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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD12320 - Core computational rules: accounting: disaggregation of assets: fixed rate write down elections

Election in respect of original asset

If the original asset was subject to a fixed rate election - see CIRD12905 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12905) - then each one of the resulting assets is deemed to also be subject to a fixed-rate election. They are treated as being subject to a 4% election from the start of the later accounting period (AP), taking their cost as their tax written down value at the end of the earlier accounting period.

Example

An asset is bought in the AP to 31 December 2014 for £10,000. A 4% fixed rate election is made in respect of it. In the AP to 31 December 2014 the fixed-rate write off allowable for tax is £400, giving a tax written down value at the end of the AP of £9,600. In the same period the accounts amortisation is £1,000 giving a closing accounting value of £9,000.

In the AP to 31 December 2015, the company adopts FRS 102. It disaggregates the asset into two assets with values of £6,000 and £3,000 respectively.

Each asset is treated as subject to a fixed rate election from the 31 December 2015 with starting costs of (£6,000 / £9,000 x £9,600) = £6,400 and (£3,000 / £9,000 x £9,600) = £3,200. In the AP to 31 December 2015 the allowable amortisation is (£6,400 x 4%) + (£3,200 x 4%) = £384.

Election in respect of resultant assets

An election for fixed rate writing down may be made in respect of a resulting asset if it is within the time limit for making such an election in respect of the original asset.

The effect of the election recognises that the resulting asset was part of a bundle of assets originally recognised as a single asset.

The effect of the legislation is that:

- the original asset is treated as if at all material times it had consisted of notional original assets that correspond to the resulting assets
- each notional original asset has attributed to it an appropriate portion of every amount that was

taken into account for the original asset

The appropriate portion is the part of the total accounting value of the resulting assets that the resulting asset represents.

Example

An original asset cost £12,000 in the AP to 31 December 2014. No fixed-rate election was made in respect of it, and allowable amortisation of £1,200 for the period (assuming written down at 10% per year) was claimed as a tax deduction. FRS 102 is adopted for the AP to 31 December 2015, and as a result the asset is disaggregated into resultant assets A, B, C and D with tax values of £1,800, £2,100, £3,300 and £3,600 respectively. If a fixed rate election is made in respect of D alone, it is necessary to identify notional original assets corresponding to A, B, C and D, and make the appropriate adjustments. This means that a change will be needed to the amortisation that has been claimed in respect of D. The cost of the notional original asset will have been £4,000, and the 10% amortisation of £400 will have to be corrected to a 4% write down of £160 in the AP to 31 December 2014. This original cost of £4,000 will also form the basis of 4% write down claims in subsequent APs. In practice as amortisation will continue in respect of the assets A, B and C where no fixed rate elections have been made, adjustments will not be needed in respect of these assets.

Election for original asset after disaggregation

A fixed rate election may be made in respect of the whole original asset after the change in accounting policy that results in disaggregation, so long as the original two-year time limit has not expired. If such an election is made then credits, debits, costs and values in pre-election computations will need to be amended accordingly. (However, a company would probably make elections in respect of each of the resultant assets as in this way their elections would be based on their respective shares of the original cost, rather than their respective shares of the tax written down value at the end of the earlier period).

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