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Corporate Intangibles Research and Development Manual

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CIRD40610 - Intangible assets: groups: degrouping: examples of degrouping computation

CTA09/PART8/S780(3) and S785(4)

Example 1

Facts

Assume an intangible asset with an estimated ten year life, is purchased by group company A for £10,000 and tax deductions for amortisation are

allowed to it following the accounts for accounting periods (APs) 1-3 of £1000 per AP. At the beginning of AP4 the asset is transferred to group company B for its book value of £7000 (though it has a market value of £9000 at the time). B continues to write down the asset in APs 4 and 5 by £1000 per AP and obtains tax deductions accordingly, on the basis of the tax-neutral treatment described in [CIRD40300](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird40300>). B leaves the group at the end of AP5.

Computation when B leaves group

- B is deemed to have realised and reacquired the asset for £9000; that gives rise to a taxable credit of £2000, representing the excess of the market value at the time of the transfer (£9000) over the tax written down value at that time (£7000).
- B's amortisation deduction for AP4 is adjusted to reflect an acquisition cost of £9000, not £7000. So, applying the rules described in [CIRD12755](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12755>) onwards, the deduction due for AP4 is:
 - $£1000 \times £9000 / £7000 = £1286$.
- The extra deduction for that period of £286 (£1286 - £1000) and the taxable credit of £2000 are netted off and brought to account in AP5 as if they had arisen immediately before B left the group.
- The deductible debit for AP5 itself is £1286 (£7714 / £6000 x £1000).
- The tax written down value when B leaves the group is therefore £6428.

Example 2

Facts

Assume that at the beginning of AP1 company A transfers its business as a going concern to

company B for its book value. The business is successful and its market value is more than its book value. The difference (say £10000) is the value of its goodwill (which cannot appear on A's balance sheet because it is internally generated).

Company B leaves the group at the end of AP3.

Computation when B leaves group

- B is deemed to have realised and reacquired the asset for £10000; that gives rise to a taxable credit of £10000 (as B inherits A's nil acquisition cost).
- B obtains deductions for sums written off the asset as if it had been capitalised in the accounts at its market value on acquisition (£10000), see [CIRD12780](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12780) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12780>).
- If, for example, it is assumed that the goodwill has a ten-year life (reflecting the judgement that by which time other businesses will have succeeded in eroding its competitive edge) then deductible debits for amortisation of the asset will be £1000 per annum.
- On that assumption the adjustment under the degrouping rules for AP3 will be the taxable credit of £10000 less amortisation debits referable to AP1 and AP2 of £1000 per period, giving a net taxable credit of £8000.
- An amortisation debit of £1000 is also given for AP3.
- The tax written down value of the asset when B leaves the group is therefore £7000.

Classification of adjustment in CT computation

In this case the adjustment would be treated as a receipt of B's trade (see [CIRD40520](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird40520) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird40520>)).

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