HMRC - OT15910 - PRT: Tax-Exempt Tariffing Receipts - Tax-Exempt Tariffing Receipts - Related Expenditure

Expenditure related to the use or expected use of an asset, or the provision of any services or other business facilities of whatever kind in connection with that use, for tax-exempt tariffing purposes is not allowable for PRT. This is because tax-exempt tariffing receipts (OT15810) are not charged to PRT.

Expenditure incurred on long term assets

Expenditure incurred in acquiring, bringing into existence or enhancing a long-term asset (OT11025) is allowable under OTA83\S3 where the asset is used or expected to be used in connection with a field and the use is for one or more of the purposes listed at OTA75\S3(1) (excluding S3(1)(b)). Tariffing use is not one of the OTA75\S3(1) purposes but there are rules in OTA83\Sch1\Para5 and OTA83\Sch1\Para6 that deal with the apportionment of expenditure where the asset is used, or expected to be used, for more than one field (OT11400). For tax-exempt tariffing purposes there is however a general restriction of expenditure.

Where the asset is used, or expected to be used, for tax-exempt tariffing purposes OTA83\S3A excludes from the expenditure that is allowable under OTA83\S3 the amount of the expenditure that it is just and reasonable to apportion to the use, or expected use, for tax-exempt tariffing purposes.

Expenditure (other than expenditure incurred on long term assets)

Expenditure incurred for the purpose of tax-exempt tariffing is not expenditure incurred for one or more of the OTA75\S3(1) purposes and as such it is not allowable. Where expenditure is incurred partly for one or more of the qualifying purposes listed at OTA75\S3(1) and partly not, it should be apportioned on a just and reasonable basis under OTA75\S3(6).

OTA75\S3(7) which modifies OTA75\S3(6) where the operating expenditure is (to some degree) tariff-related (OT09400) does not apply to where the asset gives rise to tax-exempt tariffing receipts as these are not tariff receipts.

Decommissioning Expenditure

Special apportionment rules apply to decommissioning expenditure (see OT10200). The relevant rules are in OTA75\S3(1C) and OTA75\S3(1D) as amended by FA01\S102. These ensure that only the expenditure that it is just and reasonable to apportion to the use of the asset in connection with the field of claim is allowable. The use of the asset in connection with tax-exempt tariffing is not use in connection with the field and as such the expenditure that it is just and reasonable to apportion to that use is not allowable.

Cost Allocation

For details of the cost allocation methodology applicable in tax-exempt tariffing situations (see OT15920).

Previous page

Next page