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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)  
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## CIRD44500 - Intangible assets: Restrictions for goodwill and relevant assets: FA15 rules - calculation of debits in respect of a relevant asset where there are previous third party acquisition costs CTA09/PART 8/S849C {#}

Apportionment of accounting or fixed rate  
debts

As explained at CIRD44450, the FA15 rules are only intended to restrict when relief is given for internally-generated assets acquired from a related party transferor. Where the relevant asset includes allowable previous third party acquisition costs, an apportionment is required to calculate the proportion of the debit that can still be relieved under Chapter 3. The apportionment is calculated by following the steps outlined below.

### **Step 1 – calculate the debit (D) under CTA09/Part 8**

The method of apportionment starts by considering the amount of the debit (D) that would have been relieved under CTA09/PART 8 if the restriction in CTA09/S849C did not apply. This means that all the other rules within CTA09/PART 8 must be applied before calculating the CTA09/S849C restriction.

For example, the tax cost or expenditure might still be subject to a valuation or other adjustment. For valuation adjustments see [CIRD10240](https://www.gov.uk/hmrc-internal-manuals/cird10240) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10240>) and for other adjustments see [CIRD12500](https://www.gov.uk/hmrc-internal-manuals/cird12500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12500>) onwards.

Once the debit (D) has been calculated the CTA09/S849C restriction is applied to it. To do so you need to calculate the appropriate multiplier (AM) at step 2.

## **CTA09/PART 8/S849C (6) – (9)**

### **Step 2 - calculate the appropriate multiplier (AM)**

AM is calculated using 2 figures, RAVTPA and CEA, using the formula:

$$AM = RAVTPA/CEA$$

RAVTPA is the relevant accounting value of the third party acquisition costs immediately before the relevant asset is transferred to the company.

Please note that a special calculation is required to ensure that the 'notional accounting value' is determined by considering what the written down or net book value would have been, at the time of the transfer, if the business had continued to be carried on by the individual or firm. This is because the relevant asset will not have a net book value in the transferor's accounts if cessation accounts are prepared or if the asset has been disposed before the balance sheet date.

CEA is the expenditure recognised by the company subject to any adjustments by CTA09/PART 8 or TIOPA10.

NB: AM is determined at the point of acquisition and will be used in all subsequent calculations. It should not change in subsequent accounting periods.

### **Calculating the appropriate multiplier - example**

A firm acquires goodwill (a relevant asset) from an unconnected individual 18 months prior to incorporating its business. The third party acquisition cost of the relevant asset was £100,000 and the firm was to write off these costs over a 5 year period at the rate of £20,000pa. The firm incorporates after 18 months when the notional accounting value would have been £70,000.

The company recognises purchased goodwill of £280,000 on acquisition of the business from the firm. It is not subject to a tax adjustment.

The AM is therefore:  $70,000/280,000 = 0.25$

## CTA09/PART 8/S849C (2)

### Step 3 - calculating the restricted debit in year 1

In this example the company writes off the purchased goodwill of £280,000 over 5 years. In year 1 the debit that would have been taken into account absent the restriction imposed by CTA09/S849C is £56,000 (CTA09/S729 (3)).

CTA09/S849C (2) determines the amount of the debit that can be brought into account by the company. This is calculated as follows:

$$£56,000 (D) \times 0.25 (AM)$$

The relievable debit is therefore £14,000.

### Step 3 - calculating the restricted debit in subsequent periods

In subsequent periods the accounting value and the tax value will diverge. For example the accounting value will be £224,000 at the beginning of year 2 (£280,000 - £56,000) but the tax written-down value will only reduce by the amount of relief actually given (£280,000 - £14,000 = £266,000).

The year 2 debit would normally be calculated using the formula  $L \times WDV/AV$  (CTA09/S729 (5)) (see [CIRD12770 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12770\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12770)). But in this case this would give excessive relief as WDV (£266,000) is greater than AV (£224,000). Without the adjustment made by CTA09/S849C(2) the relief given in year 2 would be  $£56,000 (L) \times 266,000 (WDV) / £224,000 (AV) = £66,500 \times 0.25 (AM) = £16,625$ . The amount of the relievable debit would increase still further in subsequent periods as the difference between the actual tax written-down value and accounting value increases.

This excess relief is prevented by CTA09/S849C(2) by always calculating D without any restriction. In practice this means you calculate the notional tax written-down value for each period absent any previous restrictions.

In this example the year 2 notional tax written-down value is £224,000 (£280,000 - £56,000). In cases where tax cost is the same as accounting cost this would normally be the same as the accounting value (AV). The calculation of D is then

$$£56,000 (L) \times £224,000 (WDV) / £224,000 (AV) = £56,000 (D)$$

The relievable debit in year 2 is then restricted by AM, that is:

$$£56,000 \times 0.25 = £14,000 \text{ (the same as year 1)}$$

The examples in CIRD44650 demonstrate how the restriction works in subsequent periods. It includes an example where the tax cost differs from the accounting cost as a result of a market value adjustment. The examples also go on to compute the relief due on realisation of the asset.

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