HMRC - OT10100 - PRT: Decommissioning - Allowable Expenditure (Continued)

OTA75\S3(1)(i)

For relief to be given, the expenditure needs to have been incurred for the purpose of one or more of the activities covered in OTA75\S3(1)(i). If at the time the expenditure is incurred, there is no decommissioning-related purpose, the expenditure in question is not allowable.

Mothballing Expenditure

One particular example where a distinction based on purpose might need to be drawn between allowable and disallowable expenditure is ‘mothballing’ expenditure (costs incurred on keeping an asset, such as a platform, in a fit and safe state while not being used for production). If a platform is mothballed pending the commencement of a planned decommissioning process, the related expenditure will be allowable under OTA75\S3(1)(i). The mothballing is an ancillary element of the decommissioning. But if production has ceased and the platform is mothballed with no set purpose, perhaps with the possibility of recommencement left open pending more favourable economic conditions, the mothballing expenditure will be disallowable even if the decision is taken at a later date to decommission the platform.

Redundancy

Statutory redundancy is allowable in any field under OTA75\S3(2) and non-statutory redundancy may possibly qualify for relief in a field if the claimant can show that a particular purpose test in OTA75\S3(1) (e.g. ‘winning oil’, OTA75\S3(1)(d), see OT09125) has been satisfied. On redundancy in general, see OT09300.

However, the view of LB Oil and Gas is that non-statutory redundancy is not allowable under OTA75\S3(1)(i) as a cost of decommissioning. The expenditure is incurred as a consequence of decommissioning and not for a decommissioning purpose.

Expenditure Incurred

The decommissioning-related expenditure also needs to have been incurred if it is to be allowed. The relevant rules specifying the time when expenditure is incurred are set out in FA93\S191, see OT14500. As such, provisions for future decommissioning costs are not admissible, nor are payments into trust funds and the like, or the cost of decommissioning insurance.

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