HMRC - OT10801 - Certainty - Decommissioning Relief Deeds

In the 2013 Budget, the Government announced that it would enter into contracts (decommissioning relief deeds) with companies operating in the UK and UK Continental Shelf to provide certainty on the level of relief they will receive when decommissioning installations and equipment.

Decommissioning relief deed also allows companies to provide decommissioning security on a post-tax basis rather than on the gross cost.

For the purposes of PRT the Deed achieves this in two ways:

It guarantees the amount of relief available for allowable decommissioning expenditure (the reference amount) that would have been available at the FA 2013 enactment date of 17 July 2013.

In the case of a default (an imposition in the Deed) it allows the company incurring the default costs to choose between the claimant’s own tax history; including that of predecessors in title; and the defaulter’s tax history; including predecessors in title.

To support the introduction of decommissioning relief deeds (DRDs) and allow companies to move from the provision of decommissioning security on a pre-tax basis to a post-tax basis Finance Act 2013 introduced a number of measures, for both PRT and RFCT/SC to:

extend the availability of decommissioning relief for onshore terminals used in connection with the winning of oil from an oil field part or all of which lies offshore (RFCT/SC),

allow HMRC to release taxpayer information where this is necessary to support the operation of DRDs (PRT),

amend the subsidy rules for decommissioning security settlements (PRT and RFCT/SC),

limit decommissioning relief between connected parties (RFCT/SC),

remove the charge to inheritance tax (IHT) on property held in decommissioning security settlements,

remove the possibility of income arising in a decommissioning security settlement being taxed twice, by amending the loan relationship rules (RFCT/SC),

provide for the taxation of any profit which arises to a company from incurring decommissioning expenditure as a consequence of another company’s default (RFCT/SC),

Information regarding Decommissioning Certainty and RFCT/SC can be found at OT28700.

Details of the model deed can be found on the government website at (search for ‘decommissioning relief deeds’).

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