HMRC - OT30040 - Undeveloped Areas - Introduction

Prior to 1988, disposals of UK/ UK Continental Shelf licence interests gave rise to difficulties in the application of existing Capital Gains Tax (and Capital Allowance) legislation.

These arose particularly in relation to the valuation of work programme farm outs and swapped licence interests where no cash consideration was involved, and in the interaction between the Scientific Research Allowance and CG provisions relating to previous drilling costs of the farmer out.

Legislation was introduced in FA88, and this is found at TCGA92\S194. This provides that, for arm’s length disposals of undeveloped licence interests, the value of any consideration in the form of a work programme commitment in the licence area, or a swapped licence interest (also pre-development) is deemed to be NIL. This eliminates the need to value non-cash consideration.

Next page