HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD12735 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: acquired as part of a larger bargain: GAAP acquisition accounting

CTA09/PART8/S856 (3)

Accountancy background

Where a company acquiring a business accounts for the acquisition in accordance with GAAP, the values it assigns to the acquired goodwill and other intangible assets are to be adopted for the purposes of Part 8.

GAAP requires the individual assets and liabilities of the business (excluding goodwill) to be valued at their fair value. The aggregate value of the specific assets and liabilities is then compared with the total consideration given for the business.

Any excess of the consideration given over the aggregate value of the individual assets and liabilities appears in the acquiring company's balance sheet as the initial value of the goodwill of the business (regardless of any figure placed on the goodwill in the sale agreement).

Occasionally, the values allocated to the specific assets and liabilities may be such that their aggregate value exceeds the total consideration given for the business. The difference is accounted for under as 'negative goodwill'. Negative goodwill is not an asset within Part 8 but, exceptionally, credit entries in a company's profit and loss account representing sums written off negative goodwill may represent taxable credits within Part 8 (see CIRD13080 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13080)).

See CIRD11070 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11070) for the exclusion of goodwill that only appears in consolidated group accounts from the scope of Part 8.

Interaction with valuation of tangible assets for tax

The adoption for the purposes of Part 8 of the values placed on goodwill and other intangible assets by the acquiring company has no direct effect on the values assigned to the other assets acquired for the purposes of corporation tax. These values will generally be determined on a just and reasonable apportionment of the total consideration, see:

- CA12100 - values for capital allowances,
- CG14771 - values for CG purposes,
- CTA09/S165 (3) and S167 (6) - value of trading stock.

Link with vendor's tax computations

Furthermore, in contrast to the rules for other assets, there is no direct requirement that the values assigned to goodwill and intangible assets for the purposes of Part 8 by the acquirer need to be the same as the values assigned to those assets for tax purposes by the person disposing of the business. As in the case of assets that are outside Part 8 in the hands of the person disposing of the business of which they are a part, the values to be assigned by such a company to assets within Part 8 are to be arrived at by making a just and reasonable apportionment of the total consideration. See CIRD13245 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13245).

Practical implications

In practice, a just and reasonable apportionment of the consideration given or received for a business to the individual assets of the business should not normally result in the valuation of assets on a significantly different basis from that required under the 'fair value' approach in GAAP.

There will however be a difference where the aggregate fair value attributed to the assets of an acquired business exceeds the consideration given for the business, so that the excess is accounted for as negative goodwill. That is because the apportionment of the consideration given, which is required for tax purposes outside Part 8, will exclude that element of the fair value of individual assets that represents the excess of fair values over the total consideration (the negative goodwill). This difference is accommodated by ensuring that the release of negative goodwill to profits in the accounts is only taxable in the (exceptional) case where it is attributable to assets within Part 8 (see CIRD13080 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird13080)).

But the adoption of ‘fair values’ is an innovative feature of Part 8 and caseworkers should monitor carefully how it works in practice. If it is felt necessary to consider whether accounts that purport to conform to the GAAP standards for acquisition accounting may not in fact do so, see CIRD30000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird30000) onwards.

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