HMRC - OT21515 - Onshore Allowance - Generation Of The Onshore Allowance

CTA2010\S356C

Where a company incurs relievable capital expenditure in relation to a qualifying site for the purposes of onshore oil-related activities then it is entitled to hold an onshore allowance equal to 75% of the expenditure. Where the expenditure is incurred in relation to more than one site or only partly for the purpose of onshore oil-related activities then the expenditure is to be apportioned on a just and reasonable basis.

The site in question must have been authorised for development for the first time on or after 5 December 2013 (S356C(3) and (9)(a) and (b)) and the capital expenditure incurred on or after 5 December 2013 in accordance with the commencement provisions of FA14\Sch15\Para6(1).

The allowance is generated at the time the capital expenditure is incurred, and for the purposes of this Chapter, S5 of CAA 2001 applies in determining when capital expenditure is incurred.

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Where production from a site is either expected to exceed or has exceeded 7,000,000 tonnes then any capital expenditure incurred on or after that time will no longer qualify for the allowance. However any expenditure incurred up to that time on the site in question will still qualify.

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Relievable capital expenditure

Subject to CTA2010\S356CA, as long as the expenditure is incurred for the purposes of onshore oil-related activities in relation to a qualifying site then any capital expenditure will generate onshore allowances. Such expenditure is likely to include:

Seismic acquisition and interpretation, Planning and permit costs (successful and unsuccessful applications), Planning and permitting judicial review costs, Drilling wells, Well completion, Purchasing rig, Purchasing fracture equipment, Site setup costs, Hydrocarbon treatment facility, Pipelines, Compression facilities.

Leasing costs will qualify depending on the nature of the lease (for example, whether it is a long funding lease). However, for the purposes of the allowance, leasing costs incurred in bringing into existence a capital asset (for example, rig leasing costs in order to drill a well) are likely to qualify.

As a general rule decommissioning costs will not qualify as they are not incurred for the purposes of onshore oil-related activities in accordance with S356BA. However costs of midlife plugging and abandonment (for example, of a well sidetrack) may qualify if it is in the course of say further extraction activities.

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CTA2010\S356CB: Expenditure not related to an established site

Certain expenditure such as seismic or E&A activity may not relate to a specific site or at least not for some time. If this is the case, then a company may elect to treat the expenditure as incurred in relation to a specified site but it can do this no earlier than the beginning of the third accounting period after that in which the expenditure is incurred. At the time of the election, there must be no identifiable site to which the expenditure incurred was in relation to.

The election must specify

The expenditure in question

A site - the specified site

An accounting period - the specified accounting period

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