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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

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[Back to contents](#) > [CIRD10000](#) > [CIRD11700](#)

## CIRD11725 - Intangible assets within CTA09/PART8: FA02 rule exceptions: royalties: examples FA02/SCH29/PARA119 (2) - (4)

FA02/SCH29/PARA119 was redrafted under Tax Law Rewrite into CTA09/PART8/S896. However, the Schedule 29 sub-paragraphs 119 (2) - (4) have no equivalent in CTA09, being concerned only with royalties brought into account in accounting periods straddling 1 April 2002. The following examples were included in the Schedule 29

version of the CIRD and are retained for historical interest only.

### **Example 1 - adjustment to ensure all royalties brought to account - paragraph 119(3)**

A company that draws up accounts to 31 March pays patent royalties of £1000 annually in arrears on 1 October. Prior to 1 April 2002 the charge in the accounts (accruing the royalties evenly over each period of account) is added back and the royalties are allowed when paid as a charge. Under Schedule 29 from 1 April 2002 the royalties are allowed as the company charges them to the profit and loss account.

In its corporation tax computations for the accounting period ending 31 March 2003 the company gets a deduction for:

1. the royalties charged in its accounts (£1,000), plus
2. the royalties accruing in its accounts prior to 1 April 2002 which were not allowed in that period. That is the unpaid, accrued royalties for the period 1 October 2001 to 31 March 2002 ( $6/12 \times £1000 = £500$ ).

Total deduction: £1,500

### **Example 2 - adjustment to ensure no double counting - paragraph 119(2)**

The facts are as in example 1 but the royalties are paid annually in advance (still on 1 October).

In its corporation tax computations for the accounting period ended 31 March 2003 that part of the royalty charge in the accounts which has already been deducted for periods prior to 1 April 2002 is added back. This represents that part of the royalties paid on 1 October 2001 and deducted as a charge for the accounting period ended 31 March 2002 that accrued in the accounting period ended 31 March 2003 in the company's accounts.

That is  $6/12 \times £1000 = £500$ .

← **Previous page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11720)

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→ **Next page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11730)



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