HMRC - OT11250 - PRT: Long-Term Assets - Associated Assets

OTA83\SCH1\PARA1

Outline

Under OTA83\S3(1) relief is available only for expenditure on assets used (wholly or in part) in connection with the participator’s own field for one or more of the purposes set out in OTA75\S3(1), see OT11050. Where these field assets are also shared with another person for a tariff (see OT15400), further assets not themselves used for the field may also be used to facilitate this sharing. Such assets are known as ‘associated assets’.

OTA83\S3(3) provides that Part I of OTA83\Sch1 has effect to allow relief as appropriate for expenditure on such an ‘associated asset’ which would not otherwise be relievable under either OTA83\S3 (see OT11050) or OTA75\S3 (see OT09025).

For example, the participators in field A may agree to transport and process the fluids from field B in return for a tariff. If field A participators spend money on initial processing facilities on its platform, which are used by field B but not by field A, OTA83\S3 would not allow the expenditure in field A were it not for OTA83\Sch1\Para1. The processing facilities are an asset (or assets) associated with field A’s platform, for which relief is available under OTA83\S3.

If in fields A and B some of the participators have interests in common, an apportionment of the expenditure between the two fields is required under OTA83\Sch1\Para5 (see OT11400). Generally, the expenditure will be apportioned to the tariff receiving field, subject to the commercial arm’s length nature of the tariffing agreement and the need to net down the expenditure, see OT15450.

Detail

The associated asset rules apply to expenditure incurred on acquiring, bringing into existence or enhancing an asset after 30 June 1982. An associated asset is an asset which

is not mobile, see OT11050,

is not (or is not expected to be) used in connection with the ‘principal field’ (see below) at the end of the relevant claim period, see OT11050,

gives rise, or is expected to give rise, to qualifying tariff receipts,

is, or is expected to be, used after the end of the first chargeable period in which those tariff receipts arise,

is, or is expected to be, used in connection with another asset which is itself used, or expected to be used, in connection with the ‘principal field’.

OTA83\Sch1\Para1(3) provides that an asset is not to be regarded as associated with another asset that is or has been used or is expected to be used in connection with the ‘principal field’ unless it is used

in connection with another field

or in a way that would have constituted such use were it not for OTA75\S10(2) OTA75\S10(2) (‘exempt gas’, see OT13200), or the fact that the field was an external field and outside UK jurisdiction, see OT13500.

In other words, the processing facilities in the example above have to be used in connection with field B, or there has to be an expectation that they will be used in that field. The provision therefore ensures that no allowance is given for assets that are used for non-field activities, e.g. a pipeline from the terminal to an inland distributive network.

Expenditure on associated assets does not qualify for supplement since it is not incurred in whole or in part for one of the purposes listed at OTA75\S3(5), see OT12050.

Where the associated asset is ‘remote’, the rules for allowing relief are modified under OTA83\Sch1\Para2, see OT11300.

Principal Field

The ‘principal field’ is the field in which a participator incurs expenditure on an associated asset. The tariff receipts of such an associated asset are to be treated as being for the use of the asset in connection with the principal field and the related expenditure so qualifying for full front-end relief.

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