HMRC - OT13850 - PRT: Non-Field Expenditure - Receipts, Pre 16 March 1983

Abortive exploration, OTA75\S5(6), OTA75\S5(2)(b)

OTA75\S5(6) provides that where any expenditure, which qualifies for allowance as abortive exploration, gives rise to a receipt of a capital or revenue nature before 16 March 1983, either by the person incurring the expenditure or by any connected party, the allowable expenditure is to be correspondingly reduced.

Claims for abortive exploration expenditure will need restriction at the time they are made to take account of any disposals that the expenditure has given rise to.

See OT13860 for details of the treatment of receipts post 15 March 1983.

Where the receipt arises on the disposal of an asset for which the allowance is restricted under OTA75\S5(2)(a) (see OT13840), then so long as the disposal is not to a ‘connected’ person and the proceeds represent the asset’s open market value, OTA75\S5(2)(b) provides that the actual period of ownership is used for the purpose of apportioning the allowable expenditure.

OTA75\S5(7) imports the meaning of ‘connected’ from ICTA88\S839.

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 rig is then sold at the end of year two for £6m but during year two it is not used for abortive exploration.

The recomputed allowance is

Previous page

Next page