21 Collection of motor vehicle taxes

21.1 In 2024, there were around 3.1 million motor vehicles for use on public roads. Motor vehicle ownership is subject to a variety of taxes and duties which are summarised in Figure 21.1. The roles of the various State bodies in the administration and collection of motor vehicle taxes are explained further in Annex 21A.

Figure 21.1 Summary of taxes and duties associated with motor vehicle ownership[a]

Tax or duty	Applies	Based on	Collected by
Vehicle registration tax (VRT)	At registration	CO_2 emissions, NOx emissions[b] and open market selling price (OMSP)[c]	Office of the Revenue Commissioners
Value added tax (VAT)	On purchase	Vehicle price (new or imported)	Office of the Revenue Commissioners
Customs duty	On non-EU vehicle imports	Vehicle type and import value	Office of the Revenue Commissioners
Motor tax	Annually (but payable quarterly, half yearly or annually)	CO_2 emissions or engine size	Department of Transport and local authority motor tax offices

Source: Office of the Comptroller and Auditor General

Notes:
a Excludes fuel taxes (excise duty, carbon tax and VAT) applied at the pump per litre of fuel and benefit in kind (BIK) liability for company car users based on vehicle value and emissions. These taxes are collected by the Revenue Commissioners.
b For VRT category A vehicles (see Annex 21B).
c For category A and B vehicles, the OMSP is the price, inclusive of all taxes and duties, which the vehicle might be expected to get on a first, arm's length sale in the open market in the State.

21.2 A total of €1.9 billion in revenue was collected from vehicle registration tax (VRT) and motor tax in 2024. Over the period 2016 to 2024, while the number of vehicles on the road has increased by around 20%, motor tax receipts have fallen by almost 12% (see Figure 21.2).[1] Movement in VRT receipts was more variable, reflecting the rate of acquisition of new vehicles.

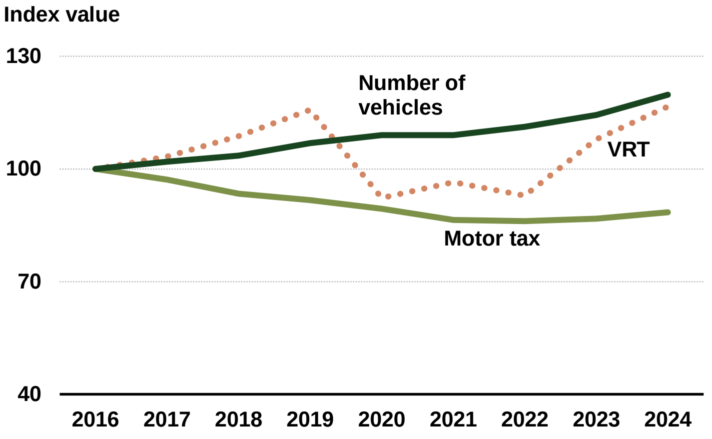
21.3 The Department of Transport (the Department) accounts for the collection of motor tax receipts, and their subsequent transmission to the Exchequer, in the Motor Tax Account. The collection and allocation of VRT, VAT and customs duty associated with trade in motor vehicles are accounted for in the Account of the Receipt of the Revenue of the State by the Office of the Revenue Commissioners (Revenue). Both accounts are presented on a 'cash received' basis with limited accrual information presented in the notes to those accounts.

21.4 The National Vehicle and Driver File (NVDF) is a database containing details of all registered vehicles and their owners as well as licensed drivers in the country. It is compiled and maintained by the Department. The NVDF is central to the processing of motor tax and driving licences.[2]

1 A breakdown of VAT and Customs Duty collected in relation to motor vehicles is not available as traders are not required to provide a breakdown of these amounts in their tax returns.

2 The NVDF also fulfils certain legal obligations in relation to the national driver and vehicle registers. See Section 60, Finance Act 1993.

Figure 21.2 Index of VRT receipts, motor tax receipts and number of vehicles 2016 – 2024 (2016 = 100)



Source: Local Government Fund Accounts 2016 and 2017, Motor Tax Accounts 2018 to 2024, Department of Transport, Revenue Commissioners

Focus and methodology

21.5 I have previously reported at length on the administration and collection of motor tax.[1,2] Key findings from those reports were as follows.

- The overall cost of administering the motor tax system is not centrally compiled or reported. There was insufficient information available to accurately compare the costs of online and physical services.
- There had been no analysis of taxpayer behaviour e.g. the factors influencing the choice to use either online or physical payment methods, or the choice to renew motor tax for periods of less than 12 months (the cheapest option).
- The adoption of IT solutions may increase efficiency of motor tax collection.
- Owner identity and address information submitted when registering and/or taxing a motor vehicle is relied on for enforcement of road traffic offences and barrier-free tolling, and for safety purposes such as advising of vehicle recalls and national car test appointments. However, there is limited validation of the information provided by vehicle owners.
- The level of compliance with motor tax regulations in Ireland was not formally monitored and the impact of changes to regulations governing off-the-road declarations could not be ascertained.
- There was no process of regular National Vehicle and Driver File (NVDF) analysis to inform the development of motor tax policy and the enforcement of motor tax regulations.

21.6 Recommendations made in my first report (in 2016) were fully accepted for implementation, but progress in doing so has been very slow. The follow-up report (published in September 2022) found that just one of the original seven recommendations had been fully implemented. Three recommendations were in progress and for the remaining three, no progress had been made in their implementation.

1 Special report 97, *Administration and Collection of Motor Tax*, December 2016.

2 *Report on the Accounts of the Public Services 2021*, chapter 18, Motor tax receipts.

21.7 In the circumstances, I had a concern that the controls in place in relation to the administration and collection of motor tax may not be adequate. I initiated this further examination to follow up on the current status of the implementation of the recommendations made in the 2016 report.

21.8 A further risk identified in relation to motor tax collection was the potential revenue impact of alleged bogus conversions of passenger vehicles, including some high-value models, to the less-heavily taxed category of commercial vehicles. Up to March 2024, responsibility for processing declarations in relation to the conversion of Irish registered vehicles was with the motor tax offices of local authorities. In March 2024, this responsibility transferred to Revenue.

21.9 The examination team reviewed documentation and interviewed staff in

- the Department to assess the adequacy of the controls in place over the administration and collection of motor tax (including vehicle conversions)
- Revenue to assess the adequacy of controls now in place over vehicle conversions
- the National Standards Authority of Ireland (NSAI) to gain an understanding of the approval process for Approved Test Centres (ATCs)
- the Road Safety Authority to gain an understanding of the governance and supervision arrangements in place over the National Car Testing Service (NCTS) and the Commercial Vehicle Roadworthiness Test (CVRT)
- An Garda Síochána to ascertain the extent to which a road-side check includes checking the classification of a vehicle.

21.10 Analysis presented in this report is based on data extracted from the NVDF by the Department for the period 2019 to 2024.

Cost of collecting motor tax

Recommendation 1

Establish the total cost of operating the motor tax system and the factors that influence that cost, in order to establish the relative efficiencies of alternative service provision models and to inform the planning of future service provision.

Status: *Not implemented.*

21.11 The combined cost of administering the motor tax system is still not centrally compiled or reported.

21.12 Motor tax receipts are lodged to the motor tax account and subsequently transferred to the Central Fund of the Exchequer. The administration and operational costs incurred in running the motor tax system are not charged to the motor tax account.

21.13 Costs incurred by the Department in respect of motor tax collection are charged to Vote 31 Transport under subhead F.3 which is titled 'digital hub'. In 2024, the total costs incurred in respect of this subhead amounted to around €32 million. However, this includes costs not associated with the collection of motor tax such as driver licencing services. Furthermore, the subhead charges do not include Departmental pay costs associated with the collection of motor tax.

21.14 The costs of running motor tax offices incurred by the local authorities are reflected in their annual financial statements. These annual financial statements are amalgamated and published by the Department of Housing, Local Government and Heritage. For 2023, the reported total cost of running the motor tax offices at local authority level was almost €31 million.[1]

Department's response

21.15 The motor tax system is not the responsibility of a single Department or agency, and these roles have changed in the years since the 2016 report was published. The Department has a number of functions regarding motor tax, which also inter-link with other functions of the Department.

21.16 The NVDF supports motor tax collection, through its online service, www.motortax.ie and the local authority motor tax office network. The NVDF also supports change of vehicle ownership, vehicle regulation and enforcement and international data exchange. Online motor tax is just one part of the service, so identifying motor tax technical costs is not straightforward.

21.17 Administrative costs for motor tax renewal have been substantially reduced through electronic motor tax renewal notices replacing paper-based forms. Online take-up was 87% in 2024, and the Department continues to explore options to increase this further. The Department is also working on moving to a paperless tax disc system which would significantly reduce postage costs.

