

Capital allowances for intangible assets

Part 09-02-05

This document should be read in conjunction with section 291A of the Taxes Consolidation Act 1997

Document last updated February 2024

Table of Contents

1.	Introduction	4
2.	Overview of scheme.....	4
3.	Frequently Asked Questions	5
3.1	What assets qualify for allowances?.....	5
3.2	Are financial assets included?.....	6
3.3	How is goodwill treated?	6
3.4	Will Revenue provide an advance opinion on whether a particular intangible asset is eligible for allowances?	6
3.5	Are allowances available for capital expenditure on internally developed intangible assets as well as intangible assets which are acquired by a company?	6
3.6	How is the accounts-based allowance computed?.....	7
3.7	Can a company opt for a fixed-rate allowance?	8
3.8	Are companies required to provide Revenue with the basis by which accounting depreciation and allowances are computed?	9
3.9	If a company incurs additional capital expenditure subsequent to acquiring an intangible asset, can this be taken into account?	9
3.10	Where the acquisition cost of an intangible asset includes annual royalty payments (e.g. based on sales) in addition to an upfront payment on acquisition, can an allowance be claimed under section 291A on the capitalised value of such payments as shown on the balance sheet?.....	9
3.11	Will a balancing charge or balancing allowance apply on the disposal of an intangible asset?	10
3.12	Are allowances available where intangible assets are acquired as part of the acquisition of a trade or business?	10
3.13	Are allowances available for capital expenditure on the acquisition of intangible assets from a connected person?	11
3.14	Where section 400 applies to a company reconstruction, are allowances available to the successor under section 291A?	12
3.15	How does section 291A interact with the transfer pricing rules in Part 35A?	13
3.15.1	Interaction with section 288(3C)	13
3.15.2	Interaction with section 291A(3)	14
3.16	What information/documentation may be required to support the value attributed to an intangible asset?.....	15
3.17	Will Revenue consult with an expert in relation to the valuation of an intangible asset?	16
3.18	Does a company have to be carrying on a trade to qualify?	16
3.19	Will Revenue give an advance opinion on whether activities involving intangible assets qualify as trading?	17

3.20	If expenditure on intangible assets is incurred prior to the commencement of a trade, will that expenditure qualify for relief?.....	17
3.21	Does a company have to incur capital expenditure to qualify for allowances under the scheme? Will an acquisition of specified intangible assets involving the issue of shares by the acquiring company qualify for allowances?	17
3.22	Are there restrictions on the offset of capital allowances against trading profits?.....	18
3.22.1	Allowances ring-fenced against income from the relevant trade	18
3.22.2	Cap on deductions	19
3.22.3	Carry forward of excess allowances and excess interest.....	19
3.23	Is there a restriction on the deduction of interest on borrowings in respect of expenditure on the provision of specified intangible assets?	19
3.24	A company's relevant activities relate to expenditure on intangible assets before 11 October 2017 and expenditure on intangible assets on or after 11 October 2017	20
3.25	How does expenditure qualifying for allowances under section 291A interact with section 766 TCA 1997?	23
3.26	How does section 291A interact with the 3-year tax relief for new start-up companies?	23
Appendix 1: List of Specified Intangible Assets Included in Scheme		24

1. Introduction

This manual provides guidance on the operation of section 291A of the Taxes Consolidation Act 1997 (“TCA 1997”), which makes provision for capital allowances for expenditure incurred by companies on intangible assets.

2. Overview of scheme

Section 291A TCA 1997 provides for capital allowances against trading income for companies that incur capital expenditure on the provision of intangible assets for the purposes of a trade. The scheme applies to a broad range of intangible assets (e.g. patents, copyright, trademarks, know-how) which are recognised as such under generally accepted accounting practice¹ and which are listed as “specified intangible assets” in section 291A(1). An up-to-date list of specified intangible assets is provided at Appendix 1.

Specified intangible assets are treated as machinery or plant for the purposes of allowances provided² so that the normal rules regarding wear and tear allowances, balancing allowances and balancing charges for capital expenditure on machinery or plant also apply for capital expenditure on qualifying intangible assets, subject to the specific provisions of section 291A.

Allowances available under section 291A are based on the amount charged to a company’s Profit and Loss account or Income Statement for the accounting period in respect of the amortisation or impairment of the specified intangible asset. However, companies can opt instead for a fixed write-down period of 15 years at an annual rate of 7% of qualifying expenditure for 14 years and 2% in the final year.

A balancing charge or allowance (that is, an adjustment to the quantum of the allowances made) may arise in a chargeable period where, in relation to any machinery or plant in respect of which capital allowances have been obtained, certain events, including the disposal of the plant or machinery, occur (section 288 TCA 1997).³ Section 288(3C) provides that a balancing charge is not made where expenditure was incurred on the provision of a specified intangible asset before 14 October 2020 and such an event (including the disposal of the asset) occurs more than five years after the beginning of the accounting period in which the asset was first provided for the trade. This is subject to the condition that the disposal may not result in a connected company claiming allowances under section 291A in excess of the tax written down value of the asset at the time of transfer (i.e. the amount of allowances in respect of which capital allowances have not been claimed)⁴.

¹In section 291A generally accepted accounting practice comes within the definition provided in section 4 TCA 1997 and includes accounts prepared in accordance with international accounting standards (IAS) and accounts prepared under Irish GAAP.

² i.e. for the purposes of Chapters 2 and 4 of Part 9 TCA 1997

³ Guidance on the application of section 288 TCA 1997 is included in Revenue’s [Notes for Guidance, Taxes Consolidation Act, Part 9](#).

⁴ Where a disposal occurs before 23 October 2014, the non-application of a balancing charge is subject to the condition that the event may not result in a connected company claiming allowances under section 291A.

