HMRC - CFM33160 - GAAP: Amounts Taken To Carrying Value Of An Asset Or Liability

Capitalised amounts

This guidance covers cases in which interest is capitalised in a company’s financial statements and therefore does not immediately give rise to amounts recognised as items of profit or loss. S 320 allows amounts to be taken into account for tax notwithstanding this treatment. This section was amended by F(No.2)A15 for accounting periods beginning on or after 1 January 2016.

It should be noted, however, that there was no major changes to the general effect of the provision. The main change is that the special rule is no longer limited to amounts taken to the carrying value of a ‘fixed capital asset or project’, terminology not current in UK GAAP.

Introduction

The general rule in S307 is that amounts arising in respect of the loan relationship matters set out in S306A are only taken into account for tax under CTA09/PT5 if they are treated, under GAAP, as items of profits or loss.

There are, however, situations where amounts are recognised in determining the carrying value of an asset or liability, and a result this does not give rise to an amount recognised as an item or profit or loss unless and until the asset is amortised or derecognised.

Without special provision, the company may not get relief under the loan relationships legislation.

S320 operates to address this. This provision applies where, in accordance with generally accepted accounting practice, amounts are recognised in determining the carrying value of certain assets or liabilities. Despite that treatment, the amounts must be brought into account under the loan relationships rules. This treatment is mandatory.

This does not mean that any debit or credit in a company’s accounts will automatically give rise to tax relief or a tax charge. There must be a gain, profit or loss on a loan relationship - see example of ‘work in progress’ below. Nor does it apply to debits on intangible assets which fall under CTA09/PT9.

S320 can therefore operate to bring forward the point at which the amounts are recognised under the loan relationship rules.

Conditions

There are three conditions that must be satisfied for special treatment at S320 to apply:

An amount must be in respect of loan relationship matters in s306A(1);

GAAP allows the amount to be recognised in determining the carrying value of an asset or liability;

any profit or loss for corporation tax purposes in relation to that asset or liability will not fall to be calculated in accordance with generally accepted accounting practice.

The third requirement means that if the asset or liability will give rises to amounts treated as income under an accounts-based regime, the special treatment under S320 does not apply. The obvious example is amounts taken into account in determining the carrying value of inventory, typically something that takes some time to manufacture for sale, say an aircraft. In that case, S320 does not apply and the accounts are simply followed.

In addition, the treatment in S320 does not apply to amount taken to the carrying value of an intangible fixed asset to which a writing down at {fixed rate election applies [CTA09/S730]}. This therefore follows the position of other intangible fixed assets.

Effect

The effect of special treatment is that the amount is taken into account when capitalised, as if it were treated as an item of profit or loss. It then also follows that where an amount so treated gives rise to a debit on amortisation, depreciation or writing down, it is not taken into account for tax at that later time.

Computational adjustments must therefore be made when amortisation of an asset is taken to profit and loss account, or when an asset is sold, and the interest then appears in the profit and loss account.

Examples

Development costs

This treatment also applies where development costs, for example in the development phase of a new product, are capitalised. If the development costs are correctly treated as being in respect of a capital asset, the company will get relief for interest and other associated cost when they are incurred.

Work in progress

Work in progress of, for example, a property developer, is not a fixed capital asset or project. Work in progress features in the income statement in the form of stock. It is circulating capital and not a capital asset of the company (see the Business Income Manual BIM35000+ on the distinction between fixed and circulating capital). Interest payable will be a debit in the profit and loss account but counterbalanced by an increase in work in progress. This does not mean that the interest has not been effectively debited to the profit and loss account. No adjustment will therefore be needed to ensure that relief is given for interest paid and taken to work in progress.

Incidental costs of purchase of shares in a subsidiary

Normally, it is correct accounting practice to spread the costs of loan finance used to buy shares. However, CTA09/S320 applies to allow relief in the year in which the costs were incurred and capitalised where

the shares are held as a fixed capital asset, and

the incidental costs come within CTA09/S306A(2), (previously CTA09/307(4)), and

it is generally accepted accounting practice to capitalise such costs.

Position for accounting periods beginning before 1 January 2016

This therefore follows a similar position as outlined above in respect of accounting periods from 1 January 2016.

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