Corporation Tax (CT)

Capital allowances and deductions

A company can claim certain costs and expenditure against its profits to reduce the amount of tax it pays. These expenses do not include business entertainment expenses or items of capital expenditure. Capital expenditure is money a company spends on buying or maintaining land, buildings or equipment.

Capital allowances

A company may claim capital allowances on capital expenditure it incurs on certain types of business assets and business premises.

Capital allowances are generally calculated on the net cost of the business asset or premises. There are different rates available depending on the type of asset. A company can claim capital allowances on:

- plant and machinery
- motor vehicles
- industrial buildings
- transmission capacity rights
- computer software
- specified intangible assets.

A company can claim capital allowances at a rate of:

- 12.5% over eight years for plant and machinery
- **and**
- 4% over 25 years for most industrial buildings.

A company can claim an Accelerated Capital Allowance (ACA) of 100% for the following:

- Energy efficient equipment including electric and alternative fuel vehicles
- Gas vehicles and refuelling equipment
- Equipment in a creche or gym provided by the company to its employees.

The ACA can be claimed in the first year the asset is used in the business.

A company can also claim capital allowances at a rate of 15% over 7 years on the cost of a building used as a creche or gym by its employees.

Example

A company carries on a trade of manufacturing furniture and makes up its accounts to 31 December each year. In May 2016 the company bought a new machine which cost €25,000 excluding Value-Added Tax (VAT). The machine was in use in the trade at 31 December 2016.

The company can claim an allowance, known as a wear and tear allowance, at a rate of 12.5% of the net cost of the machine for the 12 month accounting period ending 31 December 2016. The allowance of €3,125 (€25,0000 @ 12.5%) is treated as a trading expense of the company in the same way as other trading expenses (for example, wages) in calculating the company's profit for tax purposes.

The company can claim a wear and tear allowance of €3,125 for the following seven accounting periods, provided the machine is in use for the trade at the end of the accounting period in question.

The allowance may not be given in full if the accounting period is less than 12 months, or if the machine is used for a purpose other than the trade.

Pre-trading expenditure

A company may incur certain expenses in the three year period before they start trading. A company can include these expenses as a deduction when calculating profits.

Interest and other annual payments

A company may deduct interest payments, royalties and other payments it makes when calculating the CT amount due. A company's Dividend Withholding Tax (DWT) on patent royalty payments must be deducted and included in the CT calculation. This does not apply to:

- payments covered by the Interest and Royalties Directive
- payments covered by Taxes Consolidation Act 1997 (TCA 1997), s242A
- payments covered in Corporation Tax - Treatment of certain patent royalties paid to companies resident outside the State.

Donations

A company may make a charitable donation to a Revenue approved charity or organisation. If it does, it may be able to reduce the CT amount due. The minimum single donation is €250 per year.