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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD10116 - Intangible assets: introduction: simple example of taxation entries derived from figures in accounts

Suppose a company buys an intangible asset on 1 January 2015. It pays £100,000 for the asset and decides that it has a useful life of ten years and amortises it over that period at 10% per annum in accordance with FRS102 s18. Assuming the intangible asset is within the regime:

- In the year to 31 December 2015 it will charge £10,000 amortisation, which is allowable for tax.

- In the year to 31 December 2016 it will charge £10,000 amortisation, which is allowable for tax.
- It then receives an attractive offer and sells the intangible asset for £120,000 in 2017.

Its accounts for the year ended 31 December 2017 will show a book profit of £40,000 (£120,000 sale proceeds minus £80,000 book value after past amortisation). This sum will be subject to corporation tax as an income receipt.

The end result is that the company has been taxed on a realisation profit of £40,000, and been allowed amortisation deductions of £20,000. This means that overall the company has suffered tax on a net figure of £20,000, which corresponds to its true profit.

The company may be able to claim reinvestment relief to defer tax on part of its realisation profit. Reinvestment relief is covered in this introduction section at [CIRD10170 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10170\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10170).

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