HMRC - OT05075 - PRT: Computation - Currency Translation - Outline

PRT is charged “…in respect of profits from oil won…” (OTA75\S1(1)) and is so charged on the basis of

“…the price received or receivable…” for oil delivered in each chargeable period in respect of disposals in sales at arms length (OTA75\S2(5)(a)) and

the market value of deliveries in respect of disposals other than in sales at arm’s length and appropriations (OTA75\S2(5)(b) & (c)) and

one half the market value of closing stocks (OTA75\S2(5)(d)).

The charge is of course levied in sterling. The international trade in oil is however carried on largely in dollars and therefore the price receivable and the market values of most crude oil, condensates and LPGs is initially denominated in that currency. Most gas (with the exception of that landed overseas) is denominated in sterling.

In order to bring the receipts and values into charge to PRT it is therefore necessary to translate the foreign currency amounts into sterling and to do so without bringing in profits and losses in currency transactions as such items are clearly not profits from oil won. With the exception of the computation of nomination reconciliation (see below) the Oil Taxation Acts are silent on how this is to be achieved.

In these circumstances and in the light of the fact that companies differ in their currency exchange practices, LB Oil & Gas has been content to consider the question of the precise methods of translation on a case by case basis. There are however a number of general principles which are followed in considering arrangements to apply to individual participators and which underpin the various conventions as agreed.

The Relevant Conversion Date

Each of the main components that make up the PRT gross profit defined in OTA75\S2(5) are brought into charge by reference to the delivery or appropriation. Thus the date of delivery is the date on which it is relevant to consider the sterling value of any foreign currency transactions.

However it is also the case that the normal trading terms within the industry allow certain periods of credit before payments for deliveries actually become due. Thus the taxable proceeds from any transaction will not normally be received on the actual date of delivery. In recognition of this therefore LB Oil & Gas is content to accept that the date of payment can also be a determining factor in setting the relevant date for the purposes of the translation into sterling.

The clear principle in either case is that the relevant conversion date is tied closely to the terms of the actual sale and delivery of the oil or, in the case of non-arm’s length disposals and appropriations, where there may be no contracts as such, to the normal terms of delivery for the particular product concerned. Thus for crude oil for example the normal credit terms would suggest a date of payment of around 30 days after the delivery date.

Immediate Conversion

If, unusually, the proceeds of any foreign currency sale are actually received in sterling or are translated immediately on receipt into sterling then the actual receipts will be accepted for all PRT purposes.

Conventional Translation date

Normally however there is no immediate conversion into sterling. In these circumstances therefore LB Oil & Gas will agree with each participator a conventional transaction date: a date on which it is deemed that translation of the foreign currency receipts will have taken place for the purposes of computing the PRT gross profit. No account will then be taken of any actual translations or of any profits or losses accruing therefrom.

For arm’s length transactions therefore the conventional transaction date will be either the delivery date or will be closely linked to the receipt of the foreign currency either by reference to the actual date of receipt or to the due date under the contracts. On this last point however LB Oil & Gas would need to be satisfied as to the commercial reasons behind any unusual or non standard credit terms.

Similar principles are applied in agreeing conventional translation dates for non-arm’s length transactions. In many cases however there will be no actual contractual relationship between the seller and buyer of the oil or, in the case of pipeline deliveries in particular, no one date on which delivery can be conclusively said to have taken place. In these cases LB Oil & Gas has been prepared to accept a convention that takes a set day related to the delivery month (e.g. 15th of the month after the month of delivery) or an average rate convention (e.g. the average rate for the month after the month of delivery). Again however these conventions must be clearly linked to the actual months of delivery or appropriation and to the normal credit terms that might be expected for the particular product.

Stock is of course not delivered but a conventional translation date is still required in order to create a sterling value for inclusion in the gross profit computation. The most obvious conversion date is the last day of the chargeable period. LB Oil & Gas however is prepared to accept a convention that relates to the product itself and its eventual on-sale. Thus for crude oil the convention of 30 days after the end of the chargeable period (mirroring the normal 30 day credit period) is common. For products normally taken non-arm’s length and valued on an average basis, the average rate for the final month of the chargeable period or the rate for the 15th of the month following the chargeable period is acceptable.

A full list of all conventional translation dates currently recognised by LB Oil & Gas is in the appendices at OT19100).

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