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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD44096 - Intangible assets: Restriction on relevant assets: The partial restriction on realisations

CTA09/S8790 (3) – (5)

This page explains how to calculate the debit when a partial restriction applies on a realisation of a relevant asset. As explained at CIRD44093 this section isn't relevant if there is a full restriction.

Apportionment of Chapter 4 debits

Where the partial restriction applies, a loss on realisation will give rise to a trading debit and a non-trading debit (CTA09/S879O(3)). This is not a straightforward apportionment between the two and needs to be calculated independently as the calculation also needs to take into account the balance of unrelieved expenditure to be relieved on realisation. This is achieved in two steps as outlined below:

CTA09/S879O(4)

Step 1 – calculate the trading debit on realisation

The calculation of the trading debit starts by considering the amount of the debit (D) that would have been relieved under CTA09/PART 8 if the partial restriction did not apply. This is the same method for calculating D which is explained at CIRD44093.

Once D has been calculated the amount of the trading debit under CTA09/S879O(4) is calculated by multiplying D by the relevant amount (RA).

Example

The company disposes of a relevant asset for £5m which originally cost £10m. RA is 0.6. The disposal took place in year 3 after two years debit relief had been given. Calculate the amount of the notional tax-written down value by reference to D. This will be different to the actual tax-written down value. The relevant tax-written down values will be:

Year D @ 6.5% Debit (x 0.6) Notional TWDV
Actual TWDV

Year 1 650,000 390,000 9,350,000 9,610,000

Year 2 650,000 390,000 8,700,000 9,220,000

In accordance with CTA09/S743(1) the tax-written down value disregarding any restriction under CTA09/S879O will be £8.7m. D will therefore be £3.7m, calculated in accordance with CTA09/S735(3) because the proceeds of realisation are less than this notional tax-written down value.

The relievable trading debit is therefore:

$$£3.7m (D) \times 0.6 (RA) = £2,220,000$$

CTA09/S879O(5)

Step 2 - calculate non-trading debit on realisation

Note that for Step 2 D is calculated differently to how it is in Step 1. This is because the balance of the unrelieved costs now also needs to be taken into account to ensure that cost of the asset is relieved in full on realisation. That is, the non-trading realisation debit needs to reflect the actual debits that have been allowed as restricted fixed rate debits. . Hence Step 2 uses the actual TWDV to calculate D, not the notional TWDV used in Step 1. The allowable non-trading debit on realisation should therefore be the actual tax loss on realisation less the amount relieved as a trading debit.

This is expressed using the formula:

$$D - TD = NTD$$

Example

Continuing the example from above, the total tax loss (D) on realisation is:

$$\begin{aligned} &£9,220,000 \text{ (actual TWDV)} - \text{sale proceeds} \\ &£5,000,000 = £4,220,000 \end{aligned}$$

The trading debit (TD) to be allowed on realisation as calculated at Step 1 was £2,220,000 so using the formula $D - TD = NTD$ the non-trading debit is:

$$£4,220,000 (D) - £2,220,000 (TD) = £2,000,000 (NTD)$$

Example - reconciliation

With the original cost of acquisition (£10m) and the sale proceeds (£5m) there is an overall loss of £5m. By following the steps in CTA09/S879O, this loss has been relieved as:

- Year 1 and 2 fixed rate debits - £ 780,000 (£390,000 x 2)
- Trading Debit (TD) on realisation - £2,220,000
- Non-trading debit (NTD) on realisation - £2,000,000
- Total relief provided under CTA09/PART8 - £5,000,000

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