HMRC - OT15930 - PRT: Tax-Exempt Tariffing Receipts - Participators In Common And Connected Party Transactions

Where the participators in a field pay tariffs for the use an asset owned by the participators in another field, one or more of the companies concerned may be either:

a participator in both fields (a participator in common) or

a connected person (OT15580) in relation to a company which is a participator in the other field

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. In this situation the modified approach will not apply and the just and reasonable cost allocation should normally be calculated by reference to throughput or recoverable reserves as appropriate (see OT15920).

Where not all of the participators have interests in both fields and the tariff is a tax-exempt tariffing receipt (OT15810) the modified approach to cost allocation (OT15920) may apply whether or not there is any third party in either field.

Third Party involvement

Where not all of the participators have interests in both fields and at least one participator is neither a participator in common nor connected to a participator in the other field the agreement relating to the tax-exempt tariffing business should have been made at arm’s length. Where LB Oil & Gas is satisfied that this is the case the modified approach to cost allocation will apply to the costs attributable to the tax-exempt tariffing use of the asset in connection with the non-common interests and the common interests. The responsible person (OT04030) for the host field, or where appropriate the substitute operator, will be responsible for demonstrating to LB Oil & Gas that the agreement relating to the tax-exempt tariffing business was made at arm’s length.

No Third Party involvement

Where not all of the participators have interests in both fields but all the participators are either a participator in common or connected to a participator in the other field, and where LB Oil & Gas is satisfied that the tariff level is equivalent to that which would have been set in an arm’s length situation, the modified approach to cost allocation will apply to the costs attributable to the use of the asset in connection with all the interests. Where it is contended that the tariff level is equivalent to that which would have been set in an arm’s length situation the onus is on the responsible person for the host field to satisfy LB Oil & Gas that this is the case. A detailed review of the arrangements will be required in all such situations.

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