HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD12775 - Core computational rules: deductible debits: relief for capitalised expenditure on an intangible asset: accounts-based relief: where tax and accounting values diverge: Lloyd's syndicate capacity

CTA09/PART8/S905

Background

CIRD11750 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11750) explains that:

- the FA02 rule determining whether an intangible asset comes within CTA09/PART8 is relaxed in the case of Lloyd's syndicate capacity (so that existing capacity is brought within CTA09/PART8)
- sums written off syndicate capacity in a company's accounts for periods before CTA09/PART8 applies are not deductible for tax

Under the rules illustrated in CIRD12770 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird12770) the disallowance of these sums would cause the tax value of capacity held at the beginning of the first period for which CTA09/PART8 applies (normally the 2002 calendar year accounts) to be greater than its accounting value. As a result, without a special rule, in calculating the deductible debit under CTA09/PART8 the amortisation or impairment charge in the accounts would be increased in the ratio which the tax written down value of the asset bears to its accounting value immediately before the charge is made.

Treatment

In order to ensure that what is in effect relief for previously disallowed amounts is not given prior to the realisation of the asset S905(3)-(5) provide that, solely for the purpose of calculating deductible debits for the amortisation and impairment of capacity, all such sums previously charged in the accounts are to be regarded as reducing the tax written down value of the asset whether they gave rise to a tax deduction or not.

Example

A Lloyd's corporate member acquires syndicate capacity of £1000 in its accounting period ending

(APE) 31/12/00. The value of the asset is written off at 10% (£100) per annum.

APE 31/12/00 - old rules - amortisation of £100 in the accounts is added back in the computation. No tax deduction. Tax written down value carried forward is £900.

APE 31/12/01 - old rules - amortisation of £100 in the accounts is added back in the computation. No tax deduction. Tax written down value is £800.

APE 31/12/02 - new rules apply for the whole of the accounting period (CIRD11750 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird11750)). There is no restriction for the period from 1/1/02 - 31/3/02. Section 905 (3) operates to bring in the capacity at the tax written down value of £800, and there will be a deduction for the £100 written off in this accounting period. Tax written down value at the end of the AP is £700. There will be no relief for the £200 disallowed in the 2000 and 2001 years of account until the asset is sold.

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