HMRC - OT26370 - Capital Allowances: Mineral Extraction Allowance - Disposal Events And Disposal Values

The rules on disposal events and values can be found at CAA2001\S421- S425. See CA50420 for general guidance in this area.

Oil licences relating to undeveloped areas, CAA2001\S553

Legislation was introduced in 1988 which deems the consideration for a material disposal of an undeveloped area to be nil for farm-in and licence exchanges where the transaction is at arms length. This legislation applies worldwide for disposals after 13 September 1995, prior to that date it related only to the UK and UK Continental Shelf.

Where the consideration includes something in addition to the farm-in or the exchange, that addition is valued. The general effect is to accelerate MEA for the vendor whilst denying relief to the acquiring party i.e. a balancing allowance will accrue to the vendor and the purchaser will have nil qualifying expenditure.

CAA2001\S553 imposes the same nil consideration for the purpose of the Research & Development Allowance rules.

However, CAA2001\S553(3) prevents the imposition of a nil disposal value where CAA2001\S568 or CAA2001\S569 have effect. These are the rules imposing market value or an alternative value where the control or tax advantage tests are met, or where an election is in place under CAA2001\S569.

Exchanges within the Same Licence

The HMRC view is that there is no disposal and no occasion for a balancing allowance on an exchange within the same licence as long as the exchanging parties retain their same interests in the licence.

Disposal of Part of an Asset

Where part of an asset is disposed of or ceases to exist, a balancing allowance or charge may arise. CAA2001\S571(1) can require treating the retained part and the part disposed of as separate assets.

This applies in particular to the giving up of part of a licence interest, which triggers a balancing allowance on that part given up. Qualifying expenditure on the whole asset would be apportioned between the retained and the disposed parts, normally pro-rata to the interests in the licence.

If, in the circumstances set out above and for convenience, expenditure on different assets has been grouped together, there may be no objection to the deduction of any disposal receipt from the balance of qualifying expenditure, with the remaining expenditure continuing to attract writing down allowances. In the case of a part disposal, for computational purposes, a company may deduct the disposal receipt from the written down value without taking the benefit of a balancing allowance. Such treatment may be accepted except where there are disposals to a trader when a separate computation will be required if it is necessary to apply the second-hand cost restriction.

Previous page

Next page