HMRC - OT10550 - PRT: Decommissioning - Allowable Expenditure: Exempt Gas Fields

OTA75\S10(3), OTA75\S10(3D)-(3H)

There are special rules relating to decommissioning-related expenditure that is allowable in fields producing, or which have produced, ‘exempt gas’. The exemption falls under OTA75\S10(1) and relates to gas sold to the British Gas Corporation under pre-July 1975 contracts. Effectively the sales are excluded from the computation of the participator’s gross profits, see OT05000 for further detail.

OTA75\S10(3) was amended by FA01\S103, which also inserted the further subsections, OTA75\S10(3A)-(3H). These provisions govern the allowance of certain expenditure allowable under OTA75\S3(1). Because of the exemption from gross profits of the pre-July 1975 gas, it follows that expenditure relating to the exempt gas should not be allowable. Expenditure otherwise allowable under OTA75\S3(1)(i) (‘closing down’ etc, see OT10050), OTA75\S3(1)(j) (‘restoration’, see OT10150) and OTA75\S3(1)(hh) (‘abandonment guarantees’, see OT10300) is therefore restricted by the rules in

OTA75\S10(3F)-(3H) (for expenditure under OTA75\S3(1)(i) and OTA75\S3(1)(j)) and

OTA75\S10(3D-(3E) and OTA75\S10(3H) (for expenditure under OTA75\S3(1)(hh))

if it is incurred on or after 7 March 2001.

See below for the rules relating to expenditure incurred before 7 March 2001.

‘Closing Down’ and ‘Restoration’ Expenditure, OTA75\S3(1)(i) And OTA75\S3(1)(j)

Expenditure which relates to the ‘closing down’ etc. of a qualifying asset (see OT10050) is only allowable in a field that is producing or has produced exempt gas to the extent that it is just and reasonable to attribute it to use of that asset in connection with

the ‘winning and saving’ of non-exempt oil and gas from that field (i.e. oil and gas that are subject to PRT)

the earning of tariff receipts that are chargeable in that field.

The term ‘winning and saving’ is not defined, but it relates to any activity (e.g. ‘winning’), for which expenditure will have been allowed or is allowable in respect of the asset.

‘Abandonment Guarantee’ Expenditure, OTA75\S3(1)(hh)

If a guarantee is acquired for a field that is producing or has produced exempt gas, one needs first to identify the expenditure attributable to those liabilities covered by the guarantee which relate to qualifying assets. Then, the cost of acquiring the guarantee (as reduced) is only allowable under OTA75\S3(1)(hh) to the extent that those assets have been used (or are expected to be used) in connection with

the ‘winning and saving’ of non-exempt oil and gas from that field (i.e. oil and gas that are subject to PRT)

the earning of tariff receipts that are chargeable in that field.

So if 90% of the guarantee covers liabilities that relate to qualifying assets, and exempt use of those assets amounts to 50%, and expenditure of £1m is incurred on the acquisition of an abandonment guarantee, the amount allowable under OTA75\S3(1)(hh) will be £450,000.

Old Rules

For decommissioning-related expenditure incurred before 7 March 2001 there was a different formula for allowance. Expenditure allowable under the three relevant provisions in OTA75\S3(1) was limited to the percentage that the total of exempt gas ever won from the field bore to the total of oil and gas ever won from the field. The FA01\S103 amendments were introduced primarily in order to take account of tariff receipts.

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