HMRC - OT12650 - PRT: Supplement - Net Profit Period

Background

Originally eligibility for supplement was open-ended, but it became clear that there was little justification for an allowance, designed to cover finance costs, to continue after the ‘net profit period’ (NPP) when cumulative costs have been recovered out of sales of production. FA81\S111 therefore introduced cut-off provisions which provided that expenditure incurred in any chargeable period after the end of the NPP does not qualify for supplement. The cut-off is applied in relation to when expenditure is incurred, not when it is claimed and agreed (subject to the exception covered at OT12725). More detail of the adjustments required to ensure that an ‘incurred basis’ is operated can be found at OT12700.

Cut-off

In relation to chargeable periods ending after 30 June 1985, the NPP is the earliest chargeable period ending after a development decision has been made for the field and in which

the amount of oil won and saved from the field exceeds 1,000 metric tonnes or gas equivalent (see also OT17600) and

a net profit arises from the field, (i.e. broadly when cumulative total assessable profits exceed total allowable losses).

The Special Commissioners (now known as the first-tier tribunal) have considered the meaning of the phrase ‘the earliest chargeable period ending after a development decision has been made for the field’, OTA75\S111(1). They found that where a field receives more than one development decision it is only the first that is material for this purpose.

The time when a ‘development decision’ is made for the purposes of FA81\S111(1) follows the definition in OTA75\S5A(7) with regard to exploration and appraisal expenditure, see OT13975.

There are modifications to these basic rules where

the participatorreverts to a position of cumulative lossafter reaching the NPP (see OT12725) or

there is a transfer of field interest(see OT18000).

Calculation of Cumulative Net Profit

In computing whether a net profit has arisen, adjustments have to be made as follows:

any oil allowance (see OT17000) given is added back

any relief given for abortive exploration expenditure, exploration and appraisal expenditure or research expenditure is added back (see OT13750 onwards)

any relief given for unrelievable field losses (see OT16250) is added back

any cross field allowances (see OT13020) are added back

the effect of any spreading election (see OT13100) is to be ignored

while disposal and tariff receipts are taken into account, any tariff receipts allowance given must be added back (see OT15600).

Application to Safeguard

The timing of the net profit period not only governs the availability of supplement but also determines how many periods the safeguard reduction will be available for, (see OT17600).

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