HMRC - OT12025 - PRT: Supplement - Outline

Supplement (or uplift as it is sometimes known) is a 35% addition to certain, ‘qualifying’, expenditure in accordance with OTA75\S2(9)(b)(ii) (for OTA75\SCH5 claims) and OTA75\S2(9)(c)(ii) (for OTA75\SCH6 claims). The rate of 35%has been in operation in relation to expenditure contracted for after 31 December 1978 (the previous rate being 75% with a transitional rate of 66 2/3%). The interaction of supplement with other provisions is considered at OT12750.

To qualify, the expenditure in question must be incurred by a participator

for one (or more) of the purposes detailed in OTA75\S3(5), see OT12050

and in any period up to and including the period in which the participator breaks even in the field of claim, the so-called ‘net profit period’ (NPP), see OT12650.

As well as relief not being available after the end of the NPP, supplement may also not be due where there are particular contractor payment arrangements, see OT12575.

The categories of expenditure qualifying for supplement (qualifying expenditure) very broadly correspond to the sort of expenditure which would be classed as capital on normal accountancy principles, but there may also be items which, on an accountancy basis, would be revenue but which nevertheless qualify for supplement, and vice versa.

Claims procedures are considered at OT12075.

Supplement is only available on expenditure that has a field-specific purpose. It follows that claims under OTA75\SCH7 do not attract supplement.

Background

One way of looking at supplement is as compensation for the absence of PRT relief for interest (OTA75\S3(4)(a), see OT09475). However, as it is given as a % of allowable expenditure, it is not directly related to financing costs.

In fact, in the High Court (see CIR v Mobil North Sea Ltd, 60TC333), Harman J rejected a submission that supplement is a proxy for finance costs, preferring to see it as an inducement to companies (deferring and reducing their liability to PRT) to exploit the North Sea. In the Court of Appeal Balcombe LJ agreed. He said (foot, page 344), ‘there is nothing in the Act to lead to this conclusion and, in my judgment, it is not permissible for the court to speculate on the particular reason for the inclusion of supplement as a deductible item in calculating the profits chargeable to PRT.’

But in the same case Lord Templeman did associate interest with supplement saying (page 350D), ‘no allowance is permitted for interest or other costs of borrowing but certain types of expenditure [qualify] for an additional deductible allowance, originally equal to 75 per cent of the amount of qualifying expenditure.’

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