HMRC - OT15300 - Receipts - Restriction Of Supplement On Disposal

OTA83\S7(6)-(7)

On the disposal of a qualifying asset there is no recapture of supplement given on the original expenditure on the asset. Instead, for each participator separately, a restriction is made of any supplement due in the period in which the disposal takes place. On supplement generally, see OT12025.

The restriction is a fraction of the supplement due on the total of the OTA75\Sch5 and OTA75\Sch6 qualifying expenditure allowed in that claim period. The appropriate fraction is calculated as follows:

the numerator is the sum of the disposal receipts of the participator (limited to historic cost),

the denominator is the total allowable expenditure incurred in the claim period.

Having restricted an amount of supplement, OTA83\S7(6)(b) provides that a corresponding adjustment is to be made to the safeguard capital base, see OT17550.

If the fraction exceeds unity, the supplement allowable in the disposal period is nil. Conversely, if no supplement is allowable in the assessment for the chargeable period of the disposal, there can not be a restriction or corresponding adjustment.

As the denominator is the total allowable expenditure incurred in the claim period, it will not be possible to compute the correct OTA83\S7(6) adjustments until all claims for expenditure incurred for the period have been finalised. In practice the first calculation should be made when the main decision for the claim period is made. Unless the participator wishes otherwise, further recalculations should be deferred until all the remaining claims for the period have been received.

If expenditure in the claim period qualifies for supplement at more than one rate, the calculation of the safeguard base restriction will be by reference to the average rate in the period.

OTA83\S7(6)-(8) does not apply where there is a disposal of the assets in an exempt gas field, see OT13250.

Example

In 2H01 a qualifying asset was sold for 5,000. Allowable expenditure incurred in 2H01 was 10,000 (non-qualifying) and 40,000 (qualifying) on which supplement of 14,000 is due.

Supplement to be restricted: 14,000 x 5,000/50,000 = 1,400

Allowable supplement: 14,000 - 1,400 = 12,600

Qualifying expenditure added to safeguard capital base: 12,600 x 100/35 = 36,000

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