HMRC - OT13250 - - Long-Term Asset Expenditure

OTA83\S4(1)

Long-Term Asset Expenditure (general) OTA83\S4(1)

In the case of exempt gas OTA83\S4(1) provides for a “just and reasonable apportionment” to be made where the expenditure incurred is on an asset, the use of which is partly in connection with production or transportation of that gas but is otherwise wholly allowable. The subsection provides for the exclusion of a just and reasonable proportion of the expenditure on the basis of use or expected use for exempt gas purposes. In the case of pipeline costs, the proportion might be arrived at by comparing throughput volumes. When considering a “just and reasonable apportionment” of pipeline costs for the purposes of exempt gas (OTA83\S4(1)), any attempt to adopt values of throughput should be referred to the Technical Adviser.

Expenditure relating to exempt gas expected to give rise to tariffs OTA83\S4(3)-(4)

OTA83\S4(3) provides that if expenditure relating to exempt gas, and so not admissible by virtue of OTA75\S10(2), relates to assets which are, or are expected to be, used in such a way as to give rise to tariff receipts, that related expenditure is to be treated as incurred on an asset used in connection with the field from which the excluded gas was won. The expenditure so apportioned on a just and reasonable basis is thus allowable against the tariff receipts.

OTA83\S4(4) provides that such use of an asset includes services or other business facilities.

Where oil production has ceased but tariff and disposal receipts continue OTA 83\Schedule 1\Para 3(3) ensures that exempt gas fields are in the same position as other taxable fields and that relief is given for ongoing operating costs of the owner field and that if there is a disposal, the asset is assumed to be being used in connection with the principal field.

Long-Term Asset expenditure linked to disposal OTA83\S4(5)

If expenditure is incurred on the enhancing of the value of an asset with a view to its subsequent disposal or of an interest in it, and the receipts will be chargeable as disposal receipts (see OT15060) then, if any part of the expenditure would not otherwise be admissible because it relates to exempt gas, a just and reasonable apportionment of it is to be attributed to use in connection with the field (OTA83\S4(5)).

Where the asset has been used for tax-exempt tariffing at any time in the period of 6 years ending with the date on which the expenditure was incurred there are special rules that reduce the amount of allowable expenditure. Broadly the rules in OTA83\S7A (OT15250) are adapted and applied so that the amount of the expenditure incurred in enhancing of the value of an asset with a view to its subsequent disposal, or of an interest in it, is reduced to reflect previous use for tax-exempt tariffing purposes.

Where all the oil included in computing the gross profit of a participator in a chargeable period is excluded oil, OTA83\Sch2\Para4 adopts the definition of “qualifying assets” in OTA83\S8 so as to make it apply to assets used in “exempt gas fields” other than mobile assets.

As a consequence of this definition, only disposals of non-mobile qualifying assets are within the charge to PRT on “exempt gas fields”. “Non-mobile” and “asset” are not defined.

LBS Oil & Gas practice is to regard what has been sold as the asset, and then to consider whether it is mobile or not.

Virtually all the assets which comprise part of, or are located on, a fixed platform would be regarded as non-mobile, irrespective of whether they move in the normal course of their operation, and therefore come within the scope of PRT. Examples would include pipe, steel sections, steel plate, elbows, trees, flanges, casing etc. Mobile assets would include supply boats and all the fittings etc. thereon.

“Taxable field” includes exempt gas fields for the purpose of withdrawing some of the relief previously given where a new asset ceases to be used in connection with an exempt gas field or ceases to generate tariff receipts, or tax-exempt tariffing receipts, and no disposal receipts arise within two years of the last use (OTA83\Sch1\Para8(1)). Thus if an exempt gas field received tariffs there would be a restriction of any expenditure allowed against them if that provision applies (OT11600).

Brought -in assets, OTA83\Sch1\Para7(2)-(3)

OTA83\Sch1\Para7(2) stipulates that no relief is available if there has been use at some time in the initial period as defined by OTA83\Sch1\Para7(1)(c), in connection with a field where all of the oil is exempt under OTA75\S10, and it was not reasonable at the beginning of the initial period to expect that the asset would be used in connection with an oil field (OT11500).

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