Clause X: Intangible fixed assets: realisation involving non-monetary receipt

Summary

1. This clause amends the legislation that defines 'proceeds of realisation'. It applies when the consideration received on the disposal of an intangible fixed asset is something other than money. It puts beyond doubt that the amount to be recognised is the cash equivalent of the market value of the consideration. The amendment is effective from 22 November 2017. A related change is made by clause [Intangible fixed assets: transactions between related parties].

Details of the clause

2. Clause X amends section 739 of the Corporation Tax Act 2009 (CTA 2009).
3. Subsection (1) inserts new subsection (1A) into section 739 CTA 2009.
4. New subsection (1A) of section 739 specifies how non-cash consideration is to be valued and brought into account as the proceeds of realisation.
5. Subsection (2) sets out the commencement rule.
6. Subsection (3) defines when a contract is unconditional for the purposes of the commencement rule in subsection (2)

Background note

7. The law in relation to the taxation of intangible fixed assets held by companies is contained in Part 8 of CTA 2009. In general terms, Part 8 follows amounts recognised in a company's accounts to calculate the taxable profit or allowable loss.
8. When there is a disposal of an intangible fixed asset, the legislation requires that the profit or loss is calculated by reference to the proceeds of realisation that is recognised for accounting purposes. If, however, the proceeds of realisation are not wholly cash, for example the intangible fixed asset is exchanged for shares, the accounts may report the cost of the new asset at the net book value of the asset disposed of rather than at the market value of the asset that has been acquired.
9. This clause puts beyond doubt that where the consideration includes something other than cash, the amount recognised as the proceeds of realisation for the purposes of section 739 is the market value in cash of whatever is received as consideration. This ensures that disposals for non-cash consideration are taxed consistently with disposals where the payment is wholly in cash.

10. A complementary change is made by clause [Intangible fixed assets: transactions between related parties] to ensure that the market value rule can apply to licences of intangible fixed assets between related parties as it applies to transfers of intangible fixed assets.