Frequency of payment by basis of assessment

Recommendation 2

Analyse the factors influencing taxpayer behaviour, to inform the planning of the provision of services in future years, online and in motor tax offices.

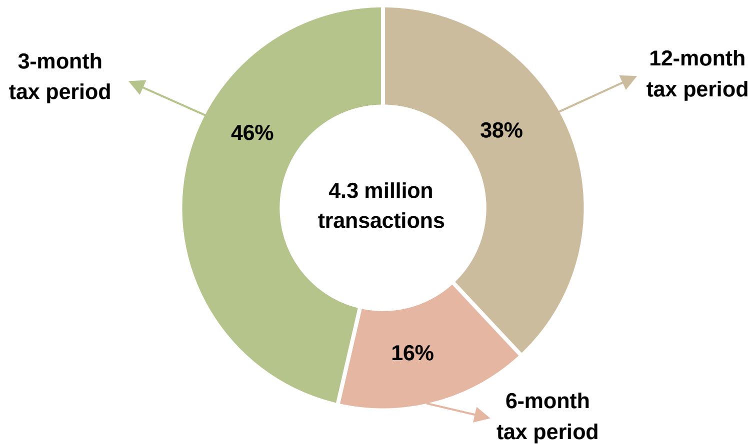
Status: *Part implemented.*

21.18 Vehicles can be taxed for periods of three, six or 12 months. However, taxing vehicles for shorter periods is more expensive for taxpayers, and results in higher processing costs for local authorities and the Department.

21.19 As can be seen in Figure 21.3, around 62% of private vehicle tax transactions were for periods of three or six months in 2024. It was recommended in 2016 that the factors influencing this behaviour should be analysed.

1 Amalgamated audited annual financial statements for the 31 local authorities for the year ended 31 December 2023.

Figure 21.3 Private vehicle tax transactions by duration of renewal, 2024



Source: Department of Transport

Department's response

21.20 The Department monitors the numbers of discs issued annually, half-yearly and quarterly (which is relatively consistent) and in 2018 analysed these by year of vehicle registration. This showed that older vehicles are less likely to be taxed annually. Possible reasons include affordability and vehicle reliability (potential to fail the National Car Test (NCT) etc).

21.21 The Department established a dedicated data and analytics function in January 2023. One of the objectives of this function is driving further analytical value from datasets such as the NVDF and working with partner agencies on operationalising the outputs from these. A dashboard developed by the data and analytics division shows the number of tax discs issued by tax class, tax bracket and whether the disc was annual, half yearly or quarterly.

21.22 The Department also stated that changes to the structure of the motor tax system and rates may influence payment decisions, however, motor tax policy, including the setting of motor tax rates and the surcharges for three- and six-month renewal periods, are the responsibility of the Minister for Finance. Any changes to current arrangements are made in a budgetary context, by the Government of the day and are subject to legislation.

Motor tax payments

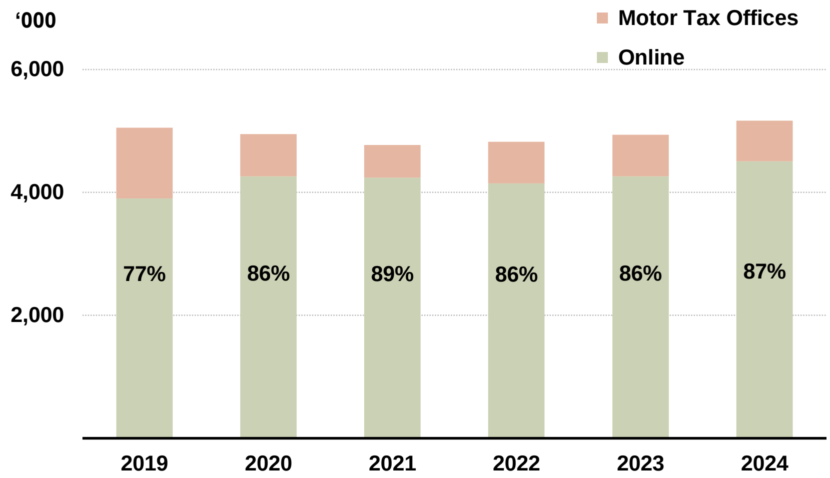
Recommendation 3

Establish the factors influencing the decision of a customer to use online or physical payment methods to identify barriers to increasing the efficiency of the motor tax collection system.

Status: *Implemented.*

21.23 Motor tax can be paid either online or in a local motor tax office. In 2024, there were 5.2 million motor tax payment transactions, of which around 87% were completed online (see Figure 21.4). This has increased from 77% online payment transactions in 2019, but almost all of the increase occurred in 2020. This appears initially to have been a reaction to Covid-19 restrictions, that then became established.

Figure 21.4 Number of payment transactions online, 2019 to 2024[a]



Source: Department of Transport

Note: a A single payment transaction can include more than one vehicle.

Efficiency gains through using technology

Recommendation 4

Evaluate the potential for IT solutions to reduce the cost of operating the motor tax system.

Status: *In progress.*

21.24 The adoption of IT solutions may increase the efficiency of motor tax collection. For example, in 2024, the Department spent around €5.8 million on the printing and distributing of motor tax discs. In addition, the Department noted that there has been a 58% increase in postal costs over the last three years. The National Vehicle and Driver File Bill 2025 contains provisions that will remove the requirement for drivers to display a paper motor tax disc on vehicle windscreens. Subject to the approval of the Oireachtas, it is planned that the Bill will be enacted by the end of 2025. However, such systems will also require investment in technology to enable enforcement.

21.25 Technology development is expensive, and any proposals to invest in new systems should be based on the prospective pay-back or net benefit to be achieved. Because the Department does not have a reliable system for understanding the cost of operating the motor tax collection system, it may not be in an optimum position to evaluate the cost-effectiveness of potential technology options.

Department's response

21.26 IT solutions have been used to reduce the cost of operating the motor tax system. Considerable savings — well over €3 million a year — have been realised by the introduction of electronic motor tax renewal notices (instead of postal notices). Additional motor tax categories have been made available on the online service thereby reducing the cost of collection, in particular for local authorities who manage the motor tax office network. The Department keeps its IT solutions under constant review.

Quality of owner identification data

Recommendation 5

Enhance the validation of owner-identifying data stored on the NVDF to ensure that the data quality is fit for the purposes it is intended to serve.

Status: *In progress.*

Registration of ownership

21.27 Registration of motor vehicles is a mandatory requirement in all EU member states.[1] Registration ensures that a motor vehicle can be readily identified, and that the owner can be traced. Vehicle ownership is recorded on the NVDF and evidenced through the vehicle registration certificate (or 'logbook').

21.28 The registered vehicle owner is the person liable for motor tax. Therefore, the accuracy of the data on the NVDF is a key element of the motor tax collection system. In addition, that data is essential for the enforcement of road traffic offences as well as vehicle safety recalls, national car tests and barrier-free tolling.

21.29 The 2016 report found that documentation to support the NVDF data was generally not required when registering or taxing a vehicle. It also found that there was little or no validation of the data submitted.

21.30 Authorised traders (motor dealers) handle the process of registering new vehicles purchased from them including the payment of VRT and the fitting of registration plates. Vehicle owners registering imported vehicles need to book an appointment with the NCTS at one of its centres where they pay the VRT and have the vehicle inspected.[2] In those cases, the NCTS issues the (Irish) registration number, and licence plates can be purchased at the centre.

21.31 Whether the vehicle is registered by an authorised trader or the vehicle owner themselves, the following information and supporting documentary evidence is required at registration[3]

- name and address — supported by evidence such as passport, bank statements or utility bills
- Personal Public Service Number (PPSN) — such as a payslip, employment detail summary, or any documentation issued by Revenue that includes the PPSN.

1 In the EU, car registration is a national competency, which means that each country has its own procedures and requirements.

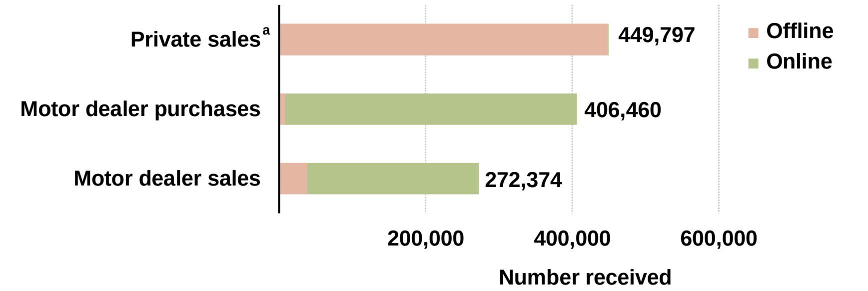
2 The NCTS is appointed by Revenue to carry out vehicle registration functions on its behalf.

