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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD13080 - Core computational rules: taxable credits: 'negative goodwill' referable to intangible assets

CTA09/PART8/S724

Accountancy background

As explained in [CIRD12735](#)
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12735>), where a company acquiring a

business accounts for the assets and liabilities of that business (see [CIRD30120](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird30120) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird30120>)), the aggregate of the 'fair values' attributable to the identifiable assets and liabilities of the business may well differ from the total price paid for the business. Where the aggregate of the fair values is less than the total price paid for the business the difference is accounted for as goodwill.

More rarely, the aggregate of the fair values may exceed the total price paid for the business. This situation may arise for example where a business is acquired at a bargain price. The excess is accounted for as 'negative goodwill'. Under UK GAAP, negative goodwill should be recognised and separately disclosed on the balance sheet of a company as a negative figure, immediately after any positive goodwill, and is subsequently credited to the profit and loss account in the periods in which the non-monetary assets are recovered (with any excess over the fair value of the non-monetary assets acquired recognised in the periods expected to be benefited). Under IFRS 3, once the values used for the goodwill calculation have been double-checked, negative goodwill is recognised immediately in the profit and loss account at the acquisition date as a gain on a bargain purchase.

Circumstances relevant to Part 8

Part 8 applies to goodwill per the meaning it has for accounting purposes, and this includes negative goodwill.

CTA09/S724 specifically provides that a credit to the profit and loss account in respect of writing off negative goodwill is only taxable insofar as it is attributable to intangible fixed assets.

This is because:

- Tax relief under Part 8 will eventually be obtained for the full amount of the fair value of the intangible fixed asset.
- However, when negative goodwill arises as a result of the attribution of a fair value to that asset, part of that fair value represents a sum that is not matched by any part of the consideration paid for the business.
- It is therefore necessary in these circumstances to tax the release of the negative goodwill to ensure that the tax relief given does not represent consideration only notionally paid out.

Calculation of taxable credits

The extent to which the accounting gains (sums credited to profits in a company's accounts) in respect of negative goodwill are attributable to intangible assets within Part 8 is to be established by a just and reasonable apportionment of those gains.

The accounting exercise necessary to attribute fair values to the assets acquired, together with any information available on how the parties arrived at the overall consideration for the business, should indicate whether, and if so to what extent, the shortfall between the overall consideration and the fair values of the identifiable assets is attributable to intangible assets.

In cases of doubt or difficulty HMRC officers should seek the assistance of HMRC advisory accountants.

Where valuation of intangible assets is an issue 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).

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