



Capital Allowances Act 2001

2001 CHAPTER 2

PART 5

MINERAL EXTRACTION ALLOWANCES

CHAPTER 4

QUALIFYING EXPENDITURE: SECOND-HAND ASSETS

Assets reflecting expenditure on mineral exploration and access

407 Acquisition of mineral asset owned by previous trader

- (1) This section applies if—
- (a) a person carrying on a mineral extraction trade (“the buyer”) incurs capital expenditure on acquiring a mineral asset (“asset X”) for the purposes of that trade, and
 - (b) the conditions in subsection (3) are met.
- (2) In this section “the buyer’s expenditure” means the expenditure referred to in subsection (1)(a), less any amount which, under section 404 (exclusion of undeveloped market value of land), is not qualifying expenditure on the acquisition of the mineral asset.
- (3) The conditions are that—
- (a) expenditure was previously incurred on acquiring asset X or bringing it into existence by—
 - (i) the person from whom the buyer acquired asset X, or
 - (ii) an earlier owner of asset X,in connection with a mineral extraction trade carried on by the person incurring that expenditure,

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- (b) part of the value of asset X is properly attributable to expenditure (“E1”) on mineral exploration and access by the previous trader, and
 - (c) it is just and reasonable to attribute part of the buyer’s expenditure (“E2”) to that part of the value of asset X.
- (4) In arriving at E1, any expenditure that is or has been deducted in calculating, for tax purposes, the profits of a trade carried on by the previous trader must be excluded.
- (5) If this section applies—
- (a) so much of the buyer’s expenditure as is equal to the lesser of E1 and E2 is to be treated as qualifying expenditure on mineral exploration and access, and
 - (b) the buyer’s expenditure on acquiring the mineral asset is reduced by the same amount.
- (6) “The previous trader” means—
- (a) the person incurring the expenditure mentioned in subsection (3)(a), or
 - (b) if there has been more than one such person, the last before the buyer acquired asset X.
- (7) In this section references to asset X include—
- (a) two or more assets which together make up asset X, and
 - (b) one asset from which, or two or more assets from the combination of which, asset X is derived.

408 Acquisition of oil licence from non-trader

- (1) This section applies if—
- (a) a person carrying on a mineral extraction trade (“the buyer”) incurs capital expenditure on acquiring an interest in an oil licence for the purposes of that trade,
 - (b) the person from whom the interest was acquired (“the seller”) disposed of the interest without having carried on a mineral extraction trade,
 - (c) part of the value of the interest is attributable to expenditure (“E1”) on mineral exploration and access by the seller, and
 - (d) it is just and reasonable to attribute part of the buyer’s expenditure (“E2”) to that part of the value of the interest.
- (2) If this section applies—
- (a) so much of the buyer’s expenditure as is equal to the lesser of E1 and E2 is to be treated as qualifying expenditure on mineral exploration and access, and
 - (b) the buyer’s expenditure on acquiring the interest in the oil licence is reduced by an amount equal to E2.
- (3) In this section “oil licence” and “interest in an oil licence” have the same meaning as in Chapter 3 of Part 12.

409 Acquisition of other assets from non-traders

- (1) This section applies if—
- (a) a person carrying on a mineral extraction trade (“the buyer”) incurs capital expenditure on acquiring any assets for the purposes of that trade,

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- (b) the person from whom the assets were acquired (“the seller”) disposed of the assets without having carried on a mineral extraction trade,
 - (c) the assets represent expenditure on mineral exploration and access incurred by the seller, and
 - (d) section 408 (acquisition of oil licence from non-trader) does not apply in relation to the acquisition.
- (2) If this section applies, the buyer’s expenditure is qualifying expenditure only to the extent that it does not exceed the amount of the seller’s expenditure on mineral exploration and access that is represented by the assets.
- (3) The references in this section to assets representing expenditure on mineral exploration and access include any results obtained from any search, exploration or inquiry on which the expenditure was incurred.

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