HMRC - OT30153 - Allowable Costs - Wasting Asset Rebasing To March 1982

Where March 1982 rebasing applies, the application of the wasting asset rules will depend on how far the original CT expenditure qualified for capital allowances. In some cases it may be necessary to apportion the March 1982 value between its constituent parts and perform a separate calculation for each. The constituent parts might include allowable CG expenditure on:

the licence itself,

exploration and appraisal,

development wells (excluding expenditure already relieved (see OT30151),

plant and machinery.

The application of the wasting asset rules to each constituent part will then depend on the extent to which it is attributable to expenditure originally qualifying for capital allowances. For some categories the original expenditure will virtually always have qualified in full for capital allowances, but in others the value may be wholly or partly attributable to non- qualifying expenditure.

If the original cost all qualified, then the value at March 1982 is also deemed to be expenditure which qualifies and the wasting asset rules do not apply to any of it. This is so even though the March 1982 valuation of the licence may be far in excess of the original cost.

For example, if the company originally acquired the licence from a previous owner and the expenditure qualifying for MEA was restricted to the amount of the expenditure by the previous owner, then only the appropriate fraction of the March 1982 value would be deemed to be expenditure on an asset qualifying for capital allowances.

Another situation where an apportionment would be required is where a company originally acquired a licence on an undeveloped area partly for cash and partly for a swap or work programme obligation to which TCGA92\S194 applied. In that case the March 1982 valuation would have to be apportioned between the cash consideration qualifying for MEA and the cash consideration not qualifying for MEA plus the value of the swap\work obligation.

If none of the actual expenditure qualified for capital allowances, then none of the deemed expenditure at March 1982 qualifies - all of the expenditure is treated as wasting.

Apportionment

Where the entire March 1982 value relates to expenditure which originally qualified in full for capital allowances it will not be necessary in practice to make detailed apportionments along the above lines.

Where apportionment is necessary, it must be done on a reasonable and just basis under TCGA92\S52(4).

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