A company must be trading to qualify for capital allowances (although pre-trading expenditure is eligible for allowances) and the specified intangible asset(s) on which capital expenditure is incurred must be used for the purposes of its trading activity. The expenditure must be incurred for bona fide commercial reasons and not as part of any tax avoidance scheme.

Certain restrictions apply to ensure that the provision operates effectively. Activities (referred to in section 291A(5) as “relevant activities”) which are carried on either as the whole or part of a trade and which -

- consist of managing, developing or exploiting specified intangible assets, for which allowances have been made,
- comprise the sale of goods or services that derive the greater part of their value from such assets, or
- contribute to the value of goods or services by using such assets

are treated as a separate trade (referred to in section 291A(5) as a “relevant trade”). Allowances may only be offset against income from such activities and not against any other profits. Where relevant activities are carried on as part of a wider business, an apportionment of receipts and expenses will be necessary to ensure that the correct amount of income is attributed to the relevant trade. Any excess allowances (and any related interest expense) not deductible in an accounting period may be carried forward to succeeding accounting periods.

For claims made in respect of capital expenditure incurred on specified intangible assets on or after 11 October 2017, the aggregate amount of section 291A capital allowances, plus any deductions for interest on borrowings in respect of specified intangible assets, may not exceed 80% of trading income (before deduction of such allowances and interest) of the relevant trade for the accounting period.

3. Frequently Asked Questions

3.1 What assets qualify for allowances?

The scheme applies to intangible assets which:

- are recognised as such under generally accepted accounting practice, and
- are listed as “specified intangible assets” in section 291A(1).

Under generally accepted accounting practice, an intangible asset is defined as an identifiable non-monetary asset without physical substance and may be recognised in a company’s accounts as an intangible asset only if the cost of the asset can be reliably measured and it is probable that future economic benefits attributable to the asset will flow to the enterprise. Certain requirements must be met before internally generated intangible assets may be recognised in the accounts and some internally generated assets, such as brands, publishing titles and goodwill, are not recognised as intangible assets for accounting purposes. The full list of specified intangible assets, which qualify for allowances, is given in Appendix 1.

3.2 Are financial assets included?

No. Financial assets are not regarded as intangible assets under generally accepted accounting practice and are therefore not included in the provision.

3.3 How is goodwill treated?

Goodwill is included to the extent that it is recognised as an intangible asset under generally accepted accounting practice and is directly attributable to any of the other specified intangible assets listed in section 291A(1).

Only goodwill which is externally acquired is recognised as an intangible asset under generally accepted accounting practice. Acquired goodwill is the amount by which the cost of an acquired business exceeds the fair value of the identifiable assets less liabilities of the business. Internally generated goodwill is not regarded as an intangible asset and is therefore not included in the provision.

3.4 Will Revenue provide an advance opinion on whether a particular intangible asset is eligible for allowances?

Generally, it should be clear whether a particular intangible asset comes within the provision or not. In situations where there is uncertainty, it is open to a company or its agent to refer the matter to Revenue which, on receipt of all the relevant details, will endeavour to provide an opinion on whether or not a particular asset qualifies for allowances. See Tax and Duty Manuals (TDM) [Part 37-00-40](#) and [Part 37-00-00a](#) for guidance on obtaining a Revenue opinion/confirmation.

It is also open to a company to use the expression of doubt procedure under section 959P TCA 1997 if it has a genuine doubt about any item to be included in its annual corporation tax return. A formal, genuine expression of doubt protects the taxpayer from interest⁵ and penalties, should Revenue take a different view of the tax treatment of the transaction at a later date. See TDM [Part 41A-03-00](#) for guidance on the expression of doubt procedure.

3.5 Are allowances available for capital expenditure on internally developed intangible assets as well as intangible assets which are acquired by a company?

To the extent that expenditure on the development of an intangible asset within a company is regarded as capital expenditure for the purposes of the company's trade, such expenditure will qualify for allowances provided that the asset is recognised as an intangible asset under generally accepted accounting practice and is included in the list of specified intangible assets in section 291A. Where expenditure on an internally developed intangible asset is treated as a revenue expense and is incurred

⁵ Protection from interest applies as long as any additional tax that may be due on the amendment of an assessment following resolution of the expression of doubt is paid when due.

wholly and exclusively for the purposes of the trade, it is deductible in the accounting period in which the expenditure is incurred.

As already noted, there are certain requirements to be met under generally accepted accounting practice for an internally generated intangible asset to be recognised in the accounts. Also, certain internally generated assets - e.g. brands, publishing titles, goodwill - are not recognised as intangible assets for accounting purposes and expenditure on such assets will not qualify for allowances.

3.6 How is the accounts-based allowance computed?

The accounts-based allowance is based on the amount charged to the Profit and Loss Account or Income Statement of the company for the accounting period in respect of the amortisation or impairment of the specified intangible asset relative to the actual cost of the asset (or if greater, the value of the asset on which such amortisation or impairment charge is computed). The amount charged is to be computed in accordance with generally accepted accounting practice.

Under generally accepted accounting practice, the cost less residual value of intangible assets with finite lives should be amortised over the useful life of the asset. The amortisation method should reflect the pattern of benefits deriving from the asset but if this cannot be reliably determined, a straight-line method should be used. An intangible asset with an indefinite useful life (e.g. a product brand) should not be amortised in the accounts. Impairment of an asset is recognised in the accounts when the carrying (i.e. written-down) value of the asset in the Balance Sheet or Statement of Financial Position exceeds its recoverable amount (i.e. the net selling price or value in use whichever is the greater). Amortisation and impairment should be reviewed annually.

The accounts-based allowance is determined in accordance with the formula:

$$\frac{A}{B} \times 100\%$$

Where:

A is the amount charged to the profit and loss account of the company for the accounting period in respect of the amortisation and any impairment of the specified intangible asset in accordance with generally accepted accounting practice.