3 The documentation required when registering a vehicle is set out in SI 318/1992 Vehicle Registration and Taxation Regulations 1992.

Change of ownership registration

21.32 In 2024, the Department received a total of almost 1.13 million change of vehicle ownership notifications with around 56% of those notifications received online. Figure 21.5 provides a breakdown of the change of ownership transactions in 2024.

Figure 21.5 Number of change of ownership transactions in 2024



Source: Department of Transport

Note: a There were just over 2,000 change of ownership transactions completed online for private sales in 2024. The online system was introduced in September 2024.

21.33 The online service for authorised traders to notify changes in vehicle ownership to the NVDF has been available since 2008.[1,2] Authorised traders are required to keep the completed registration certificate (signed by both parties) or the notification of transfer form for a period of three years.[3] The purchaser is not required to provide any documentary evidence of identity to the motor trader. However, the Department did note that many authorised traders provide financing options to their customers, and where this is the case, the purchaser's identity is verified as part of that process.

21.34 Since September 2024, private (non-trade) vehicle owners can also transfer vehicle registration to another private owner online. For these transfers, the current owner initiates the transfer by entering the vehicle registration number and vehicle registration certificate serial number. The details are checked to the NVDF, verifying that they are the recorded vehicle owner. Once the details match the NVDF record, a one-time transfer PIN is emailed to the seller's email address as recorded on the NVDF. The seller then shares this PIN with the buyer and the buyer then logs in using a verified MyGovID account to complete the transfer, thereby also verifying their identity.[4]

21.35 Change of ownership is generally completed offline. Both the buyer and the seller must complete and sign the change of ownership section on the back of the vehicle registration certificate (or logbook) and the seller posts it to the Department in Shannon. The buyer is not required to submit proof of identity. Once the NVDF has been updated, the registration certificate is sent to the new registered owner at the address provided.

1 Secure access to the NVDF's Change of Vehicle Ownership (CVO) online system is granted to motor dealers using a specific type of digital certificate which is provided through the Revenue Online Service (ROS). The change of ownership transactions submitted via the CVO system are digitally signed to confirm the authenticity and the privacy of the information submitted.

2 The facility can only be used by traders registered with the Department for access. Authorised traders must provide their VAT number and garage/ dealer number to register for the online facility.

3 SI 150/2008 Road Vehicles (Registration and Licensing) (Amendment) Regulations 2008.

4 MyGovID is a single account that lets an individual use services from many government departments. A PPSN number is required to set up a verified MyGovID account.

Department's response

21.36 Vehicle owner identity verification provisions are included in Part 3 of the Road Traffic and Roads Act 2023.[1] These provisions were commenced in March 2025. The regulations will follow when the operational and system changes to enable these processes are in place. Work is underway to identify the requirements for regulations to validate the vehicle owner as well as operational implementation of those regulations.

21.37 The provisions allow for the capture of a driver number, or failing that, a PPSN to establish the vehicle owner. It will enable a link from vehicle ownership records to driver licence records and improve enforcement, service of fixed charge notices and allocation of penalty points and recording of disqualifications on driver licence records. Further innovations of this nature will be explored as we modernise our systems.

Measuring motor tax compliance

Recommendation 6

Evaluate methods of assessing motor tax compliance rates in Ireland and commence regular periodic monitoring of the rate of compliance with motor tax regulations.

Status: *This recommendation has not yet been implemented.*

21.38 The level of compliance with motor tax regulations in Ireland is not formally monitored or reported. Information on the level of compliance with motor tax regulations — e.g. percentage of vehicles on the road not currently taxed — is necessary to evaluate the effectiveness of the regulations and may inform the approach to their enforcement.

Department's response

21.39 The information available to the Department is the listing of taxed vehicles and those declared off-the-road. Anomalies in the number of taxed vehicles and the number of vehicles declared off-the-road arise for several reasons, of which tax evasion is only one. An Garda Síochána and local authorities enforce motor tax compliance but as far as the Department is aware, neither currently estimate the level of non-compliance or evasion.

Motor tax arrears

21.40 For new or imported vehicles, liability for road tax arises from the date the vehicle is first used in a public place after it has been registered with Revenue. Subsequently, if a vehicle is declared off-the-road, motor tax is due from the current month in which the owner wants to tax the vehicle (this ends the period of non-use) or, if a vehicle is changing ownership, motor tax is due from the date of the sale.

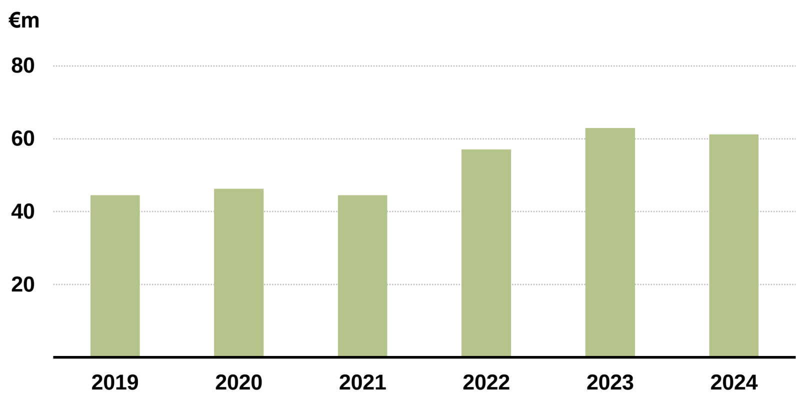
1 Road Traffic and Roads Act 2023.

21.41 If a month or more has lapsed between the expiry of the last tax disc and the month in which the vehicle owner wants to re-tax the vehicle, motor tax arrears are charged. Arrears are payable at a monthly rate of one tenth of the applicable annual rate, from one month after the tax renewal date.[1]

21.42 Figure 21.6 sets out the total amount of motor tax arrears paid over the period 2019 to 2024. The amount of arrears collected in 2024 was just over €60 million. Information on the total amount of motor tax unpaid in each year, or outstanding at any point in time, is not readily available.

21.43 The Department shares the details of untaxed vehicles with An Garda Síochána for enforcement purposes. Otherwise, it has no formal process in place to follow-up on any arrears outstanding e.g. issue of reminders. The Department stated that it will consider and evaluate options to introduce digital enforcement but that legislative change would be required for this to proceed.

Figure 21.6 Payment of motor tax arrears, 2019 – 2024



Source: Department of Transport

Impact of change in ownership on arrears

21.44 Arrears of tax are not charged when there has been a change of ownership of a vehicle, and the arrears relate to the previous owner(s). The de facto exemption for payment of motor tax arrears following a change in ownership arises as there are currently no legal provisions prohibiting this practice.

21.45 The 2016 report found evidence that this exemption was being exploited by some vehicle owners to avoid paying motor tax. In 2011, there were 173,000 exemptions from motor tax arrears arising from a change of ownership. By 2015, there were 272,000 exemptions.

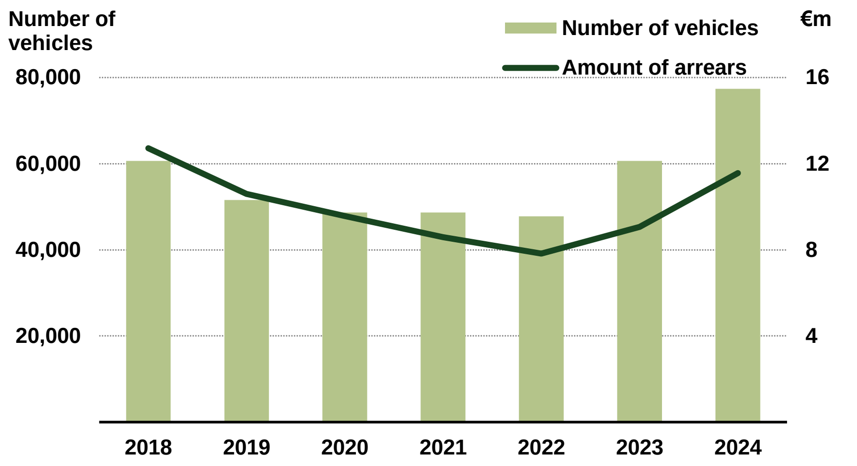
21.46 The report found many instances where three or more changes of ownership were registered. In the fifteen-month period from January 2014 to March 2015, there were 116,000 registered ownership changes in respect of 34,000 vehicles which had three or more changes. Review of a sample of such cases found that 74% of the vehicles concerned had been untaxed for some or all of the period concerned, resulting in arrears exemptions; and in 56% of the cases, there was evidence that suggested a potential connection between the owners.

1 The charging of arrears is provided for by Section 6 of the Non-use of Motor Vehicles Act 2013.

21.47 The Department has identified the number of vehicles that had a change of ownership following a period untaxed each year from 2018 to 2024.[1] The total number of such vehicles in 2024 was just over 77,000 (see Figure 21.7). This represented a significant increase compared to the period 2020 to 2022.

