HMRC - OT15210 - Receipts - Participators In Common

Netting Down of Transactions Participators in a field may buy an existing asset from the participators in another field or may pay tariffs for the use an asset owned by the participators in the other field. One or more companies may be participators in both fields. If all of the participators in the two fields are identical, the arrangements between the fields are unlikely to be effective for PRT purposes on general principles of contract law. Where not all of the participators are in both fields, it is possible to look at the transaction in two ways, namely

to take the view that the companies who are the owners of the asset could in principle enter into an agreement with the companies in the other field and to treat the payment and receipt as tax-effective in full, each with its own tax consequences, or

to disregard the part of the payment from a company to itself on the basis that it is a fiscal nullity, which is known as ‘netting-down’.

Which of these approaches is the correct one for any transaction depends on the facts and the legal relationships involved. Consideration should be given to what, as a matter of law, is the proper construction of the transaction agreement and the agreements governing the relationships of the parties (including the Joint Operating Agreement). Although there may be differences of opinion between the various parties concerning the interpretation of the facts and the documents, there will only be one correct position. It is therefore unlikely that different treatment will be agreed with individual parties to a transaction.

A company asking for clearance for a particular treatment to apply to a transaction will be expected to provide details of the relevant facts, issues and authorities, provide the appropriate documents and give views on the tax consequences with supporting reasons (including any legal advice received and details of any dispute with other parties as to treatment). The example below shows how netting-down is applied in practice.

Example

X and Y are each 50% participators in Field A and 50% owners of a pipeline. X (25%), Y (25%) and Z (50%) are participators in Field B and contract to use the Field A pipeline. X, Y and Z pay tariffs of 4,000 to X and Y.

X as a participator in Field B pays 1,000 (4,000 x 25%) of which 500 is to itself and so is ignored for PRT purposes. Y as a participator in Field B pays 1,000 (4,000 x 25%) of which 500 is to itself and so is also ignored for PRT purposes. Z pays 2000 (4,000 x 50%).

X and Y each receive 2,000 of which 500 is ignored as it is paid self-to-self.

In Field B 3,000 is allowable to X, Y and Z and in Field A 3,000 is chargeable on X and Y as follows:

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The same consequences apply to long-term assets, where for example assets are shared between two or more fields, see OT11400.

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