Note: An accounting period for corporation tax purposes may not exceed 12 months, so if, for example, a company's accounts are for a 15-month period, an apportionment of 12/15ths of the amortisation/impairment charge in the accounts will be required in computing an allowance for expenditure on an intangible asset which is in use for the entire period.

B is the actual cost of the asset or, if greater, the value of the asset by reference to which the amortisation/ impairment charge in the accounts have been computed.

Note: Actual cost is defined by reference to section 284(2)(ad) TCA 1997 and is the amount of capital expenditure incurred on the provision of the asset including any capital expenditure in respect of renewal, improvement or reinstatement of the asset.

Example

Smart Ltd. incurs capital expenditure of €1m on the acquisition of a product design for the purposes of its trade. For accounting purposes, the asset is amortised over 10 years on a straight-line basis.

The company will be eligible for a writing-down allowance in accordance with the accounts-based amortisation of the asset using the formula referred to above viz.

$$\frac{A}{B} \times 100\%$$

$$\frac{€100K}{€1M} \times 100 = 10\%$$

The allowance is 10% of €1M = €100K

Accordingly, in the accounting period in which the intangible asset was first acquired an allowance of 10% of the cost of the asset is available. A similar allowance will be available in Year 2 and subsequent years if there is no change to the amortisation charge in the audited accounts in those years. Generally accepted accounting practice allows for a change in the amortisation period following an annual review so, where the amortisation amount is revised in these circumstances, there will be a corresponding adjustment to the writing-down allowance available.

3.7 Can a company opt for a fixed-rate allowance?

Yes, as an alternative to using accounts-based amortisation, companies can opt for a fixed write-down period of 15 years, with capital allowances provided at 7% per annum of the actual cost of the asset for 14 years and 2% in the final year.

Companies opting for a fixed-rate allowance are required to make an election to this effect in the corporation tax return for the accounting period in which the expenditure on the provision of the specified intangible asset was first incurred. An election for a fixed write-down period is irrevocable and applies to all capital expenditure incurred on the asset. It is not possible for a company claiming an accounts-based allowance in respect of an asset to switch to a fixed-rate allowance for that asset.

3.8 Are companies required to provide Revenue with the basis by which accounting depreciation and allowances are computed?

Companies are required to indicate the amount of capital allowances claimed in respect of specified intangible assets in their corporation tax return. However, an explanation of the method by which intangible assets are amortised for accounting purposes need not be included in the return. Normally the basis on which assets are amortised in a company's accounts will be set out in the notes to the company's accounts and, where necessary, Revenue may seek further information on the computation of allowances claimed.

3.9 If a company incurs additional capital expenditure subsequent to acquiring an intangible asset, can this be taken into account?

Yes. Allowances are available for additional capital expenditure incurred by a company on the provision of a specified intangible asset subsequent to its acquisition, e.g. enhancement expenditure. Where an accounts-based allowance is claimed, such additional expenditure will be written off at a rate and over a period of time in accordance with the accounting depreciation for the expenditure. Where a company opts for a fixed-rate allowance, the expenditure will be written off over a 15-year period commencing in the accounting period in which the additional expenditure was incurred.

3.10 Where the acquisition cost of an intangible asset includes annual royalty payments (e.g. based on sales) in addition to an upfront payment on acquisition, can an allowance be claimed under section 291A on the capitalised value of such payments as shown on the balance sheet?

Royalty payments are current or revenue expenditure for tax purposes and, notwithstanding their treatment for accounting purposes, such payments would, accordingly, not qualify for allowances under section 291A, which are made by reference to capital expenditure.

For example, a company which pays an upfront fee of €15M together with an annual royalty of 5% of sales for the acquisition of a licence to sell a patented drug with an expected life of 10 years will be entitled to claim an accounts-based allowance under section 291A of €1.5M where the expenditure is written off over 10 years in the accounts, while the annual royalty payments will be allowable as charges on income or relevant charges on income, as the case may be, for the accounting periods in which the payments are made in accordance with sections 243, 243A and 243B TCA 1997.

3.11 Will a balancing charge or balancing allowance apply on the disposal of an intangible asset?

Balancing allowances/charges may arise where a specified intangible asset is disposed of or ceases to be used for the purposes of the trade.

A balancing charge arises where the net proceeds or consideration received on the disposal of the intangible asset exceeds the amount of expenditure unallowed. However, section 288(3C) provides that a balancing charge is not made by reference to allowances made to a company in respect of expenditure incurred on the provision of a specified intangible asset before 14 October 2020 where the asset is disposed of, or ceases to be used for the purposes of the trade, more than five years after the beginning of the accounting period in which the asset was first provided for the trade. This is subject to the condition that the disposal may not result in a connected company claiming allowances under section 291A in excess of the amount of the eligible capital expenditure on the acquisition of the asset by the transferor company which is unallowed at the time of transfer.

3.12 Are allowances available where intangible assets are acquired as part of the acquisition of a trade or business?

Allowances are available, subject to the provisions of section 291A, in respect of capital expenditure incurred on specified intangible assets acquired as part of a trade or business acquisition, including any goodwill of the trade or business to the extent that such goodwill can be directly attributed to other specified intangible assets listed in section 291A(1).⁶

A restriction applies where a business containing specified intangible assets transfers from one company to another as part of a company reconstruction and the transfer is subject to capital gains tax relief under section 615 TCA 1997. Section 291A(9)(a) provides that capital allowances will not be available for specified intangible assets acquired where capital gains tax relief is claimed on the transfer under section 615.⁷ However, the two companies can elect not to avail of capital gains tax relief under section 615 in order to obtain capital allowances under section 291A instead. In this situation the acquiring company will be entitled to claim an allowance for capital expenditure incurred on specified intangible assets acquired while the transferring company will be subject to capital gains tax on the transfer of those assets at market value (section 291A(9)(b)).

