HMRC - OT13840 - PRT: Non-Field Expenditure - Treatment Of Long-Term Assets

There are special rules for ‘non-field’ expenditure incurred on acquiring, bringing into existence or enhancing the value of an asset whose useful life then exceeds twelve months. The main provision is OTA75\S5(2) which relates to abortive exploration expenditure, but this is applied (with appropriate modification) to exploration and appraisal (E&A) expenditure and research by virtue of respectively OTA75\S5A(4)-(5) and OTA75\S5B(7).

Restriction of allowance, OTA75\S5(2)(a)

If the ‘long-term asset’ expenditure otherwise qualifies for relief, allowance is limited. A proportion only of the cost of the asset is allowed computed on a daily basis by reference to the actual use of the asset for abortive exploration and the expected life of the asset from the date expenditure is incurred. Types of assets normally so encountered are exploration drilling rigs, seismic interpretation equipment, computers etc.

See OT13850 for a modification of the formula where the asset is disposed of.

Where applicable, for abortive exploration read E&A and research.

In the case of both abortive exploration and E&A, the expenditure must be wholly and exclusively incurred for the purposes prescribed in respectively OTA75\S5(1)(b) and OTA75\S5A(2). However, where the expenditure is on ‘long-term assets’ and the expenditure needs to be restricted, the wholly and exclusive test applies to the relevant proportion of the abortive exploration or E&A use.

Example

At the beginning of year one a jack up rig with an expected life of ten years is purchased new for £10m and during the whole of year one it is used on abortive exploration for 146 days. The allowance is:

There is no provision to limit the denominator to days when the asset was actually in use.

Expenditure on a particular asset may well be incurred on different days (e.g. where there are stage payments). In such a case it is arguable that different denominators will apply in respect of each tranche of expenditure.

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