

Interest and charges on income. FA92 s81(1) to (5) and (7) 690.—(1) In computing the amount of—

(a) a person's profits or gains for the purposes of income tax, or

(b) a person's income for the purposes of corporation tax,

arising from a petroleum trade, no deduction shall be made in respect of—

(i) any interest payable by the person to a connected person to the extent that the amount of the interest exceeds for whatever reason the amount which, having regard to all the terms on which the money in respect of which it is payable was borrowed and the standing of the borrower, might have been expected to be payable if the lender and the borrower had been independent parties dealing at arm's length,

(ii) interest payable by the person on any money borrowed to meet expenditure incurred on petroleum exploration activities, or

(iii) interest payable by the person on any money borrowed to meet expenditure incurred in acquiring petroleum rights from a connected person.

(2) Section 130 (2)(d)(iv) shall not apply to so much of any interest as—

(a) would but for section 130 (2)(d)(iv) be deductible in computing the amount of a company's income from a petroleum trade,

(b) would not be precluded by subsection (1) from being so deducted, and

(c) is interest payable to a company which is a resident of the United States of America or of a territory with the government of which arrangements having the force of law by virtue of section 826 have been made,

and for the purposes of paragraph (c) “resident of the United States of America” has the meaning assigned to it by the Convention set out in Schedule 25, and a company shall be regarded as being a resident of a territory, other than the United States of America, if it is so regarded under arrangements made with the government of that territory and having the force of law by virtue of section 826

(3) Notwithstanding section 243—

(a) no deduction shall be allowed from that part of a company's profits which consists of petroleum profits in respect of—

(i) a charge on income paid by the company to a connected person, or

(ii) any other charge on income paid by the company unless it is a payment made wholly and exclusively

for the purposes of a petroleum or mining trade carried on by the company,

and

(b) no deduction shall be allowed from that part of a company's profits which consists of profits other than petroleum profits in respect of any charge on income paid by the company which is a payment made wholly and exclusively for the purposes of a petroleum trade carried on by the company.

(4) In applying section 237 to any annual payment made by a person whose profits or gains for the purposes of income tax arise wholly or partly from petroleum activities—

(a) the profits or gains arising from those activities shall not be treated as profits or gains which have been brought into charge to income tax—

(i) where the annual payment is made to a connected person, or

(ii) unless (but subject to subparagraph (i)) the payment is made wholly and exclusively for the purposes of a petroleum or mining trade carried on by the person making the payment,

and

(b) profits or gains, other than profits or gains arising from petroleum activities, shall not be treated as profits or gains which have been brought into charge to income tax where the annual payment is made wholly and exclusively for the purposes of a petroleum trade carried on by the person making the payment.

(5) Relief shall not be allowed—

(a) under section 396 (7) in respect of a payment to which subsection (3)(a)(i) applies, or

(b) under section 390 in respect of a payment to which subsection (4)(a)(i) applies,

where the payment is made wholly and exclusively for the purposes of a petroleum trade.

(6) In any case where for an accounting period of a company charges on income paid by the company are allowable under section 243 —

(a) such amount of those charges as, by virtue of subsection (3)—

(i) is not allowable against a part of the company's profits, but

(ii) is allowable against the remaining part (in this subsection referred to as “other profits”) of its profits,

exceeds the other profits, and

(b) the amount of that excess is greater than the amount, if any, by which the total of the charges on income which, subject to subsection (3), are allowable to the company under section 243 exceeds the total of the company's profits,

then, for the purpose of enabling the company to surrender the excess referred to in paragraph (a) by means of group relief, section 420 (6)) shall apply as if—

(I) the reference in that section to the amount paid by the surrendering company by means of charges on income were a reference to so much of that amount as by virtue of subsection (3) is allowable only against the company's other profits, and

(II) the reference in that section to the surrendering company's profits were a reference to its other profits only.