HMRC - OT05965 - PRT: Terminal Liftings - Disposal Of Field Interests- Further Provisions (Regulation 8)

Where the seller of a field interest had not been applying the allocation rules operationally then the rules in regulation 7 may not be sufficient to prevent a mismatch between the tax and operational positions at the point of completion of sale. To ensure that the field purchaser’s projected opening entitlements as used for the purposes of first applying these rules is the same as his projected operational entitlements, adjustments (as outlined below) are made (where the following conditions apply) at the point of completion of sale. This will bring the seller’s departing field’s tax entitlements back into line with his projected operational entitlements at completion (and this value will be the value taken over by the purchaser), with consequential counterbalancing adjustments made to the tax entitlements of the seller’s fields remaining in the blend.

The conditions are:

the seller retains an interest in the blend, and

disposes of a field interest to an unconnected buyer (s.839 ICTA 88 definition of connection) (Reg 8(1))

Principles behind this adjustment:

The adjustment required is the cumulative difference, from the date the rules first applied to the disposal field up to its sale date, between the seller’s actual liftings and his allocated liftings under the rules. The cumulative difference to the month prior to that in which completion occurs should be known, and would then need to be updated for any further mismatch in respect of actual liftings by seller in his final month of ownership, compared with the allocation under these rules (in accordance with projected opening tax stock for this month, and the relevant proportion of projected production in that month).

Hydrocarbon accounting adjustments made to correct prior period forecast entitlements with actual figures will impact future liftings (not liftings already made by seller), so these should not be included in the calculation required by Regulation 8. They will impact the future entitlements and hence liftings of purchaser (as they relate to the interest that was sold) and seller (as they relate to his retained interests).

This adjustment is made by seller to his retained fields in the second month following that in which completion occurs so the adjustment can be calculated and taken into account by seller in lifting nominations for his remaining fields, giving seller chance to minimise further operational / tax mismatches on his retained fields.

The adjustment is calculated as follows

The difference between the seller’s operational closing stock and tax closing stock volumes in the field in question at the point of completion of sale (whether positive or negative) is allocated across the seller’s remaining field interests in blend and the amounts allocated will form part of the participator’s stock in those fields.

Operating closing stock?

This is essentially the participator’s actual share of unlifted oil from that field at the facility at the point of completion of sale. (Established under Step 1 of Reg 8).

Tax closing stock?

This is the participator’s share of unlifted oil from that field under the operation of these regulations at the point of completion of sale. (Established under Step 2 of Reg 8).

Allocation basis

The allocation basis will be the one applying for the participator’s field interests in that blend for the month in which the adjustment is to be made as determined under Reg 4 for that month except in determining ‘C’ the volume for the departing field will be deemed to be zero.

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