HMRC - OT05150 - PRT: Computation - Stock And Oil In Transit

Closing Stock

The treatment of stock for PRT purposes does not follow the normal accountancy practice of lower of cost or market value. The usual treatment is regarded as inappropriate because of the difficulty in ascertaining precisely the cost of production and the high value of oil in relation to the cost of production.

Instead, for the purposes of PRT, a participator is charged under OTA75\S2(5)(d) on one-half of the market value of so much of his share of oil won and saved as he had either

not disposed of and not relevantly appropriated; or

disposed of but not delivered.

From 1st July 2006 , FA 2006 Sch 18 para 2(2) and (3) amends S2(4) (b) and 2(5)(d) to value stock at half its market value on the last business day of the chargeable period. Consequently, all stock will take the market value on that day, regardless of whether the participator sold oil of that kind at arm’s length or not in the chargeable period.

The last business day is used because OTA75 Sch 3 para 1A(3) requires that the Notional Delivery Day for closing stocks of a Chargeable Period is the last business day of that Chargeable Period. Business Days are Monday to Friday.

Opening stocks:

These will take the market value of the stocks on the last business day of the preceding chargeable period (OTA75\S2(4)(b))

Oil in Transit

Oil in the course of being transported to the place of first landing, oil in transit, is excluded from stock by OTA75\SCH3\PARA7.

With regard to oil landed by pipeline it is not realistic to regard oil as in stock as soon as it crosses the shoreline in its untreated state (and of course its valuation as stock would be at a different point and in a different state). In practice it is therefore included in stock only when it is in the state and has reached the place at which it is available for appropriation or disposal (i.e. when it emerges from the treatment plant into storage tanks).

Closing Stocks of LPGs

The computation of closing stocks under OTA75\S2(5)(d) should be made using the appropriate “commercial” conversion factors, i.e. those reported on form PRT2, and not at the oil allowance rate of 1,100 cubic metres per metric tonne. OTA75\S8(7) states that this rate applies only for the purposes of OTA75\S8 and it is not, therefore, appropriate for the purposes of OTA75\S2.

Oil Lost or Flared

There is a statutory anomaly for which a common-sense practice is adopted. It concerns oil that is lost or flared after having been won. If “disposed of” simply means “ended his possession of” then this oil would strictly enter stock under OTA75\S2(5)(d)(ii). If, on the other hand, its meaning is not so extensive then this oil would end up treated as stock under OTA75\S2(5)(d)(i). It could be argued however that the market value was nil. So in practice oil lost or flared is ignored.

Previous page