21.48 The Department has also estimated the associated loss of motor tax associated with the de facto change of ownership exemptions. The loss in receipts is estimated at €11.6 million for 2024. However, this does not represent the full value of motor tax payment non-compliance, because the maximum period of arrears counted is 12 months per vehicle, and vehicles that remain untaxed are not included.

Figure 21.7 Estimated number of vehicles taxed that had arrears exempted due to change of ownership, and estimated value of tax foregone, 2018 to 2024[a]



Source: Department of Transport

Note: a Vehicles registered to garages have been excluded.

Use of data to identify motor tax evasion

Recommendation 7

The Department of Transport should instigate a process of regular NVDF data analysis to inform the development of motor tax policy and the enforcement of motor tax regulations. Unusual patterns of transactions should be identified and investigated.

Status: *This recommendation is in the process of being implemented.*

21.49 The NVDF records key information on vehicles and vehicle owners in Ireland. This information is relied upon by a number of other bodies, for example Revenue, An Garda Síochána, the NCTS and the CVRT, insurance companies and local authorities (motor tax offices). It is therefore essential that the data on the NVDF is complete and reliable.

21.50 Revenue is responsible for the first time registration of vehicles in the State and it collects certain vehicle and owner information as part of that process. This information, along with any subsequent updates to the registration record, is transferred daily by Revenue to the Department to update the NVDF.

1 This could include some vehicles that were off the road but the owners had failed to make the necessary declaration. The liability for motor tax remains, absent such declarations.

Department's response

21.51 One of the objectives of the Department's data and analytics division is driving further analytical value from datasets such as the NVDF and working with partner agencies on operationalising the outputs from these.

21.52 Expanding the use of application programming interface (API) technology offers the greatest scope to use motor tax/NVDF data for addressing evasion. A new interface for data exchange with An Garda Síochána is in development. In the interim there is continuing ongoing data exchange with An Garda Síochána including the data used by them for motor tax enforcement matters.

Conversion of passenger vehicles

21.53 Motor vehicles are grouped into categories (or classifications) based on design, function, weight, seating capacity etc. Different bases are used for vehicle classification for different legal, regulatory and taxation purposes, as shown in Figure 21.8. However, the VRT classifications used by Revenue are generally aligned with EU vehicle categories as specified in EU type approval legislation. For example, Revenue's classification 'passenger vehicle' comprises EU classifications M1, M2 and M3. The classification 'commercial vehicle' comprises EU classifications N1, N2 and N3.

Figure 21.8 Systems of vehicle classification

System	Purpose	What it affects	How it classifies vehicles
EU classification[a,b]	Sets vehicle categories for EU legislation on design, safety etc.	Type approval and design standards	Vehicle type code e.g. M1, N1, L
VRT classification[b]	Determines how much tax you pay when a vehicle is first registered in Ireland	Registration tax amount	Passenger, commercial, special purpose, motorcycle
Motor tax classification	Determines how much you pay each year to keep your vehicle on the road	Motor tax rate	Based on CO_2, engine size or weight, as well as vehicle type/use

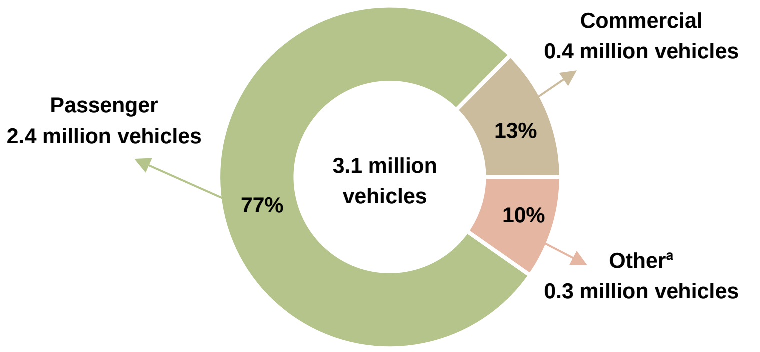
Source: Office of the Comptroller and Auditor General

Notes: a The EU classification of vehicles is set out in a number of EU directives and regulations, for example, those relating to type approval of passenger vehicles.

b Refer to Annex 21B where further details are provided on EU and VRT classification.

21.54 Vehicles classified as passenger vehicles accounted for almost 77% of the total stock of motor vehicles at the end of 2024 (see Figure 21.9). Vehicles classified as commercial accounted for a further 13% of the total stock.

Figure 21.9 Vehicle by type at end 2024[a]



Source: Department of Transport, National Vehicle Driver File.

Note: a Other vehicles comprise a variety of vehicles that include vintage vehicles, motorcycles, taxis and caravans.

21.55 Passenger vehicles are generally subject to higher rates of motor tax and VRT than commercial vehicles, so the correct classification is important. In addition, certain VAT-registered traders are entitled to deduct VAT charged on the purchase or hire of a vehicle (passenger or commercial) for use in their businesses, subject to certain exclusions.

21.56 A vehicle 'conversion' means that the characteristics of the vehicle are modified from the format in which it was constructed, for example, adding or removing seats or converting a van to a motor caravan. This may result in a reclassification of the vehicle e.g. from M1 to N1, which can result in a vehicle owner paying lower rates of VRT and motor tax, and in some instances, being able to reclaim VAT paid when purchasing the vehicle (see Figure 21.10). Where VAT is reclaimed on a converted vehicle and the vehicle is subsequently re-converted to a non-deductible vehicle, the taxpayer is required to pay back to Revenue the VAT previously claimed on that vehicle.

21.57 In March 2024, Revenue updated its guidance on recovering VAT on motor vehicles to address the VAT treatment of conversions.

21.58 Between 2019 and 2024, there were a total of 6,214 vehicle conversions from passenger (M1) to commercial (N1) — an average of around 1,036 vehicle conversions per year (see Figure 21.11). The number of such conversions between 2023 and 2024 fell by over half, to just 553 conversions in 2024. This coincided with the transfer of responsibility for processing declarations for certain vehicle conversions from motor tax offices to Revenue with effect from March 2024.

Figure 21.10 Tax implications of converting a passenger vehicle to commercial vehicle[a]

	M1 vehicle (passenger use)	N1 vehicle (commercial use)
	• Designed to carry passengers (up to eight seats plus driver) • Examples: family cars, SUVs, estates, hatchbacks.	• Designed or adapted for goods carriage (can have up to six seats plus the driver) • Goods-carrying capacity equal or higher than the person-carrying capacity • Fitted with securing devices (lashing points/partitioning system) • Cargo area meets dimensional requirements (dependent on number of seat rows)
	Tax implications	
VRT	Rate is based on CO_2 emissions, NOx emissions and OMSP	13.3% of the OMSP (minimum due is €125)[b]
Motor tax	Rate is based on CO_2 emissions or engine size	Based on unladen weight[c]
VAT	For certain qualifying passenger motor vehicles 20% of VAT incurred can be deducted by a VAT registered trader if the vehicle is used for at least 60% business purposes (for a period of two years or more) along with other conditions. No deduction is allowed for private use.	VAT reclaimable, if owner is VAT registered and vehicle is used 100% for business.

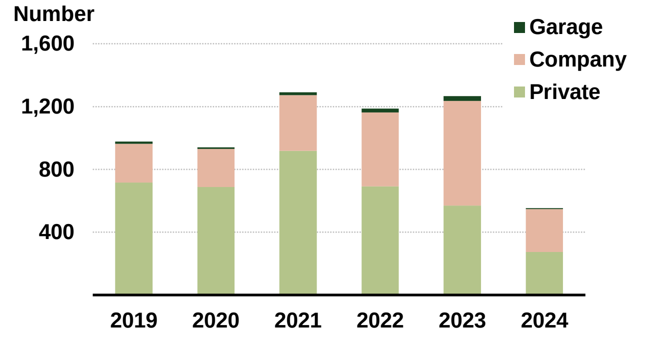
Source: Office of the Comptroller and Auditor General

Notes:
a See Annex 21C for an example of the tax savings to be achieved by converting a passenger (M1) vehicle to a commercial (N1) vehicle.

b Some commercial vehicles (N1) are charged VRT of €200 if they always had less than four seats and at any time had a laden mass greater than 130% of the mass in service. From 1 July 2025, the 13.3% VRT rate on the OMSP is retained for vehicles with CO2 emissions over 120g/km, while for category B vehicles with emissions of 0g/km up to and including 120g/km, a reduced rate of 8% on the OMSP will apply.

c The unladen weight of a vehicle is the vehicle's own weight when not carrying any goods or burden.

