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HMRC internal manual

Corporate Intangibles Research and Development Manual

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([/government/organisations/hm-revenue-customs](#))

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CIRD49020 - Intangible assets: just and reasonable apportionment: HMRC's approach to apportionment

HMRC's approach to apportionment of pre-FA02 assets, restricted assets and unrestricted post-FA02 assets

HMRC's view is that the most appropriate way of addressing the task of arriving at a just and reasonable apportionment is by using an approach that recognises the relative contributions to the business from both pre-FA02 assets, restricted

assets and unrestricted post-FA02 intangible assets identified within each group of intangible assets.

This approach starts from the premise that there has been a single transaction within which an agreed amount has been allocated (or a related value proposed in the case of related party transactions) to specified intangible assets. This amount represents the worth of the entire bundle of related intangible assets as agreed between the seller and the buyer.

To achieve a just and reasonable apportionment you may need to consider any legal issues such as potential infringement situations that may be contemplated if some kind of separation of the intangible assets was under consideration. For example, if a business was transferred without the corresponding intellectual property rights you may need to consider whether separation of the businesses and intellectual property rights has an impact on the value of the bundle of rights now held separately.

Conversely, if the bundle of rights is not separated to the detriment of their commercial value, there is no need to give further consideration to potential infringement for the purposes of the pre-FA02/post-FA02 apportionment.

Consideration needs to be given to the underlying commercial realities which means determining which intangible assets were helping drive value in the business at the transaction date. Commercially this would be those intangible assets that were helping to underpin customer interactions and support customer loyalty.

It is important to understand that there is a clear link between innovation coupled with related investment and the creation of valuable intangible assets. Not every registration, say of a patent, will add material value to a business. But where the registration is linked to innovation like new product releases as underpinned by investment in R&D, advertising, marketing etc., such investment and

innovation is going to be aimed at creating valuable intangible assets.

To underpin a just and reasonable apportionment in this type of situation, information on business direction and innovation expenditure is required. The apportionment exercise requires informed judgement based on appropriate information that takes into account not just post-FA02 activities and innovation but also assesses the pre-FA02 picture to give the apportionment proper balance.

It needs to be acknowledged that some trade marks and associated intangible assets or other intangible assets enjoy real longevity and in some instances there will be a degree of heritage value to be considered. Based on facts and evidence this type of scenario may well be part and parcel of what is attracting customer interactions and loyalty. The business may have information that leads it to the view that such pre-FA02 attributes have an impact on the overall apportionment and this should be sought as part of the information gathering work.

When equipped with all necessary information SPT – Shares and Assets Valuation will be able to provide an informed view as to what a just and reasonable apportionment looks like and will engage with customers where there are differences of opinion in an effort to reach a resolution.

The examples in [CIRD49030](#) (<http://manual/corporate-intangibles-research-and-development-manual/cird49030>) are intended to provide an overview of what a just and reasonable apportionment in this specific type of situation looks like in the view of HMRC.

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