HMRC - OT16100 - Losses - Set Off Against Preceding Periods

OTA75\S7(2)

A participator may claim for its allowable loss to be set against an assessable profit accruing to it from the field for any preceding chargeable period. There is no specified form of claim or time limit for making one, but the claim needs to be made in writing to LB Oil & Gas before relief can be given.

The set off must be allowed against the most recent period for which an assessable profit has arisen. Before a loss can be used to extinguish PRT liability in an earlier chargeable period, it has to extinguish any assessable profit arising in intervening periods notwithstanding that no PRT is actually paid for those periods because of oil allowance or safeguard. See the example below.

It is not possible to carry back only part of the loss, nor to carry it back only to specified periods. If a carry back claim is made, all assessable profits for earlier periods must be extinguished before any remaining balance can be carried forward under OTA75\S7(1).

Example

If a claim under OTA75\S7(2) is made, the set off is made in CP 2. The loss for CP 3 cannot be used to offset the liability in CP 1 because in the intervening CP 2 an assessable profit of £30 arises even though this is covered by oil allowance.

If there is a loss arising in more than one chargeable period, each of which is subject to a claim under OTA75\S7(2), the loss arising in the earlier chargeable period should be relieved first on a ‘first in, first out’ basis. The issue can become complicated if there is a subsequent change in the amount of losses claimed, perhaps because of the allowance of expenditure on appeal, and the OTO will revisit the order of set off as necessary.

Order of set off can be significant for the calculation of repayment interest, see OT16600 on the rules in OTA75\Sch2\Para17.

The correct identification of losses giving rise to PRT repayments will also have a consequential effect on the participator’s CT computation, see OT21076 on ICTA88\S500.

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