HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD10101 - Intangible assets: introduction: background

Scope

The rules in CTA09/PART8 (formerly FA02/SCH29) apply to those assets of a company which accountants would classify as intangible assets, and also to goodwill.

The term ‘intangible asset’ covers not only intellectual property, such as patents, copyrights, trade marks and know-how, but also a variety of other assets with commercial value such as agricultural quota, payment entitlements under the single payment scheme for farmers, franchises and telecommunication rights.

'Goodwill', in accounting terms, is simply the difference between the price a business fetches when it changes hands, and the acquirer's interest in the net value of its identifiable (including intangible) assets, liabilities and contingent liabilities. There are detailed valuation rules for certain types of asset, e.g. a deferred tax asset, but broadly what is acquired is measured at its fair value at the acquisition date. However, goodwill that only appears in the consolidated accounts of a group of companies, and not in company-level accounts, is outside the scope of the CTA09 rules.

The guidance in this manual on the scope of the intangible assets regime, explaining which assets come within it, starts at CIRD11000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11000).

Types of asset excluded from the CTA09 rules are covered at CIRD25000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird25000) onwards. These are, principally, assets already subject to special tax provisions (such as film rights) or where the intangible asset is a right over tangible property CIRD25030 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird25030).

Value and volatility

The importance of intangible assets is growing, and over time they have come to represent an increasing proportion of the value of the corporate sector. However the value of such assets, taken individually, may prove volatile. A patented drug may have to be withdrawn from the market, the business potential of a technology change may prove to have been over-optimistically assessed, or adverse press coverage may damage the value of a previously well-established brand.

The tax rules

The rules for intangible assets, apart from those introduced in CTA09, vary with the different types of intangible asset. The effect is that reductions in value of these assets sometimes qualifies for an income deduction on first principles, sometimes via capital allowances but often not at all. Conversely, profits on disposal of intangibles are sometimes taxed as income, sometimes as capital with no special reliefs and sometimes (goodwill and farm and fish quotas) get CG roll-over relief. CIRD10145 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10145) sets out where the guidance on these rules is to be found.

The approach in CTA09 abandons such distinctions and reflects both the increasing importance of such assets commercially and their acknowledged volatility in value.

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