HMRC - OT17250 - PRT: Oil Allowance - Treatment Of Gas

Gas Conversion Factor, OTA75\S8(7)

Under OTA75\S8(7), one metric tonne is equivalent to 1,100 cubic metres of gas at a temperature of 15 centigrade and pressure of one atmosphere. This follows the definition in OTA\S1(4), ‘critical half year’ (see OT04005).

Exempt Gas, OTA75\S8(3)

The C factor as defined in OTA75\S8(3) (see OT17150) excludes gas exempted from PRT under OTA75\S10(1), see OT13200.

Election under OTA75\S8(4)

OTA75\S8(4) allows a participator to elect for the oil allowance to be set against oil in priority to gas.

If the participator so elects, the cash equivalent of the oil allowance will be the total of the following two calculations (and see also the example below):

The first calculation

The A factor, or the participator’s gross profit for the period, is reduced by excluding receipts from gas disposals.

Gas is excluded from the C factor, or the total oil won and saved by the participator in the period.

The B factor, or the participator’s share of oil allowance is unchanged if it does not exceed the adjusted C factor. If it does, it is restricted to the adjusted C factor tonnage.

The second calculation (if the participator’s share of oil allowance exceeds the adjusted C factor)

The A factor is derived solely be reference to gas disposals.

Oil (other than gas) is excluded from the C factor.

The B factor is the balance of the participator’s share of oil allowance unused in the first calculation.

An election under OTA75\S8(4) is to be made in writing to LB Oil and Gas, acting for the Board, at the same time as a participator submits its PRT1 Return of incomings. No form is prescribed for the election and HMRC will regard unambiguous PRT calculations submitted on an elective basis as constituting an election.

There is no provision for the revocation of an election; any subsequent attempt to withdraw the election for that chargeable period will be refused by HMRC.

OTA75\S8(4) Election Example

If there is no election under OTA75\S8(4), the cash equivalent is £22m (A) x 120,000 (B)/150,000 (C) which equals £17.6m.

But an election here is to the participator’s advantage. Taking oil in priority to gas, there are therefore two calculations to make, namely for oil

and for gas

which results in a total £18.4m cash equivalent, an increase of £0.8m.

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