Finance

How tax reliefs and the right finance options can put you on the road to a better motoring deal

Tax relief rates mean that a jeep costing €45,000 has the same net after-tax cost for farmers as a car costing €32,000

Analysis
Martin O'Sullivan

If this was a normal year, we would be seeing increasing number of 211 registration plates on the roads by this stage. Unfortunately, that is not the case and I haven't seen very many 211 plate yet.

However, on a more positive note, numerous clients and acquaintances have indicated their intention to change their car or jeep when we get out of the pandemic, whenever that will be. It sounds like people are going to reward themselves for having survived Covid-19. Even if the new reg is 212 ,so be it, if it means normality has been restored by mid-year.

A question I frequently get asked by my farmer clients is how best to finance a vehicle from both a taxation and a financial perspective.

The answer on both fronts is far from straightforward as it will depend on how the vehicle is financed.

However, in simple terms a commercial jeep or crew-cab is fully allowable against tax spread out over an eight-year period, whereas a car is restricted in value to €24,000 and, where the emissions category is D or E, only half of the cost is allowable.

Battery cars are 100pc allowable against tax but are also restricted to €24,000 in value.

In addition, Revenue will require that a deduction for personal use of private cars is made which typically will range from one quarter to one half of the amount of relief being claimed depending on how much the vehicle is used in the business.

The example set out in the table below shows that a jeep costing €45,000 has the same net after-tax cost as a car costing €32,000.

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How a vehicle is financed will have no bearing on the level of tax relief over the lifetime of the vehicle apart from certain Personal Contract Plans (PCPs) where the vehicle is handed back at the end of the contract period, which is rare.

However, how a vehicle is financed may have cost and cash flow implications.

For example, writing a cheque for a new vehicle may seem a prudent thing to do just because the cash is in your account.

This may not always be the case as the nature of farming is such that threats lurk at every corner and you may find that your spare cash flow has vanished after a dry summer or long winter.

I have frequently seen farmers directly funding the cost of new buildings or vehicles, and shortly thereafter paying up to 10pc interest on an overdraft because they came under cash flow pressure.

Currently, the cost of finance is low, so I am an advocate of borrowing to finance asset purchases where you are not certain that your finances are sufficiently robust to withstand the myriad of threats that farmers frequently face.

Bank term loans

Banks generally prefer to offer hire purchase (HP) finance for vehicles, but well-established clients may be granted a term loan for this purpose.

This is probably the least complicated way of financing your vehicle as it means that you simply go with your cheque book and pay for or electronically transfer the purchase price of the car.

For tax purposes, the cost of the car or €24,000 - whichever is less – is written off over eight years, subject to a deduction for personal use. The interest rate for term loans of this nature can occasionally be higher than the cost of HP, so check out how the monthly repayments compare.

Hire Purchase

This is probably the most commonly used method of financing a motor vehicle or jeep. The main features of this type of finance are:

The vehicle being financed will satisfy the security requirements so no other security is required,

The Interest rate is always fixed and will not change during the life of the loan,

The interest is applied on a simple interest basis, i.e., you pay interest on the entire sum borrowed for each year of the agreement,

As all the interest is applied at the outset an early termination of the agreement may prove costly

While the vehicle may be registered in your name, you won't own it until the term of the finance has expired and all payment have been made.

Most car dealers will offer finance deals, but the advice is to establish what the true rate of interest being charged is. It may be worth your while to make a quick call to your accountant before you sign any agreement.

VALUE OF TAX RELIEF

	New Car	Jeep
Vehicle cost	€32,000	€45,000
Tax relief over 8 years	€18,000 (@3/4)	€45,000
Tax & levies saved (48.5%)	€8,730	€21,825
Net cost of vehicle	€23,270	€23,175

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Personal Contract Plans (PCPs)

Many car dealers offer Personal Contract Plans (PCPs).

PCPs can appear very attractive because they usually have low monthly repayments, but the sting in the tail is that at the end of the contract period, usually three years, there is still a substantial amount owing.

The main difference between a PCP and HP is that once you make the HP repayments over the agreed term you own the vehicle. With a PCP you don't own the car: you are essentially hiring it for an agreed period of time – at the end of that period you either hand back the car or buy it out. There may also be conditions attaching to a PCO such as:

- Servicing obligations
- Possible penalties for exceeding mileage limits
- Rules for modifying the car
- Rules on servicing the car,
- Comprehensive insurance

As with other types of credit, when you take out a PCP, your finance company will send details of the repayments you make or even worse, the ones you miss to a credit reference agency.

If you agree to act as a guarantor for someone taking out a PCP, you are in fact a joint hirer and not just a guarantor. Any missed repayments on the agreement will also show up on your credit record so think carefully before you become a guarantor even if it is for one of your children.

Tax break: The cost of a commercial jeep or crew-cab is fully allowable against tax spread out over an eight-year period, whereas a car is restricted in value to €24,000 for this tax relief.

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