Figure 21.11 Number of conversions from category M1 to N1, by type of vehicle owner, 2019 – 2024



Source: National Vehicle and Driver File, Department of Transport

21.59 Revenue stated that the drop in the number of conversions in 2024 may be attributed to the clarification provided by Revenue that in cases where a vehicle is converted to EU category N1 with more than one row of seats, measurements and photographs must be submitted to Revenue with the declaration of conversion. Revenue stated that it does not process a declaration unless it is satisfied that the measurements provided are accurate and that the vehicle meets the relevant criteria for an N1 vehicle, as set out in the EU type approval regulations.[1]

Conversion control measures

21.60 Vehicles can be, and are, converted for legitimate reasons. However, converting a vehicle can potentially be used as a mechanism to avoid paying tax or to pay lower rates of tax. Therefore, it is important that there are adequate controls in place to prevent or detect vehicle misclassification.

21.61 The controls and processes vary depending on whether the conversion is carried out on a brand-new vehicle (prior to registration) or on a used vehicle (already registered in Ireland or in another jurisdiction). Of the 6,214 conversions of passenger (M1) to commercial (N1) vehicles between 2019 and 2024, 62% related to new pre-registration vehicles and 38% related to used vehicles.

21.62 Figure 21.12 sets out the key conversion control measures for new and used vehicles.

Figure 21.12 Key conversion control measures[a]

New vehicle conversions (pre-registration[b])

- Vehicle held by an authorised trader until sold.
- Conversion work visually inspected at an NSAI Approved Test Centre (ATC).
- New type approval certification issued by the NSAI after inspection at an ATC.
- Certificate of conformity or individual vehicle approval submitted to Revenue.
- Vehicle registered with Revenue at point of sale including payment of VRT and VAT.

Used vehicle conversions (post registration[c])

- Declaration of conversion submitted to Revenue (for most cases), or a Motor Tax Office (in a limited number of cases).
- Conversion work certified by a suitably qualified individual (SQI).
- Vehicle physically presented to the NCTS for pre-registration inspection — only for those vehicles previously registered in another jurisdiction.
- Vehicle registered with Revenue at point of inspection by NCTS including payment of VRT.

Source: Office of the Comptroller and Auditor General

Notes: a Refer to Annex 21D for further information on the key control measures involved in the conversion process.

b Vehicle has never been registered in any jurisdiction.

c Vehicle has already been registered in the State or in another jurisdiction.

1 Annex 1 of EU Regulation 2018/858.

Approved test centres

21.63 NSAI approved test centres (ATCs) inspect new unregistered vehicles that have gone through conversion/modification before registration for the purposes of supporting the type approval process.[1] The ATCs complete a visual inspection of the vehicle under the direction of the NSAI to assist in confirming that the vehicle meets the relevant legal, safety and construction standards.[2] ATCs do not make the final decisions. All paperwork is signed off by an NSAI engineer before a certificate is issued.

21.64 As of July 2025, there were 34 approved ATCs located around the country. For a workshop/garage to become an ATC, they must demonstrate to the NSAI that they have suitably trained personnel, suitable premises and have a documented quality management system in place.

21.65 ATCs are subject to an annual audit by the NSAI, the cost of which is €1,450 (excluding VAT).

Declaration of conversion

21.66 For conversions of used foreign-registered vehicles, a declaration of conversion and a declaration by a suitably qualified individual must be provided to the NCTS at the time the vehicle is presented for registration in Ireland.

21.67 For converted Irish registered vehicles, the declaration of conversion should be submitted to Revenue where

- the vehicle has been converted to an EU category N1 vehicle, with more than one row of seats; or
- the vehicle registration certificate shows a VRT category of B, C or D or is blank, and
  - seating positions have been added and the new total including the driver is nine seating positions or less; or
  - the vehicle had ten seating positions or more and seating positions have been removed so that the new total including the driver is nine seating positions or less; or
  - the vehicle has been converted to a motor caravan.

21.68 From 19 March 2024, Revenue assumed responsibility for processing conversion declarations for Irish registered vehicles converted to N1 with more than one row of seats. Prior to that date, these conversions were processed by motor tax offices. Revenue stated that the change in administrative procedures for conversions from March 2024 was to clarify the requirements and strengthen controls to address potential tax risks.

21.69 The declaration of conversion must

- include the total cost of the conversion along with invoices and receipts evidencing the dates and cost
- be stamped by a suitably qualified individual (SQI) and include evidence that an SQI has certified the conversion
- include the vehicle registration certificate

1 EU Regulation 2018/858 explains that a vehicle is deemed to be new if it has never been registered previously or if it has been registered for less than six months.

2 Following inspection of the vehicle, the ATC completes a test report certifying that the conversion work has been completed to the required standards.

- include evidence of NOx emissions for category A vehicles or vehicles being converted to category A[1]
- include measurements of the rear loading aperture dimensions and internal photographs where the vehicle is being converted to a category N1 with more than one row of seats
- include photographs of the interior and exterior for motor caravans
- be signed by the vehicle owner confirming that the vehicle as converted complies with the requirements of road traffic law and has correctly been certified as such by an SQI.

21.70 As part of the examination, a sample of 39 declarations of conversion was reviewed comprising 15 declarations made prior to March 2024 processed by three motor tax offices and 24 declarations made after March 2024 processed by Revenue.

21.71 The examination identified issues with the documentation retained by two of the three motor tax offices. In one motor tax office, the files contained no photographs for four of the five conversions reviewed, even though this was a requirement at the time. In another motor tax office, there was no supporting documentation for one of the five conversions reviewed and no SQI declaration, weight document or photographs for a further two conversions.

21.72 No concerns were identified with the documentation retained by Revenue in respect of the sample of declarations it had processed.

Suitably qualified individuals

21.73 A ‘suitably qualified individual’ (SQI) for conversion certification purposes is an independent engineer who must have

- an engineering or technical qualification (level 7 or higher accredited course)
- a minimum of five-years’ experience working in a suitable technical environment (preferably an automotive or engineering environment)
- access to adequate facilities to carry out a thorough vehicle examination and
- appropriate professional indemnity insurance or
- be an NSAI approved facility (Approved Test Centre or Approved Workshop for Conversion of Vehicles for Disabled Drivers).

21.74 Conversion work carried out on used vehicles must be formally certified by an SQI. SQIs are not audited by the NSAI. Once the conversion work has been completed, the SQI self-confirms on the conversion declaration form that they meet the criteria listed above.

21.75 For used vehicle conversions, the conversion declaration must be stamped by the SQI and accompanied by a certificate, on the SQI’s headed paper, confirming that they have inspected the vehicle and are satisfied with the standard and quality of the conversion and the accuracy of the vehicle owner’s declaration.

1 VRT category A is for passenger vehicles, including cars and minibuses (with no more than eight seating positions in addition to the driver’s seating position). These vehicles are generally European category M1 but also includes certain category N1 vehicles which have four or more seating positions.

NCTS pre-registration inspection of foreign-registered vehicles

21.76 Vehicles previously registered in another jurisdiction are subject to an inspection by the NCTS prior to registration in Ireland. An NCTS staff member carries out a visual and physical examination of the vehicle. This is to confirm that the vehicle details on the foreign registration certificate and on the declaration of conversion match the vehicle presented for registration.

21.77 Since March 2025, NCTS staff also take photographs of foreign registered vehicles that present for registration with conversion declarations. The photographs are provided to Revenue by the NCTS.

Data analysis to detect vehicle misclassification

21.78 The examination sought to analyse the vehicle conversion data contained in the NVDF over the period 2019 to 2024. However, only very limited analysis could be completed because

- the Department does not have a complete and accurate list of data-entry field definitions for the NVDF
- certain key fields required by the examination team, such as the vehicle category or the number of seats before and after conversion, were blank as they are not mandatory, and some fields are 'free text' leading to inconsistencies in the data recorded.

21.79 The Department stated that a project is underway to improve the metadata and data quality of the NVDF, which includes working with external data providing partners.

21.80 Analysis of the 'number of seats' field in the NVDF for the 6,214 passenger (M1) to commercial N1 conversions before and after conversion found that

- in 36% of the cases, it was not possible to ascertain the number of seats before the conversion as the field had been left blank
- where original seat number data was available
  - in 26% of the cases, the seat numbers reduced by two with the majority of these cases being converted from seven to five seats
  - in 5% of cases, there was no change in seat numbers during conversion.

21.81 The examination team found that conversions processed by Revenue are not easily identified in the NVDF. The Department explained that when the field 'conversion motor tax office' is left blank, this denotes that the conversions were processed by Revenue.

21.82 Analysis of conversions processed in the NVDF since 19 March 2024 found seven vehicles where the 'conversion motor tax office' indicates that the conversion was processed by a local authority motor tax office when the conversion should have been processed by Revenue. Three of the conversions were processed on the date the change was introduced, before the IT changes came into effect that night. The Department is currently investigating the reason for the remaining four entries.

