January 2023					
Annual Business KMs	Vehicle Categories				
	A	B	C	D	E
CO ₂ Emissions - CO ₂ g per KM*	0 - 59	59 - 99	100 - 139	140 - 179	180 +
	% of OMV				
0 - 26,000	22.50%	26.25%	30%	33.75%	37.50%
26,001 - 39,000	18%	21%	24%	27%	30%
39,001 - 48,000	13.50%	15.75%	18%	20.25%	22.50%
48,001 + **	9%	10.50%	12%	13.50%	15%

Source: KPMG in Ireland

* Revenue confirmed that Worldwide Harmonised Light Vehicle Testing Procedure (WLTP) – as opposed to the New European Driving Cycle (NEDC) CO₂ testing methodology – should be used to determine the CO₂ emissions per KM for the purpose of calculating the BIK due.

** This table includes the reduced threshold. From 1 January 2024, the lowest rates will apply from 52,000KM.

KPMG INSIGHTS

As can be seen in the table above, there is a significant increase in the number of BIK rates (twenty as compared to five), and employers should make sure that the introduction of this new variable (i.e., CO₂ emissions) is factored into the payroll process.

Employers should also maintain adequate travel records for all employees/directors. These records should be updated at least monthly, so that the correct BIK is charged through payroll on a real-time basis and is reflective of actual business KMs travelled.

We also recommend careful review of the specification of the vehicle and seeking advice if necessary. It is not uncommon for some vehicles to be advertised as “commercial vehicles” (which may be the case for VAT/VRT), but they are deemed “cars” when considering the BIK (as opposed to benefiting from the more favourable rates that apply to vans – see below).

Electric Vehicles

Finance Act 2022 extended the application of the special BIK rules on electric vehicles to 2025, which permit a fixed reduction in the OMV for the purposes of the calculation.² These rules apply for fully electric vehicles only, i.e., hybrid vehicles are not covered by these favourable BIK rules.

A tapering applies from the 2023 year of assessment, such that in calculating the company vehicle BIK the OMV exemption threshold for electric vehicles will decrease to €45,000 in 2023. When the new rules originally took effect on 1 January 2023, the OMV discount was set at €35,000, but an extra €10,000 was added to the reduction under the temporary announcement, which brings the total OMV discount on electric company cars to €45,000 for 2023.

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As things stand for subsequent years, a reduction of €20,000 from the OMV is permitted in 2024, and finally falling to €10,000 for 2025.

For example, for an electric vehicle acquired on 1 January 2023, with an OMV of €70,000, performing annual business mileage of 24,000KM, the BIK is calculated for the years 2023 to 2026 as summarised in the table below.

Year	2023	2024	2025	2026
OMV	70,000	70,000	70,000	70,000
BIK reduction for electric vehicles	-45,000	-20,000	-10,000	
Taxable OMV	25,000	50,000	60,000	70,000
BIK Rate - Category A	22.5%	22.5%	22.5%	22.5%
Cash Equivalent	5,625	11,250	13,500	15,750

Source: KPMG in Ireland

In addition, no taxable benefit arises where an employer provides facilities for the charging of vehicles on its business premises provided all employees can avail themselves of the facilities.

It should also be possible for an employer to reimburse home electricity costs relating to charging the employer-provided EV without tax consequences.

KPMG INSIGHTS

The reimbursement of home electricity costs could potentially cause some practical difficulties in measuring this usage, and more so where the individual is also charging another privately-owned vehicle. It is a requirement for the employer to obtain sufficient supporting documents to verify the tax-free reimbursed amounts. We anticipate some challenges in providing the necessary evidence to support such claims.

Company Vans

There has also been a change introduced with effect from 1 January 2023, to the rate applicable in calculating the cash equivalent for a company-provided van. This rate has now been increased from 5 percent to 8 percent of the OMV of the van.

FOOTNOTES:

1 See Department of Finance press release, "[Minister McGrath announces temporary change to Benefit-in-Kind regime for vehicles in Finance Bill 2023 \(Cost of Living Measures\)](#)" (updated 9 March 2023).

2 For Dáil Éireann Debate on Electric Vehicles, Tuesday - 8 November 2022, see: <https://www.oireachtas.ie/en/debates/question/2022-11-08/256/>.

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