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Corporate Intangibles Research and Development Manual

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CIRD12770 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: accounts-based relief: where tax and accounting values diverge: period after expenditure first capitalised

CTA09/PART8/S729 (5)

General

For periods of account after the period in which expenditure on an asset is first capitalised the amortisation or impairment charge in the accounts is adjusted in the ratio which the tax written down value of the asset bears to its accounting value immediately before the charge is made. The tax written down value of an asset is defined (in CTA09/PART8/S742) as its original tax cost:

- reduced by previous tax deductions for sums written off the asset
- increased by any taxable credits arising where, exceptionally, the asset has been revalued (see CIRD13050 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13050))

See CIRD12795 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12795) for the reduction of the tax written down value of an asset following its part realisation.

The accounting value of an asset is defined (in CTA09/PART8/S719) as its ‘net book value’ recognised for accounting purposes (or - an accounting synonym - its ‘carrying amount’).

Example

Assume that annual amortisation charge in the accounts continues to be £100 a year for the asset in the example in CIRD12760 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12760) (where it is acquired at a capitalised cost of £1000 in the accounts, its tax cost is £800 and the amortisation change for the period of acquisition is £100).

The tax written down value of the asset for the second period of account is £800 - £80 = £720. Its accounting value immediately before the amortisation charge for the second year is £1000 - £100 = £900. The tax deduction is therefore £100 x £720 / £900 = £80.

Where no further expenditure on an asset is capitalised the proportionate adjustment of the charge in the accounts for periods after the first will always be the same as the adjustment for the first period. In the example above £720 / £900 (the fraction applied for the second period) and £800 / £1000 (the fraction applied for the first period) are equal at 80%.

Subsequent enhancement expenditure

The use of tax written down value etc for these subsequent periods (rather than original cost) ensures that enhancement expenditure is correctly handled.

Example

Assume in the example above that enhancement expenditure on the asset of £300 is capitalised in year 2 and the revised book value of the asset of £1200 (£900 + £300) is amortised over a further ten years (at £120 a year). The tax written down value of the asset therefore becomes £1020 (£720 + £300), the deductible debit for year 2 will be £120 x £1020 / £1200 = £102.

For subsequent periods, if no further expenditure is incurred on the asset, the same proportion of the amortisation charge in the accounts will be deductible. For year 3 the tax written down value of the asset immediately prior to the amortisation charge will be £918 (£1020 - £102) and the accounts value at that time £1080 (£1200 - £120). The deductible debit is therefore £120 x £918 / £1080 = £102. And so on over the economic life of the asset.

Other relevant provisions

This formulaic approach would prevent any tax relief being given where an asset is acquired with an accounting cost of nil even though the asset’s tax cost may be some positive figure. See

CIRD12780 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12780) for the special rule to deal with this situation.

See CIRD12790 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12790) for the computation of deductible debits following the revaluation of an asset in the accounts (or the restoration of past losses).

See CIRD12795 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12795) for the computation of deductible debits following the part-realisation of an asset.

See CIRD12775 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12775) for the revision of this approach where syndicate capacity at Lloyd’s is written down in a company’s accounts for accounting periods prior to those to which Part 8 applies.

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