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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD13230 - Core computational rules: realisation of assets: meaning of realisation

CTA09/PART8/S734

There is a realisation of an asset for the purposes of CTA09/PART8 where there is a realisation of that asset for accounting purposes. That is where, as a matter of accounting practice, a transaction results in one of the following:

- the asset ceasing to be recognised in the company's balance sheet altogether
- a reduction in the amount at which it is carried in the balance sheet (a 'part realisation')

Recognition ceases altogether

An asset should cease to be recognised altogether for accounting purposes where, in essence, a transaction transfers to others all significant rights or other access to benefits relating to that asset. Whether there has been such a transaction should not normally cause practical difficulty.

Reduction in value

A transaction will cause a reduction in the value of an asset for accounting purposes where it leads to a significant change in the entity's rights to benefits. Reductions in the value of an asset by way of amortisation or following an impairment review do not constitute a part realisation of the asset because they are not the result of a specific transaction.

Extension

The scope of the notion of realising an asset described above is expanded in two ways to encompass:

- events (as against transactions) giving rise to accounting gains
- the realisation of assets which are not (or are no longer) recognised on a company's balance sheet

Events

The inclusion of events giving rise to accounting gains means that, for example, an insurance recovery on the destruction of an asset could be a realisation receipt within

CTA09/PART8/CHAPTER4. On the other hand, where an event gives rise to a loss for accounting purposes, that loss will fall within Chapter 3 rather than Chapter 4. (In practical terms, such a loss would be unlikely to lead to a claim to reinvestment relief even if it did fall within Chapter 4).

Assets with no balance sheet value

The extension of the definition of a realisation of an asset to include those with no current balance sheet value encompasses:

- intangible assets which once appeared on a company's balance sheet but have been wholly written off
- internally generated assets (such as goodwill) which cannot be capitalised under the GAAP rules for goodwill and intangible assets

In these circumstances, it is necessary to apply the test in S734(1) hypothetically and consider whether or not the transaction would have been treated as the realisation of the asset for accounting purposes if it had possessed a balance sheet value.

Fungible assets - CTA09/PART8/S858

A holding of a number of units of a fungible asset (such as milk quota) counts as a single asset. The realisation of some (but not all) of those units therefore counts as the part realisation of that single asset (rather than the complete realisation of a number of separate assets) for the purposes of CTA09/PART8. See 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 rule applies to them.

Handling

These rules are only likely to cause practical difficulty where it is contended that a profit of a revenue nature on general tax principles counts as a realisation profit within CTA09/PART8/CHAPTER4 and can therefore be subject to a claim to reinvestment relief (CIRD20010 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird20010)). In those circumstances input from HMRC advisory accountants is likely to be helpful since the underlying issue will usually be of an accountancy nature.

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