Ongoing checks of vehicle classification

21.83 In order to ensure ongoing compliance by motor vehicle owners with motor vehicle tax requirements, a comprehensive set of measures is needed to detect, prevent and address instances of non-compliance. There are a number of ways in which potential vehicle misclassification within the current stock of vehicles can be identified including

- targeted reviews to address emerging trends in taxpayer behaviour
- during national vehicle tests (NCT/CVRT)
- as part of routine Revenue roadside checkpoints targeting compliance with VRT and other excise matters
- during roadside checks carried out by An Garda Síochána.

Revenue targeted projects

21.84 In late 2023, as part of the routine processing of VAT repayment claims, Revenue's business division identified cases where taxpayers were submitting VAT repayment claims for high-end motor vehicles.

21.85 One garage was identified as making a number of the VAT repayment claims. Revenue analysed all vehicles registered to this garage from 2021 to establish the scale and risks involved. It identified two practices indicating potential non-compliance as follows.

- ***Pre-registration conversions*** — conversion of passenger vehicles (M1) with two rows of seats to commercial vehicles (N1) with one row of seats. Revenue stated that there was a risk that a second row of seats may be reinstalled once the vehicle is registered. However, this could only be confirmed by a physical inspection of the vehicle. This practice poses both a VAT and VRT risk if the vehicle has been incorrectly classified as a commercial vehicle.
- ***Post-registration conversions*** — conversion of passenger vehicles (M1) with two rows of seats to commercial vehicles (N1) with two rows of seats. There was therefore a risk that no conversion/alteration was made to the vehicles. The reclassification to N1 enabled a substantial VAT refund to be claimed and lower motor tax to be applied. There was no VRT at risk as the VRT had been paid at the higher rate (category A) on registration.

21.86 Revenue extended the scope of its analysis and identified additional garages that were potentially engaging in these two practices, indicating possible non-compliance. It provided details of three cases encountered by its business division as part of its work in relation to the misclassification of vehicles (see Figure 21.13).

21.87 In light of the issues identified and to facilitate large scale analysis, Revenue obtained data from the Department of vehicles on the NVDF where the EU classification had changed from passenger (M1) to commercial (N1) between January 2021 and May 2025. Using this, together with its own registration data, Revenue identified 1,330 vehicles that will require further examination. Revenue has established a cross-divisional group, chaired by its business division, to co-ordinate its approach to progressing these cases.

21.88 Separately, in 2024, as part of a specific project targeting potential non-compliant VRT conversions, Revenue identified 120 motor vehicles for review to ascertain if they had been converted from commercial (N1) to passenger (M1) classification between 2020 and 2023. As of April 2025,

- 58 vehicles (48%) had been identified and a physical inspection carried out
- 62 vehicles have yet to be physically inspected. Revenue stated that letters will issue to these vehicle owners inviting them for inspection.

21.89 From the 58 physical inspections, Revenue confirmed that 14 had been converted from passenger (M1) to commercial (N1) prior to registration and subsequently converted back to passenger (M1) classification. Revenue had not been notified of the conversion back to passenger (M1) classification, and the additional VRT due was not paid.

21.90 Following inspection, Revenue issued warnings to the 14 vehicle owners stating that they had 30 days to rectify the issue i.e. either pay the additional VRT due or convert the vehicle back to commercial classification.[1] This resulted in

- two vehicle owners paying additional VRT totalling €13,000
- three owners converting their vehicles back to N1 (commercial) vehicles.

21.91 No further contact was received from the remaining nine vehicle owners. Revenue plans to issue letters to these vehicle owners inviting them to present the vehicles for inspection again.

Revenue enforcement activities

21.92 Revenue's frontier management branches carry out a range of work to identify vehicles that may be incorrectly classified, for example

- at checkpoints and on general patrols looking for risk indicators indicative of conversions e.g. commercial road tax and/or commercial vehicle road-worthiness test certificate and seats in the rear of the vehicle
- access the NVDF in real-time to check details of individual vehicles they encounter on patrol.
- following-up on intelligence from within Revenue of businesses selling possible converted vehicles
- checking vehicles identified in 'good citizen' reports and tax evasion reports[2]
- profiling of social media and open-source intelligence to identify if converted vehicles are being advertised as commercial.

21.93 Revenue confirmed that there have been 16 detections in relation to misclassified vehicles in the period 2019 – 2024. In all those cases, the vehicle was seized by Revenue. Of these, 13 vehicles were released to the customer on payment of a compromise sum with just over €9,000 collected. The remaining three vehicles remain in Revenue custody.

21.94 Of the 13 vehicles released, eight were converted back to commercial (N1) classification and this was confirmed on inspection. For the remaining five vehicles, additional VRT was paid amounting to just over €66,000.

1 Vehicle owners were given the concessionary option to convert the vehicle back to a commercial as the current vehicle owner could be unaware of the conversion e.g. if the vehicle had changed hands since the conversion was carried out or the trader did not inform the customer of the conversion.

2 Reports to Revenue from individuals/companies on instances of suspected tax and duty evasion.

Figure 21.13 Revenue interventions — misclassification of vehicles

Case 1 — *underpayment of VRT by a car dealer converting new vehicles registered in Ireland that yielded €395,000 including interest and penalties*

The issues that led to the yield were as follows.

- An employee of the car dealer had amended the vehicle category for 37 vehicles on their certificates of conformity submitted to Revenue, misclassifying the vehicles as commercial (N1). This resulted in the €200 flat rate of VRT for commercial vehicles being applied instead of the higher rate (approximately €5,600) for passenger vehicles. The vehicle type in this instance is only manufactured as a passenger (M1) vehicle.
- The dealer sold six vehicles to another dealer without carrying out the conversions, with the dealer purchasing the vehicles to carry out the conversions instead. Revenue found that three of the vehicles were never converted and were sold as passenger (M1) vehicles. The flat rate of VRT of €200 was declared, however, the correct VRT due on each vehicle was €11,700.
- A system error in the dealer's IT system led to modified vehicle models not being recognised correctly for 83 vehicles which resulted in the incorrect VRT rates being applied.

Case 2 — *validity of conversions by a motor dealer trading in second-hand imported vehicles that Revenue estimates may yield in excess of €1 million including yields under customs duties, VRT and income tax/VAT*

Following an initial review where potential risks for VAT, income tax and customs duties were identified, Revenue escalated the case to an investigation. The case is currently ongoing.

The issue in this case is the pre-registration conversion of vehicles from passenger (M1) with five seats to commercial (N1) with two seats, thereby availing of the lower commercial rate for VRT purposes. The converted vehicles were then presented to the NCTS as two-seater commercial vehicles and registered. Post-registration, the seats were refitted and the vehicles were subsequently sold as five-seater passenger vehicles.

Case 3 — validity of VAT repayment claims for vehicle conversions that resulted in the seizure of three vehicles with an estimated market value of €590,000 and a VRT underpayment of €186,000

Revenue initiated an analysis of VAT repayment claims from businesses in respect of high value vehicles that were converted from passenger (M1) to commercial (N1). This identified a significant number of vehicles that were declared as being converted to commercial vehicles prior to first registration in Ireland.

The potential risk is that the vehicle owner would

- avail of a VAT deduction for the purchase of the vehicle
- avail of the reduced rate of VRT for commercial vehicles (13.3%)
- convert the vehicle back to a passenger vehicle post-registration without making the required declaration to Revenue and paying the additional VRT due.

Three vehicles which were selected for inspection were detained as they did not meet the criteria for a commercial vehicle. Following interview with the Director of the company, all three vehicles were seized for VRT offences. The cross divisional group will be considering how best to address the risk presented by other vehicles identified as part of the analysis.

Source: Revenue Commissioners

Dublin City Council — 2018 report

21.95 In May 2018, Dublin City Council (DCC) motor tax office provided the Department with a report on a practice identified in relation to the conversion of certain vehicles.

21.96 The report noted that the NSAI had issued a list of 33 makes and models of vehicles which would not meet the criteria for commercial (N1) classification if converted with two rows of seats. NSAI confirmed with the examination team that this list was based on a sample of vehicles it had tested and that it was for information purposes only.

21.97 DCC identified a practice of circumventing this restriction whereby vehicles of the type listed were converted with one row of seats thereby meeting the criteria for commercial (N1). But those vehicles were subsequently converted to two rows of seats while retaining their commercial (N1) classification. This practice was apparently not prohibited.

