HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD11678 - Intangible assets within CTA09/PART8: FA02 rule: time when asset treated as created or acquired: whether expenditure on creation or on enhancement of asset

Practical issues

General

In applying the FA02 rule to goodwill and other assets normally built up out of revenue expenditure, special rules (see CIRD11675 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11675)) avoid the need to determine to what extent the realisation proceeds of certain of these assets, which would otherwise be treated as partly created before and partly after 1 April 2002, fall within CTA09/PART8.

In the case of other assets to which none of these special rules apply, it is a question of fact whether expenditure incurred on or after 1 April 2002 is on the creation of a new asset or the enhancement of a pre-FA 2002 asset.

Internal software development expenditure

It may be difficult to decide whether expenditure on such software incurred soon after 1 April 2002 constitutes one of the following:

- an enhancement of a pre-FA 2002 asset created before 1 April 2002 (which would be not allowable under CTA09/PART8)
- creation of a new asset after 31 March 2002 (and so within CTA09/PART8)
- part of a continuous process of creating an asset which is not yet complete - in which case the expenditure after 31 March 2002 will again fall within CTA09/PART8 (under the general rule described in CIRD11670 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11670)).

Where the company has written off the expenditure as incurred this issue is likely to have significant practical consequences only if expenditure incurred on or after 1 April 2002 regarded as enhancing an existing asset would be capital on general tax principles.

Cases where expenditure on enhancing a pre-FA 2002 asset (rather than creating a new one) can be viewed as capital are only likely to arise where it has been accepted that the earlier creation of the system was capital, see BIM35845. Cases of capital enhancement expenditure are therefore likely to be unusual.

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