SCHEDULES

SCHEDULE 4

ACCOUNTING PRACTICE AND RELATED MATTERS

PART 2

OTHER PROVISIONS CONNECTED WITH ACCOUNTING PRACTICE

Schedule 29 to FA 2002

38 (1) Paragraph 6 of Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets: reference to consolidated group accounts) is amended as follows.

(2) Omit sub-paragraph (2).

(3) After that sub-paragraph insert—

"(2A) This paragraph does not apply if the consolidated group accounts—

(a) are drawn up using a different accounting framework from that used for the company's individual accounts, and

(b) as a result, are prepared on a basis that, in relation to the matters mentioned in sub-paragraph (1), substantially diverges from the basis used in the company's individual accounts.".

39 In paragraph 8(1) of Schedule 29 to FA 2002 for "a company's profit and loss account" substitute " determining a company's profit or loss ".

40 In paragraphs 9(1), 12(1), 14(1), 16(1), 17(1), 26(1)(a), 103(2) and (3)(a) of Schedule 29 to FA 2002, for "the company's profit and loss account" substitute " determining the company's profit or loss ".

41 In paragraph 13(1)(a) of Schedule 29 to FA 2002 for "the profit and loss account" substitute " determining the company's profit or loss" ".

42 In paragraphs 27 and 28 of Schedule 29 to FA 2002 (intangible fixed assets: calculation of tax written down value), for sub-paragraph (3) substitute—

"(3) This paragraph has effect subject to—

paragraph 29 in the case of an asset that has been the subject of a part realisation, and

Part 13A of this Schedule in the case of an asset that has been subject to adjustment on a change of accounting policy.".

43 In paragraph 29 of Schedule 29 to FA 2002 (intangible fixed assets: effect of part realisation), after sub-paragraph (4) insert—

"(5) On a subsequent change of accounting policy affecting the asset, the provisions of Part 13A of this Schedule apply.".

44 In Part 7 of Schedule 29 to FA 2002 (intangible fixed assets: roll-over relief in case of realisation and reinvestment), after paragraph 42 insert—

"References to cost of asset where asset affected by change of accounting policy

42A (1) In the case of an asset to which Part 13A of this Schedule has applied (adjustment on change of accounting policy) the references in this Part to the cost of the asset shall be read as follows.

(2) Where paragraph 116B applied (change of accounting value) the references are unaffected.

(3) Where paragraph 116C or 116D applied (changes involving disaggregation of asset) the references to the cost of the asset shall be read as references to the appropriate proportion of that cost.

The appropriate proportion is determined by applying to the cost of the asset the same fraction as is applied by paragraph 116C(5) or 116D(3), as the case may be, to determine the tax written down value of the asset after the change.

(4) References in this paragraph to paragraphs 116B, 116C and 116D include references to those provisions as applied by paragraph 116E.".

45 For paragraph 116A of Schedule 29 to FA 2002 (intangible fixed assets: adjustment on change of accounting policy) substitute—

"**PART 13A**

ADJUSTMENT ON CHANGE OF ACCOUNTING POLICY

Introduction

116A (1) This Part of this Schedule applies where—

(a) there is a change of accounting policy in drawing up a company's accounts from one period of account ("the earlier period") to the next ("the later period"), and
(b) the approach in each of those periods accords with the law and practice applicable in relation to that period.

(2) It applies, in particular, where—

(a) the company prepares accounts for the earlier period in accordance with UK generally accepted accounting practice and for the later period in accordance with international accounting standards, or
(b) the company prepares accounts for the earlier period in accordance with international accounting standards and for the later period in accordance with UK generally accepted accounting practice.

Change of accounting policy involving change of value

116B (1) If as a result of the change of accounting policy there is a difference between—

(a) the accounting value of an intangible fixed asset of the company at the end of the earlier period, and

(b) the accounting value of that asset at the beginning of the later period,

a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.

(2) Any such debit or credit is treated as arising at the beginning of the later period.

(3) The amount of the debit or credit to be brought into account for tax purposes is:

$$\mathrm{AccountingDifference} \times \frac{\mathrm{TaxValue}}{\mathrm{AccountingValue}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (1);

Tax Value is the tax written down value of the asset at the end of the earlier period; and

Accounting Value is the accounting value of the asset at the end of that period.

(4) The tax written down value of the asset at the beginning of the later period shall be taken to be the tax written down value of the asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (3).

(5) Subsequently—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (4), together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

(6) This paragraph does not apply to an asset in respect of which an election has been made under paragraph 10 (election for writing down at fixed-rate).

(7) This paragraph has effect subject to—

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paragraph 116F (cap on credit to be brought into account on change of accounting policy), and

paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation

116C (1) This paragraph applies where the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period.

(2) If there is a difference between—

(a) the accounting value of the original asset at the end of the earlier period, and

(b) the aggregate accounting value of the resulting assets at the beginning of the later period,

a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.

(3) Any such debit or credit is treated as arising at the beginning of the later period.