Finance Act 2014 added “customer lists” to the list of intangible assets that will qualify for capital allowances under section 291A. The amendment is contained in section 291A(1)(g) and specifically excludes cases where “such asset is provided directly or indirectly in connection with the transfer of a business as a going concern”. Where a business is transferred as a “going concern”, the assets

⁶ Refer to [3.14](#) for guidance on the interaction between sections 291A and 400.

⁷ Section 291A(9)(a) also provides for such a restriction where capital gains tax relief applies under section 617 TCA 1997. See [3.13](#).

transferred are used by the purchaser for the purpose of carrying on substantially the same trade as the seller. Where the assets of a business are transferred to a company for the purpose of carrying on a trade which is not substantially the same trade as that carried on by the seller, the transfer will not be considered a transfer of a business as a “going concern” for the purposes of applying the provision in relation to customer lists. In those circumstances, the company may claim allowances under section 291A for customer lists, provided that they are used for the purposes of carrying on a relevant trade within the meaning of section 291A(5).

Examples of the operation of this provision are set out as follows:

Scenario 1: direct transfer of a business as a going concern

Company B acquires a trade from Company A comprising all of the trade assets (including customer lists) and liabilities of Company A. Company B carries on the trade formerly carried on by Company A. In this scenario, Company B is not entitled to claim an allowance for customer lists under section 291A because they are provided directly in connection with the transfer of a business as a “going concern”.

Scenario 2: business transfer/reorganisation with a substantial change in the business

Company B acquires a business from a third party, Company A, comprising all of the trade assets (including customer lists) and liabilities of Company A. Subsequent to the acquisition, the trading activities previously carried on by Company A are integrated with the trading activities of Company B, while the intangible assets of the business (including customer lists), along with related business functions are transferred to newly incorporated Company C. Company C carries on a “relevant trade” (within the meaning of section 291A) of managing developing and exploiting intangible assets. As a result of this reorganisation, there is a substantial change in the business that was originally carried on by Company A and transferred to Company B. In this scenario, Company C may claim for relief on the provision of customer lists under section 291A.

3.13 Are allowances available for capital expenditure on the acquisition of intangible assets from a connected person?

Allowances are available for capital expenditure incurred on the acquisition of specified intangible assets from a connected person, subject to the provisions of section 291A, including in particular:⁸

- Allowances are based on the amount of capital expenditure incurred on the acquisition of the assets.
- An arm’s length rule applies so that qualifying expenditure may not exceed the amount which would have been paid or payable for the asset between independent parties acting at arm’s length.

⁸ Refer to [3.14](#) for guidance on the interaction between sections 291A and 400.

- In the case of transfers of intangible assets from one group company to another, section 291A(9)(a) provides that allowances are not available to the acquiring company where the transfer is subject to capital gains tax group relief under section 617 TCA 1997 (i.e. where there is a deferral of capital gains tax on the transfer of the asset and the acquiring company is treated as having acquired the asset for a consideration of such an amount that neither a gain nor a loss accrues to the transferring company on the transfer of the asset).⁹ However, the companies involved may jointly elect not to avail of group relief under section 617, in which case the acquiring company may be entitled to claim an allowance under section 291A while the transferring company will be chargeable to capital gains tax on the transfer.
- The acquisition of intangible assets from a connected person may also be subject to transfer pricing rules. Refer to [3.15](#) below for further guidance.

3.14 Where section 400 applies to a company reconstruction, are allowances available to the successor under section 291A?

Section 400 TCA 1997 enables the right to capital allowances (and liability to balancing charges) and relief for losses forward to be carried over from one company to another where a trading company ceases to carry on a trade and thereafter another company carries it on, provided that there is substantial identity of ownership of the trade before and after the change. Where the conditions of the section are fulfilled, the successor company in effect “steps into the shoes” of the predecessor for the purposes of capital allowances, balancing charges and losses forward.¹⁰

Therefore, where section 400 applies to the transfer of a trade by a company and a specified intangible asset is included in the transfer, the following will apply in relation to the asset:

- no balancing allowance or charge is made to or on the predecessor;
- allowances and charges provided for by section 307 and 308, which would have been made to or on the predecessor, are to be made to or on the successor, and computed as if the successor had been trading since the predecessor began to do so.

In effect, the successor steps into the shoes of the predecessor for the purposes of determining the amount of capital allowances due in respect of the specified intangible asset under section 291A.

It is important to note that where section 400 applies, any capital expenditure incurred in respect of the asset when the trade is transferred is disregarded for the purposes of determining the successor’s entitlement to capital allowances under section 291A.

⁹ Section 291A(9)(a) also provides for such a restriction where capital gains tax relief applies under section 615 TCA 1997. See [3.12](#).

¹⁰ Detailed guidance on the application of section 400 is contained in TDM [Part 12-03-04](#).

3.15 How does section 291A interact with the transfer pricing rules in Part 35A?

Finance Act 2019 extended the application of transfer pricing rules to the computation of capital allowances and balancing allowances and charges relating to capital expenditure incurred on assets in certain circumstances. Subject to exclusions, the transfer pricing rules contained in section 835C apply in computing the amount of—

- any capital allowances to be made to an acquirer of an asset where the capital expenditure incurred on the asset exceeds €25 million, or
- any balancing allowances or balancing charges to be made to, or on, a supplier of an asset, where the market value of the relevant asset exceeds €25 million.

Transfer pricing rules contained in Part 35A TCA 1997 apply in computing the amount of capital allowances and charges for chargeable periods commencing on or after 1 January 2020. However, the rules do not apply in computing the amount of any available capital allowances (other than balancing allowances) unless the related capital expenditure is incurred on or after 1 January 2020. In relation to the computation of balancing allowances and balancing charges, transfer pricing rules apply where the event giving rise to the balancing allowance or balancing charge occurs on or after 1 January 2020 irrespective of when the related expenditure was incurred. In circumstances where the transfer pricing rules in Part 35A do not apply, the arm's length rule contained in section 291A, whereby qualifying expenditure may not exceed the amount which would have been paid or payable for the asset between independent parties acting at arm's length, will apply.

