HMRC - OT03050 - PRT: Overview Of PRT - Outline

PRT is chargeable on each participator in a taxable field on the profits from its share of the oil won from that field in a chargeable period (see OT03100). In 1983 PRT was applied to tariff and disposal receipts arising from the use of field assets (see OT15010). But since 2004 tariffs relating to new business that are tax-exempt tariffing receipts (OT15810) do not constitute chargeable tariffs for PRT purposes.

PRT is charged for six monthly periods ending on 30 June and 31 December. For each chargeable period a participator is required to return details of the income arising from its share of production in the field disposed of in the period and details of other chargeable receipts.

Under the scheme for PRT the expenditure incurred in respect of the field is not included in the return but has to be claimed separately and there are separate appeals procedures for income and expenditure. Expenditure does not become allowable until LB Oil & Gas gives formal notice that the expenditure has been allowed. The expenditure is then included in the next assessment to be made after the notice has been given, which may or may not be the assessment for the chargeable period in which the expenditure was incurred depending on the date when the expenditure is allowed. Field expenditure must normally be claimed by the Responsible Person (see OT04030) under OTA75\SCH5 (see OT04390) and the claim must show how this is allocated between the participators. Where trade secrecy is involved participators are however permitted to claim their own field expenditure under OTA75\SCH6 (see OT04480).

Allowable expenditure broadly consists of costs incurred for the purpose of searching for, finding and developing a field, winning and transporting oil and, finally, in closing down the field. Certain types of cost are however specifically excluded, e.g. interest and the cost of land (see OT09000 for full details of the types of allowable expenditure and the exclusions). In general, there is no distinction between capital and revenue expenditure for PRT purposes; relief is available in full for most allowable expenditure as it is incurred. There is however, a distinction between expenditure on long-term assets (see OT09025), broadly assets used in connection with the field and whose useful life extends beyond the end of the claim period in which they are first used) and other expenditure. The test for admissibility of long-term asset expenditure is one of use, or expected use, in connection with a field for a qualifying purpose. There are special PRT rules that relate to long term assets (for further details see OT11000).

Certain categories of allowable expenditure may also qualify for Supplement (see OT12000). This is an additional relief, in the form of 35% of the allowable costs, which is available before the participator reaches a cumulative net profit position in the field (for details of qualifying expenditure see OT12050).

As expenditure does not reduce a participator’s liability until it has been claimed and allowed the expenditure incurred in a particular period will not necessarily be set against the income for that period. In order to provide a minimum level of relief a provisional expenditure allowance (see OT14250) is given when there is insufficient allowable expenditure in the period. This is calculated by reference to the participators returned income and the expenditure agreed to be allowable for the period. Any allowance given is recovered in later periods (see OT14350).

PRT is a field-based tax and in general it is only the expenditure incurred in respect of a field that can be set against the income of that field. The legislation does however provide for some specific exceptions to this general rule, for example cross field allowance (see OT13000) and costs relating to the earning of tariff receipts (see OT09400).

There are also a series of specific rules that allow a participator to claim certain categories of non-field related expenditure against its income in any field (see abortive exploration expenditure (see OT13950), exploration and appraisal expenditure (see OT13975) and research expenditure (see OT14100)). These claims are made under OTA75\SCH7 (see OT13750).

Field losses (see OT16000) are normally carried forward against future profits unless a claim is made to carry back the loss against earlier profits. There are also specific rules dealing with unutilised field losses following the abandonment of the field (see OT16250).

Where there is still a profit, after the allowance of expenditure and losses, oil allowance (see OT17000) may be available to reduce the amount of the profit that is chargeable. Oil allowance is a field relief that covers a proportion of the production of each field until such time as the total oil allowance for the field is utilised.

Any profit remaining for the period after the allowance of expenditure, losses and oil allowance is liable to PRT. There is however a final relief that may be available to reduce the amount of the PRT chargeable. This relief is Safeguard (see OT17500) which is intended to ensure that companies get a reasonable return on capital. Safeguard operates by restricting the PRT payable and is only available for a number of periods.

It is a common event during the lifetime of a field for a participator to dispose of its interest in a field to another person. For PRT purposes it is usually the case that the new participator inherits the position of the old owner. See OT18000 for details of the specific rules that apply following the transfer of an interest.

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