HMRC - OT05016 - PRT: Computations - Tax Point

General [OTA75\S2(5)]

There is no specific mention of the point at which a sale (in the case of situations covered by OTA75\S2(5)(a) and (b)) or appropriation (in situations covered by S2(5)(c)) becomes taxable.

But the meaning of subsections 5 (a) and (b) is plain; For sales to be taxable oil has to be “won from the field”, “disposed of” and “delivered in the period”, so the “tax point” for sales is the time at which oil is delivered to the buyer (see OT05050 for the effect of this on Term\Entitlement contracts).

For appropriations it is the time that the oil was “appropriated without being disposed of”, which we interpret as being the time when the decision to appropriate it was made.

Top of page

Exception: Shipped oil sold not at arm’s length (NAL) or appropriated

The above general rule is subject to one specific rule in cases where oil is shipped and sold on NAL terms.

For NAL sales and appropriations of oil which is not light gas (practically, crude oil, LPGs and Condensates), after 30th June 2006, OTA75\S12A\* determines the date of delivery or appropriation in the following circumstances;

(a) Where the oil has been loaded onto a ship offshore; the date of completion of load.

(b) Where the oil has been transported by pipeline to be loaded onto a ship somewhere in the UK; the date of the bill of lading.

In practice therefore the general rule will normally only apply in AL situations unless the oil is pipeline-delivered from the terminal to a refinery.

Top of page

Arm’s length CIF sales

OTA75\S2(5A)\*\* deems a date of delivery (as well as deeming a price) for sales where the seller is required by the sale contract to transport the oil to the place where it will be delivered. In such cases, the specific terms requiring the seller to transport the oil are disregarded and replaced by terms which require:

for oil extracted in the UK; that the oil is to be delivered at the place of extraction.

This means that for CIF sales of oil produced onshore, the date of delivery for tax purposes is the date the oil was produced.

For oil extracted within the UKCS and delivered into the UK; delivery is to be the place at which it would reasonably be expected to be delivered, or if there is more than one such place, the place nearest to the extraction point.

This means that for CIF sales of oil produced offshore and then brought to the UK, the date of delivery will be what it would have been if it had been delivered to the nearest normal point of delivery in the UK or if there is more than one such place, the place nearest to the extraction point.

This means that for CIF sales of oil produced offshore and then brought to somewhere outside the UK, the date of delivery will be what it would have been had it been delivered to the nearest normal point of delivery to the place of extraction, whether within the UK or outside it.

Delivery of offshore loaded oil directly to a point outside the UK:

The change introduced by FA06\sch18\para2(4) does not change the existing rules in circumstances under which they already apply. It extends them to address a perceived anomaly, to ensure that oil delivered directly to a country outside the UK, without being brought to the UK first, gets treated in the same way as oil delivered to the UK for onward transport to another country.

Where oil is delivered AL at a foreign port that is accepted by LB Oil & Gas as an acceptable “reasonable” place of delivery, LB Oil & Gas will continue to accept the actual date of delivery as the delivery date for the purposes of S2(5A). In such cases, LB Oil & Gas will also continue to allow the full sales value (i.e. including the CIF element) to be reported on the PRT1, and for the CIF costs to be claimed as a cost deduction under S.3(1)(f) OTA 1975 as was the legislative position prior to 1 July 2006. (see OT05100 and OT09175).

Footnotes

inserted by Para 5(1) Sch 18 FA 2006

\*\* as amended by Para 2(4) Sch 18 FA 2006

Previous page

Next page