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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

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## CIRD10180 - Intangible assets: introduction: reinvestment relief: example

Suppose company A has realised a chargeable intangible asset for £15,000, which it bought in the previous accounts year for £10,000. In that year it had decided that the useful economic life of the asset was five years, and so had charged £2000 amortisation, leaving a book value of £8,000 in the year of disposal.

Sale proceeds - book value = £15,000 - £8,000 = an accounts gain of £7,000. This is the taxable gain but, as £2,000 represents a recovery of past

amortisation deductions, only £5,000 is eligible for reinvestment relief.

The company buys another chargeable intangible asset for £20,000, which it will amortise over five years, and claims reinvestment relief of £5,000.

The result is that, in computing its taxable gain on the realisation, the company deducts the amount of relief so its taxable gain is reduced from £7,000 to £2,000.

For the new asset, the company will be amortising a figure of £20,000 in the accounts at a rate of £4,000 p.a. For tax purposes, however, the initial expenditure on the new asset will be reduced to £15,000 and so the allowable amortisation over five years will only be £3,000 p.a. Over the full five years, the amount of allowable amortisation for tax purposes will be reduced by £5,000 (£1,000 p.a. for five years), which is the amount of reinvestment relief that was claimed. Therefore, the reinvestment relief given will be recovered over the useful economic life of the new asset.

It follows that, where reinvestment relief is claimed, the accounts figure for amortisation of the new asset needs to be adjusted for tax purposes.

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