HMRC - OT26340 - Capital Allowances: Mineral Extraction Allowance - Definition Of Mineral Asset

CAA2001\S397

A mineral asset is defined as “any mineral deposit or land comprising mineral deposits” or “any interest in or right over such deposit or land” (CAA2001\S397). In effect a mineral asset includes a licence whether it is UK, non UK, onshore, or offshore as it includes the acquisition of rights over the site of a source of mineral deposits or the rights over the mineral deposits. CAA2001\S394 defines mineral deposits. Relief is available at 10% per annum on the qualifying expenditure.

Research and Development Allowances (CAA2001\S440) are not due on the acquisition of a production licence following an unpublished decision of the Special Commissioners that a production licence is an interest in land. The position may not necessarily be so clear cut in respect of other licences or concessions but it is HMRC’s view that these should also be treated as only relievable at 10%.

Production licences

Licences are issued for the UK and the UK Continental Shelf under Petroleum (Production) Act 1998. There are different kinds of licence and the treatment of expenditure on them may vary. However, Mineral Extraction Allowances will attach to qualifying expenditure on Production Licences’ initial payments. These payments are required on the application for a grant of a licence in addition to continuing rental payments. The initial payment is capital expenditure and the rental payments are revenue expenditure.

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