HMRC internal manual

Corporate Intangibles Research and Development Manual

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

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CIRD12920 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: fixed rate relief: debits following part realisation

CTA09/PART8/S731 (6) and S744

Provision

Where there is a part realisation of an asset for which an election for fixed rate relief has been made, both the tax written down value and the tax cost referred to in CIRD12910 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12910) are adjusted.

The tax written down value is adjusted in the ratio that the accounting value of the asset immediately after the part realisation bears to the value before. (This is the same fraction as that used in calculating the revised tax written down value following part realisation of an asset subject to accounts-based deductions - see CIRD12795 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12795)).

The cost of the asset recognised for tax purposes becomes the cost referable to the accounting value of the asset immediately afterwards (plus the cost referable to subsequent capitalised expenditure). This is to ensure that the fixed rate deductions are still given over the 25 years implicit in the rate of 4%.

Example 1 - asset not amortised in the accounts

Assume an indefinite life asset with an original cost of £100,000, which is made the subject of the fixed rate regime. On day 1 of the twelve-month accounting period 5, it has an accounting value of £100,000 - it has not been amortised. It is then partly realised for £60,000. £50,000 of the accounting value of the asset is set off against the disposal giving a profit on the disposal of £10,000 and a revised accounting value of £50,000.

The tax written down value at the end of year 4 is £84,000 (£100,000 - [4 x £4,000]). Following the part realisation the tax written down value of the asset (£84,000) is reduced in the ratio the new accounting value (£50,000) bears to the old (£100,000), that is to £42,000.

The cost of the asset for the purpose of calculating the fixed rate deductions is now reduced to the new accounting value of £50,000, giving a reduced writing down allowance of £2,000. The unallowed expenditure (the tax written down value) of £42,000 is therefore relieved over a further 21 years so that the full period of relief from the acquisition of the asset is 25 years.

Example 2 - asset amortised in the accounts

Assume now that in the above example the asset had been amortised in the accounts at 2% (£2,000) a year. Its accounting value at the beginning of accounting period 5 is therefore £92,000. £46,000 of that value is set against the realisation proceeds of £60,000 to give a profit on disposal of £14,000 and a revised accounting value of £46,000.

Following the part realisation the tax written down value of the asset (£84,000 as above) is reduced in the ratio the new accounting value (£46,000) bears to the old (£92,000), that is again to £42,000. Subsequent writing down allowances are the same as example 1.

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