The general interaction of transfer pricing rules, contained in Part 35A TCA 1997, with capital allowances provisions, including section 291A, is covered in section 10 of Tax and Duty Manual Part 35A-01-01 and is therefore not covered in this manual. However, the interaction of section 291A with certain specific transfer pricing rules is considered below.

3.15.1 Interaction with section 288(3C)

Transfer pricing rules will not apply in computing any allowances to be made to an acquirer in respect of capital expenditure incurred on a specified intangible asset to which section 291A applies in circumstances where, under section 288(3C), the amount of that expenditure by the connected company (acquirer) is deemed, for capital allowances purposes, to be the tax written down value of the asset at time of transfer¹¹.

¹¹ Section 835HA(1)(b) TCA 1997

3.15.2 Interaction with section 291A(3)

Section 291A(3) provides that the rate of wear and tear allowance to be applied under section 284 TCA is to be determined by applying the formula—

$$\frac{A}{B} \times 100$$

where-

- A is the amount, computed in accordance with generally accepted accounting practice, charged to the profit and loss account of the company for the accounting period in respect of the amortisation and any impairment of the specified intangible asset. [Provision is also made for apportionment where the accounting period for tax purposes and the company's period of account are not the same], and
- B is the actual cost of the asset or, if greater, the value of the asset on which the amortisation and any impairment is computed.

Where, as a result of the application of transfer pricing rules an adjustment is made to the computation of the amount of capital allowances relating to the acquisition of an asset, the amounts referred to in "A" and "B" of the above-mentioned formula will be adjusted accordingly. This modification applies for each chargeable period in which an allowance is made.¹²

This is best illustrated by way of an example.

Example - Modification of section 291A(3)

In this example, Trading Company acquired an intangible asset from its non-resident parent company (100% share capital) for €40 million on 1 January 2021 and is brought into the accounts at that value. The intangible asset is a specified intangible asset within the meaning of section 291A. Trading Company has an accounting year end of 31 December 2021 and the arm's length amount of consideration for the intangible asset is €35 million.

Trading Company wishes to claim section 291A capital allowances in line with the accounting treatment as per section 291A(3). Trading Company has a 10-year depreciation policy for intangible assets for accounting purposes.

As the carrying value of the intangible asset in the accounts exceeds the arm's length price, the amount of capital allowances to be made to Trading Company in accordance with section 291A(3) is modified to ensure that the capital allowances are made in respect of the arm's length price.

In applying the formula in section 291A(3) to this example, the arm's length price is used and, in this example, will mean that the "A" in the formula will be €3.5m (€35 million at 10%) and "B" will be €35 million. These modifications ensure that wear and tear allowances are based on the arm's length amount of consideration for the intangible asset.

¹² Section 835HA(5) TCA 1997

3.16 What information/documentation may be required to support the value attributed to an intangible asset?

Allowances claimed in respect of capital expenditure incurred on the provision of an intangible asset are to be included in the company's corporation tax return for the relevant accounting period. It is the responsibility of the taxpayer company to ensure that it meets the requirements of the legislation when making a claim, including meeting the requirement that the expenditure on the intangible asset does not exceed an arm's length amount.

Where claims are being verified by Revenue, a company may be required to provide supporting information/documentation in relation to the expenditure. Where the intangible asset has been acquired from a connected person, the company claiming allowances should, upon request, be able to provide robust supporting documentation to Revenue demonstrating that the value attributed to the intangible asset is the appropriate arm's length value. The adopted methodology and approach for valuing the intangible asset should be:

- appropriate to the nature of the asset;
- based on a recognised valuation method and approach that is in line with international best practice, e.g. OECD Transfer Pricing guidelines for Multinational Enterprises and Tax Administrations;
- applied on a consistent basis throughout the write-down period of the asset; and
- accurate and fully documented.

Revenue expects that an independent valuation report will be available and, where requested, the company should, for verification purposes, be able to provide Revenue with all relevant documentation and records used in the preparation of the valuation report.

The following is a non-exhaustive list of information that a company may provide in support of the value attributed to the specified intangible asset:

- A detailed description of the intangible asset, including a description of the taxpayer's rights over the asset;
- Full details of the circumstances in which the intangible asset was acquired/capital expenditure on the intangible asset was incurred;
- Details of how the company arrived at the basis of valuation, including details of any measurements and/or projections used in the valuation together with a detailed explanation of any adjustments made;
- Details of all assumptions underlying any financial projections used in arriving at the valuation (e.g. what is revenue based on, growth factors, discount factors etc);

- Details of any stress testing of any financial projections used in arriving at a valuation (e.g. best/worst case scenarios and the justification for choosing the value ultimately attributed to the asset);
- Details of the residual value and useful life of the asset and how these were estimated;
- Copies of any transfer pricing reports prepared to support the valuation of the intangible assets in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations;
- Copies of all sales and licensing agreements and any other agreements that are taken into account in valuing the asset.

3.17 Will Revenue consult with an expert in relation to the valuation of an intangible asset?

Revenue may engage the services of an external expert, where necessary, to provide assistance in determining the extent to which expenditure is incurred on a specified intangible asset, or where the asset is acquired from a connected person, that the expenditure incurred on the asset accords with arm's length values. The expert's role is to form an independent opinion on these matters. The expert will be subject to confidentiality requirements.

Before disclosing information to an expert, Revenue will notify the company of the identity of the expert it proposes to engage and the information it intends to disclose to the expert. The company may object to the disclosure of information to the relevant expert where it has reason to believe, and can demonstrate to the relevant Revenue officer's satisfaction, that such disclosure could prejudice the company's trade. In the event of a dispute over the disclosure of information to a particular expert, the company will have a right of appeal to the Appeal Commissioners.