(4) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{AccountingDifference} \times \frac{\text{OldTaxVa}}{\text{OldAccountin}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (2),

Old Tax Value is the tax written-down value of the original asset at the end of the earlier period, and

Old Accounting Value is the accounting value of that asset at the end of that period.

(5) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\text{AdjustedOldTaxValue} \times \frac{\text{NewAcco}}{\text{AggregateNew}}$$

where—

Adjusted Old Tax Value is the tax written down value of the original asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (4), New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

(6) Subsequently for each resulting asset—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (5) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

(7) This paragraph does not apply if an election under paragraph 10 (election for writing down at fixed-rate)—

(a) has been or is subsequently made in respect of the original asset (see paragraph 116D), or

(b) is subsequently made in respect of any of the resulting assets (see paragraph 116E).

(8) This paragraph has effect subject to—

paragraph 116F (cap on credit to be brought into account on change of accounting policy), and

paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation: original asset subject to fixed rate writing down

116D (1) This paragraph applies where—

(a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period, and

(b) an election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.

(2) That election has effect—

(a) in relation to the original asset, for periods up to and including the earlier period, and

(b) in relation to each of the resulting assets, for the later period and subsequent periods.

(3) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\mathrm{OldTaxValue} \times \frac{\mathrm{NewAccountingValu}}{\mathrm{AggregateNewAccounting}}$$

where—

Old Tax Value is the tax written down value of the original asset at the end of the earlier period,

New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

(4) Subsequently for each resulting asset—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (3) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

Change of accounting policy involving disaggregation: election for fixed rate writing down in relation to resulting asset

116E (1) This paragraph applies where—

(a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period, and

(b) no election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.

(2) An election under that paragraph may be made in respect of any of the resulting assets, provided it is made within the period during which such an election could have been made in relation to the original asset.

(3) The effect of the election is that—

(a) the original asset is treated as if it had at all material times consisted of as many assets ("notional original assets") as there are resulting assets,

(b) each notional original asset is taken to be the same asset as one of the resulting assets (its "corresponding resulting asset"),

(c) there is attributed to each notional original asset the appropriate proportion, ascertained by reference to its corresponding resulting asset (see sub-paragraph (4)), of every amount falling to be taken into account in relation to the original asset, and

(d) the provisions of this Schedule apply in relation to each of the notional original assets and its corresponding resulting asset accordingly.

(4) The appropriate proportion in relation to each resulting asset is:

$$\frac{NewAccountingValue}{AggregateNewAccountingValue}$$

where—

New Accounting Value is the accounting value of the asset at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

Cap on credit to be brought into account on change of accounting policy

116F (1) The amount of any credit to be brought into account for tax purposes under paragraph 116B or 116C (assets subject to writing down on accounting basis) is limited to the net aggregate amount of relevant tax debits previously brought into account.

(2) Where the credit is to be brought into account under paragraph 116B (change of value), the net aggregate amount of relevant tax debits previously brought into account is:

$$PreviousDebits - PreviousCredits$$

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the asset, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of the asset.

(3) Where the credit is to be brought into account under paragraph 116C (disaggregation), the net aggregate amount of relevant tax debits previously brought into account is:

$$PreviousDebits - PreviousCredits$$

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the original asset at the end of the earlier period, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of that asset.

Exclusion of debits or credits brought into account under other provisions

116G A debit or credit is not required to be brought into account under this Part of this Schedule to the extent that a debit or credit representing the accounting difference in question is brought into account for tax purposes under—

(a) paragraph 12 (reversal of accounting gain),

(b) paragraph 15 (gain on revaluation), or

(c) paragraph 17 (reversal of accounting loss).

Subsequent events affecting asset subject to adjustment under this Part

116H (1) On a further change of accounting policy affecting an intangible fixed asset in relation to which this Part of this Schedule has applied, the preceding provisions of this Part apply again.

(2) On a subsequent part realisation affecting the asset in question, paragraph 29 applies.”.

46 (1) Paragraph 134 of Schedule 29 to FA 2002 (intangible fixed assets: references to amounts recognised in profit and loss account) is amended as follows.

(2) In the paragraph heading for “*profit and loss account*” substitute “ *determining profit or loss* ”.

(3) Make the existing provision sub-paragraph (1).

(4) In that sub-paragraph—

(a) in the opening words, for “a company's profit and loss account” substitute “ determining a company's profit or loss ” and for “include” substitute “ are to ”;

(b) in sub-paragraph (a) after “recognised in” insert “ the company's profit and loss account or income statement, ”; and

(c) omit the words following paragraph (b).

(5) After that sub-paragraph insert—

“(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in sub-paragraph (1) shall be brought into account for the purposes of this Schedule in computing the company's profits and losses for the period to which the statement relates.

This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.”.

47 In paragraph 143 of Schedule 29 to FA 2002 (intangible fixed assets: index of defined expressions) for “profit and loss account (amounts recognised in)” substitute “ profit and loss (amounts recognised in determining) ”.