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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD40035 - Intangible assets: groups: example of subsidiary tests

Example of how the 75% and 51% tests operate

In this example, each of A, B and C have a 75% cent interest in the ordinary share capital, profits and assets of its directly held subsidiary.

A owns 75% of the ordinary Share Capital of B.

B owns 75% of the ordinary Share Capital of C.

C owns 75% of the ordinary Share Capital of D.

The 75% test

The 75% rule for subsidiaries in terms of ordinary share capital operates on a 'cascade basis'. That means the test needs to be satisfied by each tier considered separately. Here, D is a 75% subsidiary of C, C is a 75% subsidiary of B, and B is a 75% subsidiary of A. Therefore companies B, C and D satisfy the 75% test in respect of principal company A. This is true even though the interest of A in C only amounts to 56.25% (75% x 75%) while its interest in D only amounts to 42.19% (75% x 75% x 75%).

The 51% test

The effective 51% subsidiary requirement in terms of profits and assets operates 'top to bottom'. The principal company of the group is A, and only companies satisfying the condition that A has a 50% plus interest in their profits and assets are members of A's group. A has a 75% direct interest in the profits and assets of B, and A has a 56.25% indirect interest in the profits and assets of C (75% x 75%), so A, B and C are in the same group. A has only a 42.19% indirect interest in the profits and assets of D, so D is not a member of A's group. If there was a further company, E which was a 75% subsidiary of D, then D would be the principal company of another group including E.

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