Where the opinion of an appointed expert is disputed by the company claiming allowances, the expert may be required to give evidence before the Appeal Commissioners or a court of law.

3.18 Does a company have to be carrying on a trade to qualify?

Yes, a company must be carrying on a trade to qualify for allowances and the specified intangible assets for which capital allowances are claimed must be used in the course of the trade. Companies must be engaged in the active management, development and exploitation of intangible assets in a trade, as distinct from the passive holding of such assets. The mere holding of an intangible asset by a company from which a licence fee or royalty income is received would not be regarded as a trading activity and capital expenditure incurred by the company on an asset for such purpose would not qualify for allowances as the asset is not used in a trade.

3.19 Will Revenue give an advance opinion on whether activities involving intangible assets qualify as trading?

Yes. In accordance with established practice, Revenue is prepared to give an advance opinion on whether activities involving the management and exploitation of intangible assets would constitute trading for the purposes of the 12.5% corporation tax rate. It should be borne in mind, however, that the position in relation to any proposed activity on which an advance opinion is sought can only be known with certainty after the events have taken place and the facts are established.

3.20 If expenditure on intangible assets is incurred prior to the commencement of a trade, will that expenditure qualify for relief?

Yes. Where a company incurs expenditure prior to the commencement of a trade on specified intangible assets for use in a trade which it intends to carry on, allowances may be claimed once the trade is commenced and the asset is brought into use in the trade. The company can start claiming such allowances from the accounting period in which the asset was first brought into use. Any claims must be made to Revenue within 12 months from the end of the accounting period in which the capital expenditure giving rise to the claim is incurred.

There may be exceptional circumstances where the specified intangible asset is not brought into use in the trade by the end of the accounting period in which the capital expenditure is incurred, such that a claim for capital allowances cannot be made for that accounting period. This might arise where the intangible asset is acquired shortly before the end of the accounting period. In such circumstances, the company should notify Revenue in writing, including by way of note to the corporation tax return, that while the company is not claiming allowances for that particular accounting period, it is entitled to and intends to make a claim in respect of the capital expenditure in the subsequent accounting period. This notification must be made within 12 months of the end of the accounting period in which the capital expenditure is incurred in order to comply with the requirements of the legislation.

If a company does not make a claim for allowances under section 291A or, in the exceptional circumstances referred to above, a notification to Revenue, within 12 months of the end of the accounting period in which the capital expenditure is incurred, the company will not be entitled to claim any allowances under section 291A.

3.21 Does a company have to incur capital expenditure to qualify for allowances under the scheme? Will an acquisition of specified intangible assets involving the issue of shares by the acquiring company qualify for allowances?

The availability of capital allowances in respect of plant or machinery is subject to capital expenditure being incurred by the person claiming the allowances. The same

principle applies in relation to a company claiming capital allowances on the provision of a specified intangible asset for the purposes of a trade. Capital expenditure on the acquisition of such an asset is the amount due and payable by the company for the asset acquired and expenditure is incurred once the acquiring company becomes liable to pay this amount.

While such liability to pay may be discharged in cash or otherwise, an acquisition of intangible assets involving the acquiring company issuing shares will only qualify for allowances where the company incurs capital expenditure in the course of that acquisition. Therefore, a transfer of an intangible asset to a company in exchange for shares in the company would not qualify for allowances if the company acquiring the asset does not incur capital expenditure in the process.

3.22 Are there restrictions on the offset of capital allowances against trading profits?

3.22.1 Allowances ring-fenced against income from the relevant trade

Allowances for specified intangible assets may only be offset against income from trading activities in which the assets are used and not against any other income. Such activities (referred to as “relevant activities”) are deemed to form a separate trade under section 291A(5) (referred to as a “relevant trade”). “Relevant activities” are activities which:

- consist of managing, developing or exploiting specified intangible assets for which allowances have been made,
- comprise the sale of goods or services that derive the greater part of their value from such assets, or
- contribute to the value of goods or services by using such assets.

Where relevant activities are the only trade carried on by a company there should be no difficulty in ascertaining the profits from such activities. However, where relevant activities are carried on as part of a wider business, an apportionment of receipts and expenses will be necessary to ensure that the correct amount of income is attributed to the relevant trade. The company should make the apportionment on a just and reasonable basis and the amount of income attributed to the relevant trade should be in accordance with what would be earned from the relevant activities if they were conducted by a separate, independent company dealing with the company on an arm’s length basis. While this provision will operate on a self-assessment basis, companies should be in a position to demonstrate, if required by Revenue, that the apportionment made fairly and accurately reflects the income earned from the relevant activities. In examining instances of the practical application of this provision, Revenue will seek to ensure that the provision is operating as intended.

3.22.2 Cap on deductions

In addition to capital allowances being ring-fenced against trading income from the relevant trade, the quantum of available allowances may be further restricted by the application of a cap. Where the cap applies, the aggregate amount of capital allowances for specified intangible assets, plus any deductions for related interest (i.e. interest on borrowings in respect of expenditure incurred on such assets), for an accounting period is restricted to a limit of 80% of trading income (before deduction of such allowances and interest) of the relevant trade for that period. In applying this provision, capital allowances for expenditure on the provision of specified intangible assets are restricted before interest on related borrowings is restricted.

Arising from amendments made to section 291A by Finance Act 2014 and Finance Act 2017, the 80% cap applies in respect of the following:

- To claims for capital allowances for specified intangible assets, and related interest deductions, made in an accounting period that commenced before 1 January 2015; and
- To claims for capital allowances, and related interest deductions, in respect of capital expenditure incurred on specified intangible assets on or after 11 October 2017.

Where a company's relevant trade includes relevant activities relating to capital expenditure incurred on specified intangible assets before 11 October 2017 and capital expenditure incurred on specified intangible assets on or after 11 October 2017, refer to 3.24 for guidance on the application of the 80% cap.

