HMRC - OT21245 - First-Year Allowances For A Ring Fence Trade: Plant And Machinery Used Wholly For The Purposes Of The Trade

CAA2001\S45F(1)(c)

First-year allowances are available only where the plant and machinery is provided for use wholly for the purposes of a ring fence trade (CAA2001\S45F(1)(c)). This deliberately focuses relief on assets used only within the ring fence, and avoids the excessive complications that would arise for mixed-use assets where the degree of ring fence usage might fluctuate considerably over time.

Regard should also be given to

CAA2001\S571, which provides that references to an asset include part of an asset, and

CAA2001\S270, which provides that a share in an asset should be treated as if it were part of an asset.

This means that CAA2001\S45F can be applied separately to each co-owner’s interest in a jointly owned asset. If a company acquires an interest in an asset for use wholly for the purposes of its ring fence trade, it may claim first-year allowances notwithstanding that other co-owners may use the asset for non-qualifying purposes. This is true even if a co-owner is a related company. This applies equally to the withdrawal of allowances (CAA2001\S45G see OT21246).

An example of this would be an asset in a transmedian field owned and used by participators in both UK and Norwegian sectors. Clearly the asset itself is not used wholly for the purposes of a ring fence trade. But, assuming a UK participator has licence interests only in the UK part of the field so that the profits from the interests are wholly within the supplementary charge, the cost of the UK participator’s interest in the asset concerned can be first-year qualifying expenditure.

The same approach may cover the position of an asset, an identifiable part of which is used wholly for ring fence purposes and the rest not. The cost of the “wholly” used part will be first-year qualifying expenditure, the cost of the rest will not, even if it is used partly for ring fence purposes.

The cost of a mixed-use asset, used for both ring fence and non-ring fence purposes, with no identifiable part used wholly for ring fence purposes, will not be first-year qualifying expenditure.

Pipelines

Tariff receipts from pipelines owned by companies which are not participators in oil fields are not brought within the ring fence by CTA2010\S291. Therefore, unless they are otherwise within the ring fence, they will not be subject to the supplementary charge. First-year allowances will not therefore be due on such pipelines.

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