HMRC - OT26315 - Capital Allowances: Mineral Extraction Allowance - Rates Of Writing Down Allowances

A writing down allowance is given on a reducing balance basis. The rates of annual allowance are either 10% or 25% (CAA2001\S418). Each asset is dealt with separately, they are not pooled. Balancing adjustments will therefore occur when, for example, an interest in a block is disposed of or surrendered.

In practice, some pooling of expenditure for computational convenience can be accepted but:

Individual sources, such as the licence area within a particular block, must be dealt with separately.

All expenditure relievable at 10% must be distinguished.

The rate of 10% applies only in respect of qualifying expenditure on the acquisition of a mineral asset, for example a licence (see CAA2001\S418(1)(a) & S395(1)(b)).

CAA2001\S397(b) defines a mineral asset as including an interest in mineral deposits, or land containing such deposits. CAA2001\S403 defines the qualifying expenditure on the acquisition of a mineral asset. In addition to the acquisition of an oil licence, there are other circumstances where the expenditure will fall into this category. Examples of this will include certain payments to acquire rights under Production Sharing Contracts or similar contracts.

The main items of qualifying expenditure on which an allowance of 25% is due are:

Mineral exploration and access (CAA2001\S395(1)(a) & S400(1)).

The construction of works in connection with the working of a source of mineral deposits, being works which when the source is no longer worked, are likely to be of little or no value to the person working the source immediately before this activity ceases (CAA2001\S395(1)(d) & S414).

Unsuccessful planning applications (CAA2001\S396(2)).

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