3.22.3 Carry forward of excess allowances and excess interest

Where it is not possible to utilise all the capital allowances otherwise available for an accounting period due to either insufficiency of relevant trading income or because of the application of the 80% cap, the excess allowances will be carried forward and added to any allowances which are available for offset against trading income of the relevant trade for the next accounting period and so on for each succeeding accounting period. Similarly, any excess interest expense arising in an accounting period will be carried forward and added to any interest deductible against trading income of the relevant trade for the next accounting period and so on for each succeeding accounting period. The availability of a deduction for any excess allowances and excess interest in a succeeding accounting period will, where applicable, be subject to the application of the 80% cap in that succeeding accounting period.

3.23 Is there a restriction on the deduction of interest on borrowings in respect of expenditure on the provision of specified intangible assets?

A company claiming allowances on capital expenditure incurred on the provision of a specified intangible asset may also have incurred an interest expense in respect of

borrowings to fund such expenditure. The aggregate amount of allowances for specified intangible assets and deductions for related interest available in an accounting period cannot exceed the amount of trading income from the relevant trade, or in circumstances where the 80% cap applies (see 3.22 above), 80% of trading income from the relevant trade.

In circumstances where the 80% cap applies, the 80% restriction also applies to interest deductible by an investing company under section 247 TCA 1997 where that company provided funds it borrowed to a company engaged in the relevant trade, either by way of subscription for share capital or a loan, and the latter company used the funds to provide specified intangible assets, for use in the trade, for which an allowance is to be made under section 284 TCA 1997 as applied by section 291A. The restriction applies to the interest paid by the investing company on the borrowed funds - less any chargeable distributions (i.e. not franked investment income) or interest received from the other company in respect of the money advanced. The restriction ensures that such interest cannot exceed the amount of interest that would have been deductible in the hands of the company engaged in the relevant trade had that latter company incurred the interest expense. Any amount of interest that is so restricted may be carried forward to be treated as interest paid in the next accounting period of the company and so on for each succeeding period.

3.24 A company's relevant activities relate to expenditure on intangible assets before 11 October 2017 and expenditure on intangible assets on or after 11 October 2017

As set out in 3.22, trading activities relating to specified intangible assets (relevant activities) are treated as a separate trade (relevant trade) and capital allowances for specified intangible assets and any related interest expenses can only be deducted against trading income of the relevant trade. Where a company's relevant activities are carried on as part of a wider trade, it will be necessary to apportion income to the relevant trade on a just and reasonable basis (refer to 3.22).

Section 25 Finance Act 2017 amended section 291A to provide for a cap of 80% on the amount of capital allowances for specified intangible assets and related interest deductions that may be deducted against trading income from the relevant trade in an accounting period. The 80% cap applies to claims made in respect of capital expenditure incurred on specified intangible assets on or after 11 October 2017. It does not apply in respect of capital expenditure incurred on specified intangible assets before 11 October 2017 (except for accounting periods commencing before 1 January 2015 – refer to 3.22 above).

Where a relevant trade carried on by a company in an accounting period includes relevant activities relating to a specified intangible asset or specified intangible assets the expenditure on which was incurred both before 11 October 2017 and on or after 11 October 2017, the company's trading income from the relevant trade is deemed to consist of two separate income streams. The first income stream is taken as so much of the trading income for the accounting period as relates to capital expenditure incurred before 11 October 2017 and the second income stream is

taken as so much of the trading income for the accounting period as relates to capital expenditure incurred on or after 11 October 2017. The aggregate amount of allowances and related interest expense (including any excess amounts of allowances and interest from earlier accounting periods) that may be deducted in the accounting period in respect of pre-11 October 2017 capital expenditure on intangible assets is capped at 100% of the amount of the first income stream. For capital expenditure incurred on intangible assets on or after 11 October 2017, the aggregate amount of allowances and interest expense (including any excess amount of allowances and interest from earlier accounting periods) that may be deducted in respect of that expenditure in an accounting period is capped at 80% of the amount of the second income stream.

A company is required, where necessary, to apportion its trading income from its relevant trade between the first and second income streams on a just and reasonable basis and the amount attributed to the first income stream cannot exceed an arm's length amount. The company should maintain, and make available for inspection where required, records demonstrating that the adopted apportionment approach meets these requirements.

The table below summarises the relief available for capital allowances and interest deductions relating to specified intangible assets for an accounting period, including where a company's relevant activities relate to capital expenditure incurred on specified intangible assets before 11 October 2017 and capital expenditure incurred on specified intangible assets on or after 11 October 2017.

Table: Summary of relief for capital allowances and interest relating to the provision of specified intangible assets

All relevant activities relate to expenditure on specified intangible assets incurred before 11 October 2017 (Pre-11 Oct 2017 IP)	All relevant activities relate to expenditure on specified intangible assets incurred on or after 11 October 2017 (Post-11 Oct 2017 IP)	Relevant activities relate to both Pre-11 Oct 2017 IP and Post-11 Oct 2017 IP
Available capital allowances and related interest expenses may be deducted against up to 100% of trading income of the relevant trade for the accounting period. Where available capital allowances for specified intangible	Available capital allowances and related interest expenses may be deducted against up to 80% of trading income from the relevant trade in the accounting period. Where available capital allowances for specified intangible assets and related interest	The following steps apply: 1) Identify available capital allowances and interest expenses relating to (a) pre-11 October 2017 IP; and (b) post-11 October 2017 IP. 2) Identify trading income in respect of relevant activities relating to (a) pre-11 October 2017 IP; and (b) post-11

