HMRC - OT16290 - Losses - Unrelievable Field Losses - Unrelated Field Expenditure

The calculation of a UFL is also subject to OTA75\S6(5)-(9). These subsections require a reduction of the allowable loss to take account of any relief given for expenditure incurred outside the field. The rules introduced by FA95\S146 close a loophole in FA84\S113.

FA84\S113(1) prevents a company acquiring an interest in a PRT-paying field and then claiming PRT relief for non-field expenditure incurred before it became a participator in the field. FA84\S113(2) specifically prevents UFLs from being used to reduce the assessable profits of a field acquired after the permanent cessation of production by the loss-making field.

However, a UFL not so precluded might still include reliefs claimed for certain expenditure incurred which did not relate to the field. Once included in a UFL those reliefs would not be distinguished by time. Consequently, a UFL transferred to and relieved in a newly acquired field could include reliefs that arose before the field interest was in the company’s ownership. A company could therefore get round the FA84\S113(1) restriction by claiming the non-field relief in a field that was about to cease production and which was going to give rise to a UFL. It could then transfer those reliefs as part of the UFL to a field which had been acquired after the non-field expenditure had been incurred.

With effect from 29 November 1994, FA95\S146 removes from the calculation of a UFL any reliefs, claimed on or after that day, that are brought in from outside the field itself. As a result those reliefs will not be capable of use in a field acquired after the reliefs arose. The reliefs in question as set out in OTA75\S6(9) are

abortive exploration expenditure (OTA75\S5)

exploration and appraisal expenditure (OTA75\S5A)

research expenditure (OTA75\S5B)

cross field allowance (FA87\S65)

UFLs from another field (OTA75\S6).

Where such expenditure has been claimed (or an election made) on or after 29 November 1994 and has been allowed for any chargeable period (whether before or after 29 November 1994) then the UFL is to be reduced by that amount (OTA75\S6(5) and (6)).

More than one UFL can arise in a single field, see OT04005. When this happens the amount to be deducted is taken from the aggregate of UFLs, rather than in total from each one (OTA75\S6(7)). However, each UFL, appropriately reduced, will still be relieved individually. Such deduction is to be made against the UFLs in the order in which the UFL claims were received by the Board (OTA75\S6(8)).

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