HMRC - OT30152 - Allowable Costs - Wasting Asset Rules

A licence is in almost all cases a wasting asset as it has a life of less than 50 years.

In accordance with TCGA92\S44 the expenditure will be wasted, subject to the important exception discussed in the following paragraphs.

HMRC accept that a licence is an interest in land and as such the rules in TCGA92\Sch8 apply.

However, TCGA92\S47 removes assets which are used for the purpose of a trade and in respect of which a person has claimed or could have claimed any capital allowance on the expenditure from the wasting asset rules.

Expenditure by an original licence holder on the acquisition of a licence will generally be allowable expenditure for CG purposes and, since it also qualifies for MEA, the wasting asset rules will not apply.

Expenditure on Exploration & Appraisal drilling by the person disposing of the licence is allowable for CG purposes under TCGA92\S195 but only to the extent that there has been an SRA/RDA claw back or would have been had the company traded.

Where allowable expenditure on a licence qualifies only in part for capital allowances, then only that part is excluded from the wasting asset rules (TCGA92\S47(2)). This is particularly relevant where the person disposing of the licence acquired it from another company. The expenditure qualifying for capital allowances will normally be limited to the original expenditure incurred by the previous owners. The balance will not qualify for capital allowances and will therefore be subject to the wasting asset rules.

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