HMRC - OT05337 - Crude Oils And Products - Category 2 Basis Of Values Calculations

As with Category 1 oils the hypothetical contract is the basis for the valuation process. New OTA75\Sch3\para2(2AA) specifies the terms of the hypothetical contract for Category 2 oil:

“The market value of any particular quantity of Category 2 oil of any kind is the price for which that quantity of oil of that kind might reasonably have been expected to be sold under a contract of sale that meets the following conditions-

the contract is for the sale of the oil at arm’s length to a willing buyer;

the contract provides for delivery of the oil on the notional delivery day for the actual oil or within such period that includes that day as is normal under a contract at arm’s length for the sale of oil of that kind (or, if there is more than one such period, the shortest of them);

the contract is made on a date such that the period between that date and the notional delivery day for the actual oil is the normal period between contract and delivery in the case of a contract at arm’s length for the sale of oil of that kind (or, if there is more than one such period, the shortest of them);

the contract requires the oil to have been subjected to appropriate initial treatment before delivery;

the contract requires the oil to be delivered-

(i) in the case of oil extracted in the United Kingdom, at the place of extraction; or

(ii) in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom or another country at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction.

The terms as to payment which are to be implied in the contract are those which are customarily contained in contracts for the sale at arm’s length of oil of the kind in question.

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