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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

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CIRD44600 - Intangible assets: Restrictions for goodwill and relevant assets: FA15 realisations - apportionment of debit in respect of relevant asset where there are previous third party acquisition costs

CTA09/PART 8/S849C {#} (3)

Calculation of accounting or fixed rate debits

As explained at CIRD44450 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44450), the FA15 rules are only intended to restrict when relief is given for internally-generated assets acquired from a related party. The objective is to defer debit relief for related party acquisitions until a time when the asset is realised, not disallow the costs completely. When there is a realisation of a relevant asset that includes previous third party acquisition costs, CTA09/S849C therefore requires that two debits are brought into account; a trading debit and a non-trading debit.

The calculation of the two debits arising on realisation cannot be a straightforward apportionment between the trading debit and non-trading debit because the calculation has to take account of the debits previously disallowed. The realisation computation needs to relieve those debits that have been subject to a restriction. This is achieved in two steps as explained below:

CTA09/PART 8/S849C (4)

Step 1 – calculate the trading debit on realisation

The calculation of the trading debit starts by considering the amount of the debit (D) that would have been relieved under CTA09/PART 8 if the restriction in CTA09/S849C did not apply. As is explained in CIRD44500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44500), this means that all the other rules within CTA09/PART 8 must be applied before calculating D.

Once the debit (D) has been calculated the CTA09/S849C restriction is applied to it. This is achieved by applying the appropriate multiplier (AM). AM is determined by the formula:

AM = RAVTPA/CEA

NB: AM may have been already calculated in a previous accounting period. If not calculated already (because the asset is realised in the same period it was acquired) see CIRD44300 for further details of how to calculate AM.

Example

The company disposes of a relevant asset. The cost of the asset was £280,000 including third party acquisition costs of £70,000. AM is therefore 0.25.

The relevant asset was to have been written off over 5 years but at the end of year 3 it is sold for £80,000. On disposal the accounting value is £140,000 (year 1 amortisation for 6 months was £28,000 with further amortisation in years 2 and 3 of £56,000pa).

The tax debits under CTA09/PART 8/Chapter 3 have been restricted for years 1-3 by the AM (0.25) to £7,000, £14,000 and £14,000 respectively. The actual Tax Written-Down Value (TWDV) at the end of year 3 is £245,000 but the notional TWDV, absent any restrictions, is £140,000.

The unrestricted debit on disposal (D) is therefore £60,000 (notional TWDV £140,000 less sale proceeds £80,000). This is restricted by CTA09/S849C by the AM (0.25) to give the allowable trading debit.

£60,000 (D) x 0.25 (AM) = £15,000

CTA09/PART 8/S849C (5)

Step 2 - calculate non-trading debit on realisation

The non-trading debit includes the balance of the accounting loss that arises on realisation but also needs to include the amortisation debits disallowed in previous accounting periods. The allowable non-trading debit on realisation should therefore be the actual tax loss on realisation less the amount relieved as a trading debit.

This is expressed using the formula:

D – TD = NTD

Example

Continuing the example from above, the total tax loss (D) on realisation is:

£245,000 (actual TWDV) – sale proceeds £80,000 = £165,000

The trading debit (TD) to be allowed on realisation as calculated at step 1 is £15,000. So using the formula D – TD =NTD the non-trading debit is:

£165,000 (D) - £15,000 (TD) = £150,000 (NTD)

Example 1 at CIRD44650 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird44650) summarises the relief due over the life of the asset for the example above. Example 2 includes a similar example where tax cost has been adjusted.

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