HMRC - OT13860 - PRT: Non-Field Expenditure - Receipts, Post 15 March 1983

Qualifying receipts, Abortive exploration and exploration and appraisal (E&A) expenditure

Where any allowable abortive exploration and E&A expenditure gives rise after 15 March 1983 to a capital or revenue receipt by the person incurring the expenditure or any person ‘connected’ with him, the amount allowable should be correspondingly reduced, OTA75\S5(6) and OTA75\S5A(4)-(5). Application to research expenditure is covered below.

OTA75\S5(7) imports the meaning of ‘connected’ from ICTA88\S839.

Where the receipt arises on the disposal of an asset for which allowance is restricted under OTA75\S5(2) (or OTA75\S5A(4)-(5)) the rules set out at OT13850 apply.

Such receipts are known as ‘qualifying receipts’ and are subject to the rules in FA83\SCH8\PARAS10-12.

FA83\SCH8\PARA11 prescribes that a participator should include in its PRT return the details of any such qualifying receipts. This will be a return for the chargeable period in which the receipt arose, or if there has been no underlying claim at that point, the chargeable period in which the claim is made. Participators should also identify the original expenditure claimed.

Under FA83\SCH8\PARA12(2) any excess allowance on the claim, once the receipt has been taken into account, is included in the positive amounts assessable in arriving at the participator’s profit for the chargeable period of receipt.

See OT17550 for the treatment of qualifying receipts in the calculation of the adjusted profit for safeguard purposes, FA83\SCH8\PARA12(3).

Qualifying receipts, research expenditure

OTA75\S5B(7) applies OTA75\S5(6) to research expenditure. Where an apportionment is required to exclude expenditure relating to non-UK purposes, a similar apportionment is made to the related receipt in accordance with OTA75\S5B(7)(c).

FA87\SCH13\PARAS10-12 mirror the provisions in FA83\SCH8\PARAS10-12 described above.

Particular qualifying receipts

Qualifying receipts could arise from ‘bottom hole contributions’ (see OT13875), the sale of oil won under ‘extended production tests’ where the underlying expenditure was incurred on or after 19 March 1985 (see OT13900) or the sale of exploration equipment. But this list is not exhaustive.

The E&A provisions also contain two specific exclusions:

any sum received for the assignment of licence rights, or of an interest in a licensed area, OTA75\S5A(5)(c)(ii)

any sum received in respect of expenditure incurred between 16 March 1983 and 18 March 1985 (inclusive) for the disposal of oil won in the course of operations carried out for E&A purposes is also excluded from the reduction, OTA75\S5A(c)(i).

Payment for associated company expenditure

Where a claim is made under OTA75\SCH7 in respect of an associated (see OT13810) company’s expenditure, the claimant company may make a payment to its associate for the benefit of that expenditure. The receipt by the associate of that payment should not constitute a receipt under OTA75\S5(6). In considering the words ‘gives rise’, a causal link must be established. The receipt arises not by virtue of the expenditure in itself but because the PRT benefit of the expenditure is being surrendered. A payment made in these circumstances is neither allowed to the payer nor taxed on the recipient for PRT purposes.

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