HMRC - OT26320 - Capital Allowances: Mineral Extraction Allowance - Acquisition Of A Mineral Asset Owned By A Previous Trader (Second Hand Assets)

CAA2001\S407

There are occasions where qualifying expenditure may be relieved partly at 10% and partly at 25%. This can occur when there is qualifying expenditure on second-hand assets.

Where a person carrying on a mineral extraction trade incurs capital expenditure on acquiring a mineral asset for the purpose of a trade and that asset has been owned by a previous trader (for example an oil licence or an interest in mineral deposits), then CAA2001\S407 provides that part of the buyers capital expenditure may be treated as qualifying expenditure on mineral exploration and access and so qualify for writing down allowances at 25% rather than the 10% provided for qualifying expenditure under CAA2001\S395(1)(b) and as would be directed by CAA2001\S398. The rules in Chapter 4 at CAA2001\S407 ensure that where part of the value of the asset is attributable to expenditure on mineral exploration and access by the previous trader, and it is just and reasonable to attribute part of the buyer’s expenditure to that part of the value of the asset, then an amount can be treated as qualifying expenditure on mineral exploration and access.

Example

Trader A disposes of an oil licence to trader B.

Trader A incurred expenditure of £1m on the issue of the licence and then £3m on exploration and access.

Relief will be given for the licence as MEA at 10% and relief for the exploration and access will be given as Research and Development Allowances (RDA).

If the licence interest is sold to B for, say, £10m then part of this amount is attributable to the exploration and access expenditure incurred by A.

B will be able to claim MEA on £3m at 25% and on £1m at 10%.

No relief would be due on the balance of £6m.

Balancing charges will apply to the vendor to reclaim allowances given.

Note

It is a question of fact whether part of the value of the sold asset is attributable to mineral exploration and access expenditure. HMRC accept that where the sale price exceeds the seller’s qualifying expenditure on acquiring a mineral asset, there may be qualifying expenditure attributable to mineral exploration and access and some of the consideration may be relieved at 25%.

There will be cases where this may not be so, for example, where a licence interest in the exploration stage is sold and where (all) expenditure by the vendor has been abortive. Here there may be no part of the value of the licence that is attributable to mineral exploration and access expenditure.

There will be many instances where the matter is not clear cut and where it will be necessary to look carefully at what expenditure has been incurred.

See OT26335 for limitations on qualifying expenditure on second hand assets.

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