HMRC - OT20204 - Overview Of The Main Types Of Costs Incurred In Oil Exploration And Production - Production

A company in production has commenced trading. Again, much of the expenditure on the field, particularly early expenditure, will be capital e.g. on the provision of rigs, on development/production wells etc. Relief, if at all, will be as MEA P&M and IBA with R&D/SRA less likely. There is more detailed comment on R&D/SRA elsewhere in this and other manuals.

Before FA97 the New Brunswick decision allowed the direct drilling costs of most development/ production wells to be given as revenue deduction. Because New Brunswick has been superseded it is not covered in depth in this Manual. Other costs may be allowable under Case I or through the capital allowances system on basic principles.

A company which has been in production activities for many years, and which is incurring production costs which are admissible revenue deductions, may in parallel incur other costs which are of a capital nature. This will happen where, for example, there is ongoing exploration and appraisal activity, where new and additional fields are being brought on stream and/or where the company is looking at other possible additions to its portfolio of activities.

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