HMRC - OT26355 - Capital Allowances: Mineral Extraction Allowance - Qualifying Expenditure In Oil Trades

The main items of qualifying expenditure on mineral exploration and access and on the acquisition of a mineral asset claimed in the oil industry are:

Exploration and appraisal capital expenditure that does not qualify for Research and Development Allowances.

Development wells, excluding any element of plant and machinery

Second-hand seismic.

Expenditure on buying into a Field.

Certain pre-trading expenditure on the provision of plant and machinery (CAA2001\S402).

Certain other pre-trading expenditure (CAA2001\S401).

Acquisition of licence interests.

Capital expenditure on exploration and production

Relief under the MEA rules can arise where the requirements for a claim to Research and Development Allowances is not met. The acquisition of second hand seismic data may fall into this category.

Planning Permission

CAA2001\S396(2) provides that the costs of seeking planning permission whether successful or not are treated as expenditure on mineral exploration and access rather than part of the cost of the acquisition of the licence. They are therefore relievable at 25%. CAA2001\S396(3) specifically allows the cost of pursuing an appeal against planning refusalThe cost of a successful planning application is part of the cost of the acquisition of the licence and therefore relievable at 10%. This is the general position, but for UK licences there is a limit set out in CAA01\S410 (see OT26360). The cost of an unsuccessful application is not part of the cost of the acquisition of a mineral asset within CAA01\S395(1)(b). CAA01\S396(2)/(3) allows this expenditure to be relieved at 25%. The sub section specifically allows the cost of pursuing an appeal against planning refusal.

For expenditure incurred before 17 July 2014, only unsuccessful planning permission costs qualified for relief under the mineral exploration and access rules and were relievable at 25 %.

Without the specific rule from 17 July 2014, the cost of a successful planning application is part of the cost of the acquisition of the licence and therefore relievable at 10%. This is the general position, but for UK licences there is a limit set out in CAA2001\S410 (OT26260).By analogy, certain other unsuccessful costs are allowed at 25%, e.g. the costs of unsuccessful applications for licences, of acquisitions including farm-ins and exchanges not proceeded with.

Farm-ins and Licence Exchanges

The relevant costs of reviewing farm-ins or exchanges are treated as within the scope of MEA qualifying expenditure.

When expended on successful farm-ins or exchanges these expenses attract WDA at 10% as part of the cost of acquiring a mineral asset, subject to the CAA01\S410 limits on UK oil licences. However, where the farm-in or exchange does not proceed relief is given at 25%.

Abandonment, demolition, decommissioning

Where an asset representing qualifying expenditure for MEA is demolished see the Capital Allowances Manual at CA50310.

For Decommissioning and Abandonment more generally, see the section of this Manual commencing at OT28000.

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