HMRC - OT14300 - Allowance - Outline

Provisional expenditure allowance was abolished with effect for chargeable periods beginning after 30 June 2009. However the clawback provisions (see OT14350) will continue to have effect in respect of provisional allowance given for chargeable periods ending on or before 30 June 2009.

PRT differs from other taxes in that expenditure relief does not reduce a company’s tax liability until the expenditure has been claimed by the company and allowed by LBS Oil & Gas. When the expenditure has been claimed and allowed, it reduces PRT for the next half-yearly assessment rather than necessarily for the half-yearly period in which it was incurred. For further details, see OT04390.

To compensate somewhat for the consequential timing disadvantages that might therefore ensue, OTA75\S2 provides for a provisional allowance for each chargeable period.

The provisional allowance is calculated under OTA75\S2(9)(a) and OTA75\S2(11) by reference to two components. If the first is greater than the second, the difference between them is the amount of provisional allowance to be given in the assessment together with any expenditure already allowed and linked to the chargeable period. If, conversely, the second exceeds the first, no provisional allowance is due.

The first component (OTA75\S2(9)(a)) is 5% of the amount included in the participator’s return (under OTA75\Sch2\Para2) in respect of its estimate of the total sale proceeds, or market values (computed in accordance with OTA75\Sch3\Para2) as appropriate, of sales and appropriations of oil for the chargeable period. The participator’s estimate of the market value of non-arm’s length disposals is used regardless of whether HMRC subsequently agree a higher or lower figure to be included in the assessment under OTA75\S2(5)(b) and OTA75\S2(5)(c).

If the participator fails to submit a return and an estimated assessment is made, no provisional allowance is available. Otherwise, once a return is made, a provisional allowance based on the incomings returned is made automatically.

The second component (OTA75\S2(11) is the amount of any expenditure claimed under Schedules 5 and 6 (but not any related supplement) which was incurred in the chargeable period in question and which has been allowed by HMRC for inclusion in the assessment for that chargeable period.

Licence Transfers

There are specific rules in FA80\Sch17\Para11 relating to provisional expenditure allowance where there has been a licence transfer. See OT18090.

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