21.98 The DCC analysis identified 75 vehicles using this approach in the first four months of 2018, thereby estimating there would be 225 such cases in the full year. The average reduction in annual motor tax revenue achieved by this practice was €1,000 per vehicle.[1]

National vehicle tests

21.99 Motor vehicles are subject to a compulsory vehicle inspection programme designed to ensure that they meet basic safety and environmental standards and to ensure that the vehicles are roadworthy. Passenger vehicles (M1) are subject to regular inspection by the National Car Testing Service (NCTS) while commercial vehicles are subject to inspection annually by the Commercial Vehicle Roadworthiness Test (CVRT).[2,3]

21.100 Vehicle details required for tests are downloaded by the operators from the NVDF to the NCTS system (for the NCT) and the CoVIS system (for the CVRT). The Department of Transport explained that there is no formal process in place whereby NCT and CVRT operators can notify the Department of discrepancies with the data on the NVDF that they might identify in the course of testing. There is one exception – where an incorrect design gross vehicle weight is identified during a CVRT, the updated information can be transferred to the NVDF for updating.

21.101 Modification reports certified and stamped by an SQI are also required when the vehicle has been modified since its last test. The report includes the EU category and number of seats before and after modification. The NCTS/CVRT operator confirms that the vehicle corresponds with the modifications described in the modifications report. The test does not include checking that a conversion has been completed correctly. Failure to produce a modification report where required, results in a failure of the test. Modification reports are not shared with the Department by the NCT or CVRT operators.

1 The estimate was based on DCC's activity levels at that time.

2 The National Car Testing Service is operated by Applus Inspection Services Ireland Ltd on behalf of the Road Safety Authority. The Commercial Vehicle Roadworthiness Test is carried out by independently owned and operated test centres which are authorised and supervised by the Road Safety Authority.

3 The NCT is conducted every two years for passenger vehicles that are 4 – 10 years old; vehicles that are older than 10 years must undergo an annual inspection.

Roadside checks by An Garda Síochána

21.102 An Garda Síochána stated that while an experienced Garda might identify a misclassified vehicle at a Garda checkpoint, checking the classification of a vehicle is not a routine part of a checkpoint.

Conclusions and recommendations

21.103 In 2024, there were approximately 3.1 million vehicles on the road in Ireland. A range of taxes and duties apply to owning a motor vehicle in Ireland that include VAT, VRT, customs duty and motor tax. These are collected by Revenue with the exception of motor tax which is collected by the Department via an online payment system, and through the local authority motor tax offices.

21.104 Receipts from VRT and motor tax totalled €1.9 billion in 2024. A breakdown of VAT receipts and customs duties in respect of motor vehicles is not available.

Cost of collecting motor tax

21.105 The combined cost of administering the motor tax system is not centrally compiled or reported.

21.106 Vehicle owners can renew motor tax online or in person at their local motor tax office. In 2024, around 87% of motor tax transactions were completed online.

21.107 The use of digital technologies presents opportunities to enhance the efficiency and reduce the administrative cost of collecting motor tax. The National Vehicle Driver File Bill 2025 includes provisions to eliminate the requirement for displaying paper motor tax discs on vehicle windscreens. However, effective enforcement of such a system will require investment in supporting technology.

21.108 Vehicle owners can pay motor tax for periods of three, six or 12 months. Short-term motor tax renewals impose higher costs on taxpayers, the Department and the local authorities. In 2024, around 62% of motor tax transactions were for less than one year. The Department has yet to undertake analysis of the factors influencing customers to renew motor tax for periods shorter than 12 months.

Recommendation 21.1

The Department should analyse the factors influencing customers to renew motor tax for periods shorter than 12 months. It should also explore further payment options e.g. direct debit staged payment arrangements.

Department of Transport's Accounting Officer's response

Agreed.

The Department has carried out analysis which showed that older vehicles tend to be taxed more frequently which could be due to affordability or an expectation that the vehicle will soon become uneconomic to maintain.

The Department will undertake further analysis after the move to paperless discs is successfully completed and the reform has had time to bed in (as this reform itself may lead to changes in customer behaviour and it will take some time to see if these are temporary or permanent).

Direct debit payment options could not be provided while physical discs were issued as the cost of retrieving a disc when the direct debit was cancelled was prohibitive. Introducing direct debit requires significant investment in technology and in manpower. This will be considered and assessed for cost effectiveness.

Timeline for implementation

End of 2026 or early 2027, depending on the final timeline for the roll out of paperless discs.

Quality of owner identification information

21.109 There have been significant improvements in the verification of owner identification in recent years. All vehicle owners are now required to provide documentary evidence of name and address and PPSN at initial registration.

21.110 Where a change of ownership is initiated through an online facility, in order to complete the transfer, the buyer must verify their identity using a verified MyGovID account. No proof of identity is required to be submitted by a buyer when the transfer of ownership is completed by sending the vehicle registration certificate (with the transfer of ownership section completed) to the Department.

Measuring motor tax compliance

21.111 Measuring and monitoring motor tax compliance rates potentially enables the early detection of emerging patterns of non-compliance. There remains no system for monitoring and reporting motor tax compliance or evasion.

Recommendation 21.2

The Department should measure, monitor and report on motor tax compliance rates.

Department of Transport's Accounting Officer's response

Agreed.

The Department will consider appropriate metrics for this task as well as examining what external datasets could help identify vehicles using public roads without being taxed.

Timeline for implementation

Benchmark metrics for motor tax compliance to be established by end 2026.

21.112 Arrears of motor tax are a liability of the owner of the vehicle during the period of the arrears and remain with the owner when the vehicle is transferred though a sale or otherwise. Unlike some other taxes on assets, motor tax does not accrue to the vehicle, and so a new owner does not have a need or incentive to ensure that motor tax is paid up to the date that ownership transfers. Any change in the law in that respect is a policy matter.

21.113 Tracking the level of motor tax arrears is also a useful indicator of the levels of non-compliance by vehicle owners. While the Department can confirm the amount of arrears paid each year, information on the total amount of motor tax arrears outstanding is not readily available

Recommendation 21.3

The Department should monitor and report on the level of motor tax arrears. It should also have a process in place to follow-up on the amounts outstanding to minimise the extent of the loss to the Exchequer.

Department of Transport's Accounting Officer's response

Agreed.

The Department will assess ways to enhance arrears monitoring and reporting. It will also consider, in conjunction with partner agencies, the legal basis available to pursue arrears of motor tax and the possible collection mechanisms for doing so.

Timeline for implementation

Benchmark metrics for motor tax arrears to be established by end of 2026.

21.114 The Department relies on other agencies to enforce compliance in payment of motor tax. It takes no active steps itself to encourage greater payment compliance.

Recommendation 21.4

The Department should consider the scope for issuing of reminders when motor tax is not paid on time.

Department of Transport’s Accounting Officer’s response

Agreed.

The Department is already considering the options and opportunities for the reminder system to be improved in a cost-effective manner in the context of the introduction of paperless discs. This will include examining different ways of issuing reminders (for example, emails and SMS) to mitigate the rising costs of postage.

Timeline for implementation

End of 2026 or early 2027, depending on the final timeline for the roll out of paperless discs.

Conversion of passenger vehicles

21.115 At the end of 2024, passenger vehicles (M1) made up nearly 77% of the total vehicles on the road in Ireland. Higher rates of motor tax and VRT are payable in respect of M1 vehicles compared to commercial (N1) vehicles. Changing a vehicle’s classification can mean the owner pays less VRT and motor tax, and in some cases, may also claim back the VAT paid at the point of sale of the vehicle.

21.116 Between 2019 and 2024, an average of just over 1,000 vehicles per year were converted from passenger (M1) to commercial (N1) vehicles. This fell sharply in 2024, to just over 550 such conversions, after Revenue took over the registration of conversions.

21.117 Around 62% of the total (6,214) conversions from 2019 to 2024 related to new vehicles prior to registration and 38% related to used vehicles already registered in Ireland or in another jurisdiction.

21.118 The procedures and checks on vehicle conversions vary depending on whether the vehicle is new or used, and whether previously registered in another jurisdiction. This adds complexity to the system which increases the risk of non-compliance.

21.119 For a sample of conversion declarations processed prior to 19 March 2024, the examination found incomplete documentary evidence had been received and/or retained by two motor tax offices. No issues of concern were identified with the documentation retained by Revenue in respect of the sample of declarations it had processed since it took on that function from March 2024.

Use of data to identify motor tax evasion

21.120 The NVDF holds important information about vehicles and their owners in Ireland, which is relied upon by several bodies including the Department, Revenue, local authority motor tax offices, An Garda Síochána, NCTS, CVRT and insurance companies. It is therefore essential that the NVDF data is complete and reliable.

21.121 The examination sought to analyse conversion data contained in the NVDF for the last six years (2019 – 2024) but found this exercise very difficult. There is no definition for each field, many fields appear to be optional and some allow free text which may lead to inconsistencies in the data. This impairs the Department’s ability to meaningfully analyse the data, and to use it as a tool to manage and report on compliance with the tax regime.

