HMRC - OT11025 - PRT: Long-Term Assets - Outline

Although, broadly speaking, the Oil Taxation Acts make no distinction between capital and revenue expenditure, there are special rules for PRT which relate to so-called ‘long-term assets’. These rules - in OTA75\S4, OTA83\S1-4 and OTA83\Sch1 - are superimposed upon the general requirements for the allowance of expenditure as prescribed by OTA75\S3 (see OT09025). Instead of applying the straightforward purposive test used for assets that are not long-term assets, expenditure on long-term assets is allowed if

they are used, or expected to be used in connection with a field and

this is for one or more of the OTA75\S3(1) purposes,

but excluding OTA75\S3(1)(b), acquisition of a relevant licence (OTA75\S12(2)).

We are therefore not concerned as such with the purpose for which the expenditure is incurred, as is the case for much of OTA75\S3(1). Rather what is important is that the asset is, or is expected to be, used in a field, and that the use, once the asset exists, will be for an OTA75\S3(1) purpose.

Definition of Long-Term Asset

OTA83\S3(8) defines a ‘long-term asset’ as an asset whose useful life continues after the end of the claim period in which it is first used in connection with the field of claim. While the bulk of such expenditure will be of a capital nature, it is not a requirement of the legislation; the terms are not interchangeable.

Development of Legislation

When OTA75 was enacted, the special rules concerning long-term assets were contained in OTA75\S4. These ‘old rules’ were designed to provide a framework for dealing with what is now the first generation of North Sea oil developments, which at the time were largely expected to be self-contained.

But as time elapsed and more fields came on stream, it became apparent that many smaller prospects could only be developed commercially as satellites of existing fields sharing some of their facilities. On some of the larger second generation fields extra equipment was added (e.g. pumping, processing, pipeline ‘T-joints’) to facilitate future use by known or projected other prospects. Additionally, as mature fields went into production decline, it made economic sense to have new fields tie into existing facilities to take up any spare capacity.

Because the ‘old rules’ were not adequately designed to deal with such arrangements, in particular shared use and tariffing (see OT15100), the department entered into a consultative process with the oil industry which culminated in their substantial amendment and extension of the rules by OTA83. Subject to particular transitional arrangements, the new rules covered long-term asset expenditure incurred after 30 June 1982 and also introduced provisions charging PRT on tariff and disposal receipts.

Specific types of Asset

A number of different classes of asset are specified by OTA83 as follows:

within OTA83\S3

non-mobile and mobile assets, see OT11050

within OTA83\S1

non-dedicated mobile assets (for which OTA75/S4 was adapted), see OT11100

and within OTA\SCH1

associated assets, see OT11250

remote associated assets, see OT11300

brought-in assets, see OT11500

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