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Corporate Intangibles Research and Development Manual

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CIRD46080 - Intangible assets: special rules for restricted assets: the special rules – section 900B case

Overview

The special rules apply to an asset that meets the definition of a ‘restricted asset’ within either CTA09/S900B, S900C or S900D. This page deals with cases within S900B, that is where the relevant asset is transferred to the company.

[CIRD46090 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird46090\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird46090) deals with cases within S900C and S900D.

The broad policy is to restrict debit relief under Chapters 3 and 15 by adjusting the tax cost of the restricted asset acquired on the first related party acquisition. Subsequent related party acquisitions then preserve that original cost restriction. Note that these rules do not restrict the application of Chapter 4 for realisations.

CTA09/S900E

Special rule: section 900B case – first acquisition

CTA09/S900E(2) treats the company as having acquired a restricted asset for nil cost where it is the first company to have acquired the asset on or after 1 July 2020. The restriction applies for the purpose of ‘the relevant Chapters of this Part’. Those Chapters are defined in CTA09/S900E(6) as:

- Chapter 3 (debts in respect of intangible fixed assets),
- Chapter 15 (adjustments on change of accounting policy), and
- Chapter 5 (calculation of tax written-down value) but only in so far as it has effect for the purposes of Chapter 3 and 15.

CTA09/S900E does not restrict relief when calculating debits and credits within Chapter 4 (realisations).

Example

A company acquires a restricted asset from a related party on or after 1 July 2020 for £1m and amortises it over 10 years. The amounts that may be recognised for accounting purposes are subject to any adjustments required by CTA09/PART 8. These include the adjustments imposed by CTA09/PART 8/Chapter 16A.

CTA09/S900E(2) will restrict the cost to nil for the purpose of computing debit relief under Chapter 3. Debit relief will therefore be nil for each year. The tax written-down value under Chapter 5, calculated for the purposes of Chapter 3, will also be nil.

If the company then sells the asset for £800,000, the tax written-down value under Chapter 5, computed for the purposes of Chapter 4, will be the original cost of £1m. The debit relief due under Chapter 4, computed in accordance with CTA09/S736(2) will therefore be £200,000 (£800,000 - £1m).

Special rule: section 900B case – second and subsequent acquisitions

CTA09/S900E(3) applies when the company is not the first company to acquire a restricted asset on or after 1 July 2020. The company is treated as having acquired a restricted asset for the adjusted amount. Again, the restriction applies for the purpose of ‘the relevant Chapters of this Part’.

The adjusted amount (CTA09/S900E(4)) is computed as follows:

- Step 1 – establish the cost of the asset (A). This is the actual cost to the company, or the amount for which it would be regarded as having acquired the asset, for the purposes of the Taxes Acts. This means that you must apply any of the valuation adjustments summarised in CIRD12720 such as a market value, transfer pricing adjustments etc. However, you ignore any adjustments required by CTA09/S900E.
- Step 2 – establish the market value of the asset on the date it was first acquired by a company on or after 1 July 2020 (B).
- Step 3 – deduct B from A to give the adjusted amount, but
- where B is greater than A, the adjusted amount is nil (CTA09/S900E(5)).

Example

Following on from the first acquisition example above, and assuming no tax adjustments were required to any of the acquisition costs, the second company is regarded as having acquired the asset for the relevant Chapters at nil (£800,000 less £1m, restricted to nil) because B is greater than A.

Alternatively, if the second company had acquired the asset at a market value of £1.2m, instead of £800,000, the adjusted amount would be £200,000 (£1.2m less £1m).

From this extended example you can see that the original cost restriction of £1m suffered by the first company is preserved for the second related company, but there is no further restriction and the second company can still obtain debit relief on the increase in value (£200,000).

Debit relief and tax written-down value

Note that the second company's tax written-down value going forward will be computed differently for the purposes of Chapters 3 and 15 compared to Chapter 4. The Chapter 4 tax written-down value will always reflect the actual acquisition costs, subject to any adjustments required under CTA09/PART8, whereas the tax written-down value for the purpose of computing debit relief under Chapter 3 will be determined by reference to the adjusted amount minus any debit relief given.

The debit relief computed in accordance with CTA09/S729(3) in the first year (subject to apportionment for part year) will be:

$$£120,000 \times £200,000 / £1,200,000 = £20,000$$

The tax written-down value at the end of year 1 will be:

For Chapter 3 - £180,000 (£200,000 - £20,000)

For Chapter 4 - £1,180,000 (£1,200,000 - £20,000)

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