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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)  
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## CIRD12720 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: tax cost

### Accounting cost v tax cost

In order to calculate the deductible debits due under CTA09/PART8 for any period of account it is necessary to know the cost of the asset to be recognised. This is a two-stage exercise.

It is necessary:

- first to identify the ‘accounting cost’ of the asset,
- then consider if there are any necessary adjustments to that figure to arrive at its ‘tax cost’.

## First stage

The first stage is to identify the capitalised expenditure on the asset shown in the accounts (drawn up in accordance with GAAP). Subject to the point about fungible assets below, the ‘asset’ for the purposes of Part 8 will normally be the asset recognised for accounting purposes.

There are two points to note here.

1. The expenditure to be taken into account need not have been incurred on the acquisition of the asset. Expenditure on its creation or enhancement for example is also part of the asset’s accounting cost, so long as it is capitalised in the accounts.
2. But it is necessary to exclude any element of the value of the asset that does not represent expenditure. In particular, where (exceptionally) an asset appears in the balance sheet at a valuation that exceeds its original cost, that excess is not part of the accounting cost of the asset for the purpose of Part 8.

## Second stage

The second stage is to consider whether any required tax adjustments need to be made to the accounting cost of the asset identified at the first stage. ‘Adjustments required’ for the purpose of Part 8 are set out in [CIRD12030](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12030) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12030>).

## Possible tax adjustments

1. In practice the most common type of adjustment is where a valuation adjustment is required, such as a market value or transfer pricing adjustment or where the asset is a restricted asset. See [CIRD10240 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10240\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10240) for a list of potential valuation adjustments and CIRD46000 onwards for adjustments required for restricted assets.
2. Expenditure on the asset needs to be adjusted where a gain on the disposal of another asset has been reduced as a result of a reinvestment relief claim (see [CIRD20010 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20010\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20010)). In that case the tax cost of the asset is reduced by the amount of the reinvestment relief.
3. Adjustments to the accounting cost of the asset may occasionally be necessary under one or other of the provisions listed in [CIRD12580 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12580\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12580).
4. Expenditure needs to be excluded where it has been relieved elsewhere. For example where claimed under capital allowances, research and development relief rules etc. (see [CIRD25105 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird25105\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird25105) onwards).
5. See [CIRD12725 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12725\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12725) for the treatment of grants netted off against the cost of an intangible asset in a company's accounts.
6. See [CIRD12730 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12730\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12730) for the case where an intangible asset is acquired along with other assets, for example on the acquisition of a business.

7. See [CIRD12745 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12745\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12745) for cases, likely to be rare in practice, where an intangible asset previously outside CTA09/PART8 in the hands of a company comes within CTA09/PART8 in its hands for the first time.
8. See CIRD13070 for cases where there is an adjustment on change of accountancy basis.
9. See CIRD46000 onwards for cases where there is an adjustment for restricted assets.

### **Fungible assets - CTA09/PART8/S900J**

The acquisition of a number of units of a fungible assets (such as milk quota) counts as the acquisition of a single asset and the acquisition of further units counts as expenditure on the enhancement of that asset rather than the acquisition of further separate assets. See [CIRD11760 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11760\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11760) for the definition of a fungible asset and in particular the special way the FA02 and restricted asset rules applies to them.

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