Ongoing checks of vehicle classification

21.122 In order to make sure vehicle owners continue to meet their tax obligations, a co-ordinated approach is needed to detect, prevent and deal with cases of non-compliance. Vehicle misclassification is identified through targeted reviews by Revenue compliance intervention and enforcement activities, as well as national vehicle tests and roadside checks by An Garda Síochána.

Targeted reviews by Revenue

21.123 Routine processing of VAT repayment claims from garages in late 2023 prompted Revenue to assess the risks to vehicle misclassification which led to the identification of two practices of concern around classification conversions. Significant underpayments have been identified resulting in additional yield of VRT, VAT and income tax being collected. A significant number of cases have been identified for further investigation, which is ongoing.

National vehicle tests

21.124 Motor vehicles in Ireland are subject to a compulsory vehicle inspection programme designed to ensure that vehicles meet basic safety and environmental standards and to ensure that vehicles are roadworthy. Vehicle details required for tests are downloaded by the operators from the NVDF to the relevant systems (NCTS system for NCT and CoVIS for CVRT). There is currently no formal process in place for NCT and CVRT operators to communicate discrepancies identified with the data on the NVDF in the course of vehicle testing.

Annex 21A Role of various State bodies in the administration and collection of motor vehicle taxes

<table>
<tr><th>State body</th><th>Role</th></tr>
<tr><td>Department of Finance</td><td>Development of motor tax policy (including the setting of motor tax rates), VRT and VAT policy</td></tr>
<tr><td>Department of Transport</td><td>Collection of motor tax
Maintain the National Vehicle Driver File (NVDF)
Supports the Department of Finance in the development of motor tax policy and procedures</td></tr>
<tr><td>Revenue Commissioners</td><td>Register motor vehicles
Collect VRT, VAT and customs duties in respect of motor vehicles
Process vehicle conversions for all new and foreign registered used vehicles as part of the vehicle registration process
Process vehicle conversions for Irish registered vehicles where
the declaration is for category N1 vehicles, with more than three seats, regardless of the classification or number of seats prior to the conversion[a]
the vehicle registration certificate shows a VRT category of B, C or D (or is blank) and
seats were added so that the new total (including the driver) is nine seats or less or the vehicle had ten seats or more, and seats were removed so that the new total (including the driver) is nine seats or less or
the vehicle was converted to a motor caravan</td></tr>
<tr><td>Local authorities (motor tax offices)</td><td>Collect motor tax
Process vehicle conversion declarations for used (Irish and foreign registered) vehicles for all other vehicles not processed by Revenue.</td></tr>
<tr><td>National Standards Authority of Ireland</td><td>Appointed approval authority in Ireland responsible for issuing all national approvals for brand new unregistered vehicles that have gone through a subsequent stage of conversion/modification before registration
Approve and inspect approved test centres for new unregistered vehicles that have gone through a subsequent stage of conversion/modification before registration</td></tr>
<tr><td>Road Safety Authority</td><td>Governance and supervision of the National Car Testing Service (NCTS) and the Commercial Vehicle Roadworthiness Test (CVRT).</td></tr>
</table>

Source: Office of the Comptroller and Auditor General

Annex 21B Vehicle classification and VRT categories

EU category	VRT category[a]
M1 — passenger vehicles comprising not more than eight seating positions in addition to the driver's seating position and with no space for standing passengers	Category A
M2 — passenger vehicles comprising more than eight seating positions in addition to the driver's seating position, may have space for standing passengers and not exceeding five tonnes	Category C
M3 — passenger vehicles comprising more than eight seating positions in addition to the driver's seating position, may have space for standing passengers and exceeding five tonnes	Category C
Motor caravans (can be category M1, M2 or M3)	Category B
N1 — commercial vehicles, designed and constructed for the carriage of goods and not exceeding 3.5 tonnes	Category A, category B or A flat rate of €200 for vehicles that at all stages of manufacture are classified as category N1 with less than four seats, and • have, at any stage of manufacture, a technically permissible maximum laden mass greater than 130% of the mass in service of the vehicle with bodywork in running order, or • from 1 January 2025, are electric vehicles that have, at any stage of manufacture, a technically permissible maximum laden mass greater than 125% of the mass of the vehicle with bodywork in running order.
N2 — commercial vehicles designed for the carriage of goods having a maximum mass exceeding 3.5 tonnes but not exceeding 12 tonnes	Category C
N3 — commercial vehicles designed for the carriage of goods having a maximum mass exceeding 12 tonnes	Category C
L1 to L7 — motor cycles and certain three-wheel vehicles (includes e-mopeds)	Category M
T1 to T5 — agricultural tractors/vehicles	Category C

Source: Revenue Tax and Duty manual on Vehicle Registration Tax (Manual Section 1 Part A)

Note: a A VRT category D vehicle is a special purpose vehicle such as an ambulance, a fire engine or a vehicle used in the transportation of road construction machinery. Category D vehicles are not associated with a specific EU category and are charged at the rate of nil per cent of the value of the vehicle.

Annex 21C Example of potential tax savings of converting a passenger vehicle to a commercial vehicle

This example assumes that the vehicle is a new vehicle purchased by a dealer from a manufacturer as a five-seat M1 passenger vehicle, converted to a two-seat N1 vehicle and that the cost of the conversion is €5,000. It also assumes that the vehicle has high CO_2 emissions and low NOx emissions.

In this case, the retail price of the vehicle would be circa €30,000 less after conversion due to the lower VRT rate. There is no risk to Revenue in the conversion of the vehicle; the risk would be that the vehicle may be converted back to a five-seat vehicle afterwards, without declaration to Revenue.

There are also ‘benefit in kind’ (BIK) implications, but they have not been included in the example below. The annual motor tax charge for a vehicle used for private purposes with high emission levels is approximately €1,250, while the annual motor tax charge for a vehicle classed as commercial, with equivalent emissions, is €333.

Figure 21C.1 Price differential for converting a commercial vehicle to a passenger vehicle

	Five-seat M1 (VRT category A) €	Two-seat N1 (VRT category B) €
Cost of vehicle to dealer	50,000	50,000
Cost of conversion	—	5,000
Total cost price	**50,000**	**55,000**
Mark-up/profit margin (10%)	5,000	5,500
Price ex. VAT	55,000	60,500
VAT (23%)	12,650	13,915
Price incl. VAT	**67,650**	**74,415**
VRT[a]	47,011 (41%)	11,415 (13.3%)
NOx[b]	100	—
Open market selling price	**114,761**	**85,830**

Source: Revenue Commissioners

Notes: a The VRT rate is calculated based on the CO_2 emissions plus the nitrogen oxide emissions. The CO_2 component is calculated by multiplying the applicable rate by the open market selling price.

b The NOx levy is calculated separately and then added to the CO_2 value to produce the VRT due.

Annex 21D Key conversion control measures

Key control	Description
Authorised trader	• Trader holding unregistered vehicles or involved in the manufacture, repair, storage and modification of un-registered vehicles must be authorised by Revenue. • Issued a unique Trader Account Number (TAN) by Revenue.
Type approval	• When a vehicle is first manufactured it must pass all the necessary safety and quality standards before it can be sold or registered throughout Europe — known as the 'type approval'. • A relevant authority certifies that a vehicle satisfies all the appropriate technical requirements. The NSAI is the appointed authority in Ireland. • All vehicles require a type approval to be registered in Ireland. Evidence of type approval is the certificate of conformity (see below).
Certificate of conformity	• Issued by the manufacturer of a vehicle and contains information about the main characteristics such as mass, dimensions, engine size, technical performance (fuel consumption or electric range), manufacturer name and address date of manufacture. • It certifies that the vehicle has been manufactured in conformity with type approval standards
Approved test centre (ATC)	• A workshop/garage requires approval to operate as an ATC from the NSAI. • Criteria for approval are — suitably trained personnel, suitable premises and a documented quality management system in place. • Once approved, they are issued with a certificate of appointment with details of which tests their workshop can perform. • ATCs are subject to an annual audit by the NSAI. • Conversion work carried out on new unregistered vehicles must be inspected at an ATC.

Key control	Description
Declaration of conversion, including suitably qualified individual (SQI) declaration	Required for conversion of foreign or Irish registered vehicles and should • include the total cost of conversion with documentary evidence attached such as invoices and receipts • be stamped by an SQI — confirming the EU vehicle category, no of seating positions, body work, no of doors and windows, fuel type, mass in running order and technically permissible maximum laden mass before and after conversion • include evidence of NOx emissions for category A vehicles or vehicles being converted to category A • include an SQI declaration of competency • include measurements and photograph's where the vehicle is being converted to category N1 (commercial) with more than one row of seats • include photographs of the interior and exterior for motor caravans.

Source: Office of the Comptroller and Auditor General