

Exploration expenditure: allowances and charges. FA92 s84; FA97 s146(1) and Sch9 Ptl par16(2) 693.—(1) Subject to subsections (5) and (16), where a person carrying on a petroleum trade has incurred any exploration expenditure (not being expenditure which has been or is to be met directly or indirectly by any other person) there shall be made to the person for the chargeable period related to the expenditure an allowance equal to the amount of the expenditure.

(2) (a) Subject to paragraph (b), where a person carrying on a petroleum trade has incurred any exploration expenditure in respect of which an allowance has been made to the person under subsection (1) and disposes of assets representing any amount of that expenditure, a charge (in this section referred to as a “balancing charge”) equal to the net amount or value of the consideration in money or money's worth received by the person on the disposal shall be made on the person for the chargeable period related to the disposal or, if the disposal occurs after the date on which the trade is permanently discontinued, for the chargeable period related to the discontinuance.

(b) The amount on which a balancing charge is made shall not exceed the amount of the allowance made to the person under subsection (1) in respect of the amount of exploration expenditure represented by the assets disposed of.

(3) Where any assets representing exploration expenditure are destroyed, those assets shall for the purposes of subsection (2) be treated as if they had been disposed of immediately before their destruction, and any sale, insurance, salvage or compensation moneys received in respect of the assets by the person carrying on the petroleum trade shall be treated as if those moneys were consideration received on that disposal.

(4) Where a person disposes of any assets representing exploration expenditure incurred by the person in connection with an area which at the time of the disposal is, or which subsequently becomes, a relevant field (or part of such a field), the person who acquires the assets shall, if that person carries on a petroleum trade which consists of or includes the working of the relevant field (or, as the case may be, the part of the relevant field), be deemed for the purposes of this section to have incurred—

(a) on the day on which that person acquires the assets, or

(b) if later, on the day on which that person commences to work the area connected with the assets as a relevant field (or, as the case may be, as part of the relevant field),

an amount of exploration expenditure equal to the lesser of—

(i) the amount of the exploration expenditure represented by the assets, and

(ii) the amount or value of the consideration given by that person on the acquisition of the assets.

(5) (a) Any exploration expenditure incurred by a person before the person commences to carry on a petroleum trade shall be treated for the purposes of subsection (1) as if that expenditure had been incurred

by that person on the first day on which that person carries on the petroleum trade.

(b) Notwithstanding paragraph (a), no account shall be taken for the purposes of this subsection of expenditure incurred in connection with an area which is not a relevant field, or part of such a field, being worked in the course of carrying on the petroleum trade, if the expenditure was incurred more than 25 years before that first day.

(6) Where a person incurs exploration expenditure before commencing to carry on a petroleum trade and subsection (5) applies as respects that expenditure and, before the person commences to carry on that trade, the person disposes of assets representing any amount of that expenditure, the allowance to be made to the person under this section in respect of that expenditure shall be reduced by the net amount or value of any consideration in money or money's worth received by the person on that disposal.

(7) For the purposes of this section other than for the purposes of subsections (4) and (5)(a), the day on which any expenditure is incurred shall be taken to be the day on which the sum in question becomes payable.

(8) Any allowance or balancing charge made to or on a person under this section shall be made to or on the person in taxing the person's petroleum trade but, subject to subsection (4), such allowance shall not be made in respect of the same expenditure in taxing more than one such trade.

(9) Section 304 (4) shall apply in relation to an allowance under this section as it applies in relation to an allowance to be made under Part 9.

(10) Section 307 (2)(a) shall apply for the purposes of this section, and subsections (2) to (7) of section 321 shall apply for the interpretation of this section.

(11) Subsections (2) and (3) of section 306 shall apply in determining the chargeable period (being a year of assessment) for which an allowance or a balancing charge is to be made under this section.

(12) References to capital expenditure in Part 9 and in section 670, Chapter 1 of Part 29 and sections 763 to 765 shall be deemed not to include references to expenditure which is exploration expenditure, and exploration expenditure shall be deemed not to be expenditure on know-how for the purposes of section 768.

(13) Notwithstanding subsection (12), the following provisions—

(a) section 312,

(b) subsections (1) and (2) of section 316,

(c) section 317 (2),

(d) section 318 , and

(e) subsections (4) and (5) of section 320,

shall, with any necessary modifications, apply for the purposes of this section as they apply for the purposes of Part 9 and Chapter 1 of Part 29.

(14) Part 19 shall apply as if—

(a) the reference in section 551 (3) to a balancing charge included a reference to a balancing charge under this section, and

(b) references in section 555 to a capital allowance (or capital allowances) and to a balancing charge included references respectively to an allowance (or allowances) and a balancing charge under this section.

(15) Section 319 shall apply as if subsections (1) and (2) of that section included references to this section.

(16) For the purposes of this section, a person shall be deemed not to be carrying on a petroleum trade unless and until the person is carrying on in the course of that trade trading activities which are petroleum extraction activities.

(17) Any reference in this section to assets representing any exploration expenditure shall be construed as including a reference to a part of or share in any such assets, and any reference in this section to a disposal or acquisition of any such assets shall be construed as including a reference to a disposal or acquisition of a part of or share in any such assets.