HMRC - OT18060 - PRT: Transfer Of Licence Interests - Accumulated Capital Expenditure (Or Safeguard Capital Base)

For accumulated capital expenditure or safeguard capital base generally, see OT17550.

Basic transfer provision, FA80\Sch17\Para8

FA80\SCH17\PARA8(1) provides for the transfer to the new participator (NP) of the old participator’s (OP) accumulated capital expenditure (or an appropriate part of it in the case of the transfer of a part-interest in a field) as at the end of the chargeable period before the transfer period. Any qualifying expenditure allowed in the assessment for the transfer period is dealt with under FA80\SCH17\PARA6 (see OT18040) and is added to the accumulated capital expenditure of whoever is entitled to the benefit of the expenditure.

FA80\SCH17\PARA8(2) makes it clear that any accumulated capital expenditure transferred is regarded as NP’s, and not as OP’s, at the end of the transfer period and later periods.

Provisions applying where transfer period is also safeguard period, FA80\Sch17\Para18

If the transfer period is also a safeguard period (see OT17600), this paragraph explains how the safeguard benefit is to be calculated for OP and NP. Its effect is to give OP and NP time- apportioned shares of the accumulated capital expenditure for the transfer period. See the example below.

Example

A has a 100% interest in a field and transfers 50% to B on 1 May 1985.

Accumulated capital expenditure at 31 December 1984 was £240m.

Expenditure of £42m qualifying for supplement is incurred in 1H1985

by A, to 30 April 1985 £18m, from 1 May 1985 £12m and

by B from 1 May 1985 £12m

and is all claimed and allowed under OTA75\SCH5.

The accumulated capital expenditure at the end of the transfer period is therefore £282m (£240m plus £42m).

A’s accumulated ‘capex’

B’s accumulated ‘capex’

FA80\SCH17\PARA18(1)(a) covers the pre-transfer fraction. FA80\SCH17\PARA18(1)(b) covers the post-transfer fraction.

In the above example the accumulated capital expenditure (‘capex’) at 31 December 1984 is time-apportioned between A and B according to their interests in the field before and after the transfer. A is entitled to all the capex prior to transfer (i.e. 2/3 x 240). Each of A and B are entitled to 50% of the capex in the post-transfer period (i.e. each take 1/3 x 120).

Capex incurred during the chargeable period is time-apportioned as follows. For the period up to the date of transfer A time apportions the expenditure that it incurred during the entire chargeable period (i.e. 2/3 x 30). For the period after the date of transfer both A and B time apportion their share of the total expenditure incurred during the entire chargeable period (i.e. in each case 1/3 x (42 x 50%))

Further rules, FA80\Sch17\Para18(2)

Where a participator is involved in two or more transfers in a chargeable period, only one transfer is used for this purpose. Where OP makes two transfers only the first is used. Where NP makes two acquisitions only the second is used. Where a participator is both a transferor and a transferee, the transfer that gives the smallest accumulated capital expenditure is taken.

Safeguard and FA80\Sch17\Para14 (surrender of new participator loss)

See OT18120.

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