HMRC - OT11600 - PRT: Long-Term Assets - Subsequent Use Of Assets Outside Taxable Fields

OTA83\Sch1\Para8

Where a new asset -

ceases to be used for a qualifying purpose and

is used, or expected to be used, other than for a qualifying purpose,

and no disposal receipts arise within two years of the last use in connection with a taxable field

some of the relief previously given is withdrawn.

Here, qualifying purpose is taken to mean any use in connection with a taxable field but also any use other than an ineligible oil purpose (OTA83\Sch1\Para8(2A). Essentially an ineligible oil use is a use in connection with a non-taxable field (Para8(2B)). Prior to 30 June 2009 a ‘qualifying purpose’ was restricted to ‘use in connection with a taxable field’. This extension of the conditions in which a disposal charge is exempted followed extensive consultation with industry over concerns that the claw back of relief (effectively an exit charge) would prevent qualifying assets being used for change of use type activities such as carbon capture.

What remains allowable is the expenditure multiplied by the fraction A/B where

A is a reasonable estimate of the period

from first use by the purchaser for a taxable field (or if earlier when it first gave rise to tariff receipts)

and ending when the asset is, or is expected to be, used for the first time wholly otherwise than for a qualifying purpose.

B is a reasonable estimate of the useful life of the asset, or if it is a brought-in asset so much of that useful life as falls after the date when it was first used in connection with a field which is not an exempt field, see OT11500.

The balance is withdrawn.

If the new asset ceases to be used in connection with the taxable field itself but continues to be used to generate tariff receipts, or tax-exempt tariffing receipts (OT15810), the asset is treated as if it were used in connection with that field and therefore a qualifying purpose. No withdrawal of relief arises at that point, OTA83\Sch1\Para8(3).

OTA83\S7(4) prevents any charge on disposal receipts more than two years after cessation of a qualifying use (including tariff use). It will be necessary therefore to wait two years after cessation of field use to see whether or not OTA83\S7 applies before considering the withdrawal of expenditure.

Previously agreed expenditure is not revisited, but instead the amount to be withdrawn is treated as a disposal receipt of the purchaser arising from the asset in the chargeable period and for the field in which the asset ceased to be used, OTA83\Sch1\Para8(4).

If the asset has been used in connection with two or more taxable fields for which the expenditure has been allowed or is allowable, the chargeable period is determined in relation to the field in connection with which the asset was last used by the purchaser, or last gave rise to tariff receipts of the purchaser, or that would have last given rise to tariff receipts of the purchaser if these had not been tax-exempt tariffing receipts, whichever is the later, OTA83\Sah1\Para8(5).

OTA83\Sch1\Para8(6) caters for the situation in which, prior to the first qualifying use,

the asset ceases to be expected to be used in such a way

and thereafter is, or is expected to be, used otherwise than for a qualifying purpose.

The allowable expenditure is treated as reduced to nil. Under OTA83\Sch1\Para8(7) any expenditure previously allowed is treated as a disposal receipt of the purchaser in the chargeable period in which the expectation of taxable field use ceased.

But see OT13840 regarding possible allowance under OTA75\S5A (exploration and appraisal expenditure). The fact that expenditure is withdrawn under this paragraph and assessed as a disposal receipt does not preclude PRT relief for that expenditure in any field if the necessary conditions are met.

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