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Corporate Intangibles Research and Development Manual

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CIRD70510 - Telecommunications licences and rights: accounting and groups: group accounts

For tax purposes the accounting approach adopted by a company must not be more cautious than that adopted in any group accounts. This rule stops a company from writing down the licence or right more quickly in its accounts than it is written down in the group accounts. It also stops the revaluation of the licence or right in the group accounts but not in the companies' accounts. Where a company is a member of more than one group for which consolidated accounts are required then for tax purposes it cannot adopt an approach more cautious than that adopted in any of the consolidated accounts.

Group accounts: definitions

For the purposes of this rule ‘a group of companies’ is a group as defined in S474(1) of the Companies Act 2006 or the corresponding Northern Ireland or overseas provisions.

Consolidated group accounts’ are accounts that satisfy the requirements of S404 of the Companies Act 2006 or the corresponding Northern Ireland or overseas provisions.

The ‘accounting approach’ means the accounting policies used in preparing the accounts and the methods of applying those policies.

‘Cautious’ is a general word. It is not tied to the accountancy concept of ‘prudence’. A company in a group which accounts for a licence or right more prudently in its consolidated accounts will fall within the rule, but the rule will apply whatever the accounting regime. By using the word cautious what the rule is getting at are methods that write off expenditure more quickly or recognise income more slowly.

Example

Leghorn Ltd is a subsidiary of Livorno BV. Leghorn Ltd acquired an IRU for £1 million on 1 April 2000. It writes off the whole cost in the accounting period ended 31 March 2001. (Assume that this is in accordance with GAAP). Livorno BV’s consolidated accounts write off £500,000 in the year ended 31 March 2001 and £500,000 in the year ended 31March 2002. For tax purposes Leghorn Ltd cannot write off the expenditure more quickly than it is written off in the consolidated accounts. Therefore, the following adjustments would be made in the tax computations:

Year ended	Debit to profit & loss	Computational adjustment
31 March 2001	£1,000,000	Plus £500,000
31 March 2002	Nil	Minus £500,000

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