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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD12790 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: accounts-based relief: capitalisation of asset at valuation Revaluation within CTA09/PART8/S723

Where the rules for calculating the taxable credit described in [CIRD13050 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-)

[development-manual/cird13050](#)) apply on the revaluation of an asset, the tax written down value of the asset is increased by the amount of the taxable credit. Deductible debits for subsequent sums written off the asset in the accounts are calculated by reference to the revised tax written down value. This ensures that, where the taxable credit is less than the uplift in the accounts on the revaluation, tax relief is not given for sums written off the untaxed part of the uplift.

Example

Assume an asset acquired for £1000 (tax cost also £1000) is first written down to £700 in the accounts (sums written off the asset fully allowed for tax), revalued to £1200 and then amortised over a further ten years at £120 per annum. The taxable credit on revaluation is restricted to the tax deductions previously given of £300, as explained in CIRD13050, so that £200 of the uplift of £500 is not taxed.

The revised tax written down value of the asset is £1000. The tax deduction for the first period of account in which the asset is amortised following the revaluation is calculated by adjusting the charge in the accounts (£120) in the ratio that the tax value of the asset immediately prior to the amortisation charge bears to the accounts value at that time. The deductible debit is therefore $\text{£}120 \times \text{£}1000 / \text{£}1200 = \text{£}100$.

For subsequent periods the same proportion of the amortisation charge in the accounts will be deductible. For example, for the second period of account following the revaluation the tax value of the asset immediately prior to the amortisation charge will be £900 (£1000 - £100) and the accounts value at that time £1080 (£1200 - £120). The deductible debit is therefore $\text{£}120 \times \text{£}900 / \text{£}1080 = \text{£}100$. And so on over the economic life of the asset.

Internally generated assets capitalised at a valuation

Where exceptionally an internally generated asset is capitalised in a company's accounts at a valuation, sums written off that asset do not give rise to deductible debits. That is because the sums written off do not represent expenditure on the asset. See [CIRD12755 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12755\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12755).

Conversely, the accounting gain arising on the valuation (the contra entry to the sum capitalised) is not a taxable credit under CTA09/PART8, whether under S723 ([CIRD13050 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13050\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13050)) or otherwise.

Circumstances to be distinguished

This case needs to be distinguished from:

- the case where expenditure on the creation or enhancement of an internally generated asset is capitalised, where relief for sums written off is available as it is for expenditure on the acquisition of an intangible asset
- the case where such expenditure is initially charged against profits but the entry is subsequently reversed on the capitalisation of the expenditure (so that the accounting gain on the reversal of the initial charge gives rise to a taxable credit - see [CIRD13090 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13090\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13090))

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