HMRC - OT13900 - PRT: Non-Field Expenditure - Receipts: Extended Production Tests

OTA75\S5A(5)(c)(i), OTA75\S5A(5A)-(5C)

Following an amendment by FA85\S90, OTA75\S5A(5)(c)(i) states that oil won under ‘extended production tests’ (EPTs) can specifically be treated as ‘qualifying receipts’ as covered at OT13860 where the underlying exploration and appraisal expenditure is incurred on or after 19 March 1985. The provision (together with OTA75\S5A(5A)-(5C) which relate to non-arm’s length disposals and appropriations), ensures that when such oil is won in the course of operations carried out for any of the purposes in OTA75\S5A(2)(a)-(c) (see OT13975), the amounts received will reduce the expenditure giving rise to them.

The receipts should be returned on Form PRT60A and details should be passed to the appropriate PRT Tax Specialist for agreement. Oil or gas won but used in the ordinary course of operations is excluded from the provision.

In 1985 UKOITC asked whether the sum received or treated as received for EPT oil under the 1985 amendments would be net after deducting costs of transportation and initial treatment and, in the case of arm’s length sales, the costs of disposal.

In a letter dated 9 July 1985 LB Oil & Gas replied in the following terms:

”As we see it, there are difficulties in accepting that sums received for the sale of oil, or the market value of oil can be reduced by the costs you mention. On the other hand S5A(2) OTA 1975 itself, detailing the purposes for which expenditure must be incurred to qualify for relief under the section, is capable of being construed to give the same result.

Although such costs would not be allowable under this subsection generally, I am prepared to confirm that where the expenditure related to EPT oil, in circumstances where FA85\S90 requires a restriction to be made to the expenditure allowable under OTA75\S5A by reference to the sale proceeds or market value of that oil, the costs of transportation, initial treatment and, for arm’s length sales, disposals will be accepted as expenditure allowable under OTA75\S5A up to the amount of any related restriction under FA85\S90.”

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