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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD44090 - Intangible assets: Restrictions for goodwill and relevant assets: Partial restriction in relation to acquisitions from a related individual or firm

CTA09/S879N

As explained at CIRD44083, a full restriction applies when:

- The company acquires a relevant asset directly or indirectly from an individual or firm on or after 1 April 2019, and
- The related party condition is met, and
- The third party acquisition condition is not met.

This page explains when to apply a partial restriction when relevant assets are acquired from a related party who is not a company.

When the restriction applies

CTA09/S879N applies where:

- The company acquires relevant assets on or after 1 April 2019 directly or indirectly from an individual or firm,
- The related party condition is met,
- The third party acquisition condition is also met, and
- The relevant amount calculated in accordance with CTA09/S879N(6) is less than 1.

CTA09/S879N is not relevant where the full restriction applies because the relevant assets are either

- Pre-FA2019 assets,
- Not acquired with a business, or together with qualifying IP.

For more information on the full restriction rules see CIRD44075 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44075)+ and CIRD44080 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44080).

The related party condition

CTA09/S879N(3) describes when the related party condition is met. This is either where:

- The transferor is an individual and is a related party in relation to the company at the time of acquisition, or
- Where the transferor is a firm, any individual who is a member of the firm is related to the company at the time of acquisition.

The third party acquisition condition

CTA09/S879N(4) describes the third party acquisition condition. This is met where:

- If the asset is goodwill, the transferor (the individual or firm) acquired all or part of the business from one or more third parties as part of which the transferor acquired goodwill, and the relevant asset (the purchased goodwill) is acquired by the company as part of an acquisition of all the relevant business, or
- In cases where the relevant asset is not goodwill, the transferor acquired the relevant asset in a third party acquisition and the relevant asset is acquired by the company as part of an acquisition of all the relevant business.

See CIRD44083 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44083) for the explanation of “third party acquisition”

As explained at CIRD44083 the full restriction is expected to apply to most related party incorporations. The exception here applies where there has been a previous third party acquisition of a business which included previously purchased goodwill of that acquired business (whether or not recognised). This is provided that the cost has not, or would not have, been written off at the time of the related party incorporation. This policy is explained further in CIRD44450 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44450) in relation to the restriction that applied under CTA09/S849B in relation to related party incorporations that occurred between 3 December 2014 and 8 July 2015.

The relevant amount (CTA09/S879N(6))

The relevant amount for the purpose of CTA09/S879O(6) is determined by the formula A/B where:

- A is the relevant accounting value of the third party acquisitions (CTA09/S879N(7) - (9)), and
- B is the tax cost of the relevant asset (CTA09/S879N(6))

Note that it does not matter whether or not the cost is capitalised.

The relevant accounting value (CTA09/S879N(7) – (9))

The relevant accounting value is the notional accounting value of the third party acquisitions immediately before the relevant asset is transferred to the company. The ‘notional accounting value’ is determined by considering what the written down or net book value would have been, at the time of the transfer, if the business had continued to be carried on by the individual or firm. This is because the relevant asset will not have a net book value in the transferor’s accounts if cessation accounts are prepared, or if the asset has been disposed before the balance sheet date.

Example

This example is similar to the example used in the guidance at CIRD44500 as it applied to CTA09/S849C.

A firm acquires goodwill (a relevant asset) from an unconnected individual 18 months prior to incorporating its business. The third party acquisition cost of the relevant asset was

£100,000 and the firm was to write off these costs over a 5 year period at the rate of £20,000pa. The firm incorporates after 18 months when the notional accounting value would have been £70,000.

The company recognises purchased goodwill of £280,000 on acquisition of the business from the firm. It is not subject to a tax adjustment.

The relevant amount is therefore: 70,000/280,000 = 0.25

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