<p>assets and related interest deductions exceed 100% of trading income from the relevant trade, capital allowances are restricted before interest deductions are restricted.</p> <p>Any excess allowances and excess interest will be added to allowances/ interest in a succeeding accounting period or periods.</p>	<p>deductions exceed 80% of trading income from the relevant trade, capital allowances are restricted before interest deductions are restricted.</p> <p>Any excess allowances and excess interest will be added to allowances/ interest in a succeeding accounting period or periods and subject to the application of the 80% cap, can be deducted against trading income of the relevant trade in the subsequent accounting period.</p>	<p>October 2017 IP. Where receipts and expenses relate to both pre-11 October 2017 IP and post-11 October 2017 IP, they should be apportioned on a just and reasonable basis.</p> <p>3) Maximum relief available for capital allowances and interest in the accounting period:</p> <p>(a) Pre-11 October 2017 IP: Lesser of (i) amount at 1)(a) and (ii) the amount at 2)(a).</p> <p>PLUS</p> <p>(b) Post-11 October 2017 IP: Lesser of (i) the amount at 1)(b); and (ii) 80% of the amount at 2)(b).</p> <p>Where available capital allowances for post-11 October 2017 IP and related interest deductions (the amount at 1)(b)) exceed 80% of trading income from the relevant trade (i.e. 80% of the amount at 2)(b)), capital allowances are restricted before interest deductions are restricted.</p> <p>Any excess allowances and excess interest will be added to allowances/ interest in a succeeding accounting period or periods and subject to the application of the 80% cap (for post-11 October 2017 IP), can be deducted against trading income of the relevant trade in the subsequent accounting period.</p>
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3.25 How does expenditure qualifying for allowances under section 291A interact with section 766 TCA 1997?

Under section 291A(7)(a) capital expenditure on the provision of a specified intangible asset for the purposes of the trade will not qualify for an allowance where relief is provided for the same expenditure under any other provision of the TCA 1997. This means that a company claiming an R&D tax credit under section 766 TCA 1997 for expenditure on research and development will not also be able to claim an allowance under section 291A for such expenditure. In addition, under section 766(1)(a) expenditure incurred on a specified intangible asset within the meaning of section 291A will not be regarded as expenditure on plant or machinery for the purposes of qualifying for relief as research and development expenditure.

3.26 How does section 291A interact with the 3-year tax relief for new start-up companies?

Section 486C TCA 1997 provides for relief from corporation tax in the first three years of trading by new companies commencing a new trade in the period 2009 to 31 December 2021 where the corporation tax payable by the company for an accounting period does not exceed €40,000. Marginal relief is available for companies with corporation tax payable between €40,000 and €60,000.

Arising from Finance Act 2011 changes, the relief is linked to the value of Employers' PRSI contributions for accounting periods commencing on or after 1 January 2011. Finance Act 2013 provided for an enhancement of the relief by allowing any unused relief arising in the first three years of trading, due to losses or insufficient profits, to be carried forward for use in subsequent years. See Tax and Duty Manual Part 15-03-03 for further details.

Trading income of the trade for which relief is claimed under section 486C, and for the purposes of the €40,000 limit, is computed after taking account of any allowances due under section 291A in respect of capital expenditure on the provision of specified intangible assets.

Appendix 1: List of Specified Intangible Assets Included in Scheme

- (a) any patent, registered design, design right or invention,
- (b) any trade mark, trade name, trade dress, brand, brand name, domain name, service mark or publishing title,
- (c) any copyright or related right within the meaning of the Copyright and Related Rights Act 2000,
- (ca) computer software or a right to use or otherwise deal with computer software other than such software or such right construed in accordance with section 291(3),¹³
- (d) any supplementary protection certificate provided for under Council Regulation (EEC) No. 1768/92 of 18 June 1992 (OJ No. L182, 2.7.1992, p.1),
- (e) any supplementary protection certificate provided for under Regulation (EC) No. 1610/96 of the European Parliament and of the Council of 23 July 1996 (OJ No. L198, 8.1.11.1996, p. 30),
- (f) any plant breeders' rights within the meaning of section 4 of the Plant Varieties (Proprietary Rights) Act 1980, as amended by the Plant Varieties (Proprietary Rights) (Amendment) Act 1998,
- (fa) any application for the grant or registration of anything within paragraphs (a) to (f),¹⁴
- (g) secret processes or formulae or other secret information concerning industrial, commercial or scientific experience, whether protected or not by patent, copyright or a related right, including know-how within the meaning of [section 768¹⁵ and, except where such asset is provided directly or indirectly in connection with the transfer of a business as a going concern, customer lists]¹⁶,
- (h) any authorisation without which it would not be permissible for a medicine or a product of any design, formula, process or invention to be sold for any purpose for which it was intended, but this does not relate to a licence within the meaning of

¹³ Inserted by FA 2010 as respects expenditure incurred after 4 February 2010. FA 2010 added expenditure on computer software which is commercially exploited to the list of specified intangible assets. Expenditure on computer software which is used within a business continues to qualify for allowances under section 291.

¹⁴ Inserted by FA 2010 as respects expenditure incurred after 4 February 2010.

¹⁵ Substituted by FA 2010 as respects expenditure incurred after 4 February 2010.

¹⁶ Words "and, except where such asset is provided directly or indirectly in connection with the transfer of a business as a going concern, customer lists" inserted by FA 2014 as respects accounting periods commencing on or after 1 January 2015.

section 2 of the Intoxicating Liquor Act, 2008¹⁷,

- (i) any rights derived from research, undertaken prior to any authorisation referred to in paragraph (h), into the effects of a medicine or a product of any design, formula, process or invention,
- (j) any licence in respect of an intangible asset referred to in any of paragraphs (a) to (i),
- (k) any rights granted under the law of any country, territory, state or area, other than the State, or under any international treaty, convention or agreement to which the State is a party, that correspond to or are similar to those within any of paragraphs (a) to (j), or
- (l) goodwill to the extent that it is directly attributable to anything within any of paragraphs (a) to (k).

¹⁷ Words “but this paragraph does not relate to a licence within the meaning of section 2 of the Intoxicating Liquor Act, 2008” inserted by FA 2010 as respects any allowance to be made for an accounting period commencing on or after 1 January 2010.

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