HMRC - OT30106 - Drilling Expenditure - Intangible Drilling Costs Of Production Wells

The intangible drilling costs of production wells are treated differently.

Where a licence interest is disposed of, each production well can be treated as a separate asset for capital gains purposes.

The costs of drilling each well fall within the scope of TCGA92\S38(1)(a) provided the remaining conditions of the subsection are met and are thus allowable when computing the chargeable gain on the disposal of the production well in connection with the disposal of the licence interest.

This applies where the intangible costs have been the subject of a MEA claim. Where these costs have previously achieved a revenue deduction under now superseded New Brunswick principles, TCGA92\S39(1) will preclude a capital gains deduction.

The wider question of apportionment of proceeds between licence, plant and machinery generally and production wells must also be considered.

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