HMRC - OT14540 - Issues - Accounting Systems

In practice, claims for expenditure will be based on data provided by companies’ accounting systems. Tax specialists will as part of their review of these (see Appendix 11 at OT19590) need to see how the systems identify and deal with amounts paid, accruals and provisions, including amounts due under long term contracts and whether they comply with FA93\S191(1)(2). In considering whether such expenditure has been incurred Tax Specialists will need to examine the full contractual arrangements involved and, in particular, will look at such documents as

Joint operating agreements and joint venture accounts

Management contracts (including ‘umbrella contracts’ with specialist companies)

Long-term asset contracts (on ‘milestone payments’ and supplement, see OT12575)

Authorisations for expenditure (AFEs) (but note that these, of themselves, will not be evidence of the incurring of expenditure, nor will cash calls made by operators in advance of relevant invoices qualify as deductions).

Statements of value of work done (VOWDs) (these, for example, will help indicate the extent to which a participator has satisfied the test in FA93\S191(2)).

If once the facts have been established and doubts remain about a particular payment or category of payment, advice should be sought from Revenue Accountants. Such advice will provide guidance but will not necessarily determine the issue as ultimately it is a matter of statutory interpretation. An example where we would not follow accounting treatment is a provision for future contractual payment which may be required to be made in the accounts in accordance with FRS12 but which may not be allowed for PRT because of the particular conditions affecting the obligation to pay.

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