HMRC - OT00150 - The Taxation Of The UK Oil Industry: An Overview: Oil Taxation Act 1975

The Oil Taxation Bill (OTB) was published on 19 November 1974.

Part I of OTB imposed a new tax, Petroleum Revenue Tax (PRT), specifically targeted on the profits from oil production in the UK and from the UK Continental Shelf. The central proposition was the use of the oil as the basis of taxation. The PRT profit or loss for a field was to be, broadly speaking, the difference between the field’s income and expenditure. It would not be based on the accounting profit or loss. In addition, losses would not normally be transferable between fields, there would be no distinction between revenue and capital expenditure, and PRT would be charged on a half yearly basis.

The main objectives behind PRT when it was introduced in 1974/5 were:

Allow a project rapidly to recover its cost, then tax it at an appropriate rate

Ensure that tax due was paid as early as possible

Ensure that projects where no economic rent was likely were protected from the tax.

Part II of OTB introduced a ring fence around corporation tax profits from UK oil production to prevent profits from the UK oil resource being diluted by losses or allowances on other activities. There were special rules for the allowance of interest and the treatment of advanced corporation tax. PRT paid by a company would be deductible in computing ring fence income for corporation tax purposes.

Part III was directed to strengthening the then existing corporation tax transfer pricing legislation in application to petroleum companies.

The OTB came into law as the Oil Taxation Act 1975.

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