HMRC - OT21601 - Hire Of Relevant Assets - Introduction

The oil contractors ring fence was introduced in Finance Act 2014, S73 and Sch16.

In this guidance the new ring fence is referred to as the contractor ring fence to distinguish it from the production ring fence.

The legislation (CTA2010, Part 8ZA) operates by splitting the amount allowable for the payment under a lease, typically a bareboat lease (OT43130), into two parts, see OT50000.

However, the legislation only applies where the lease is between associated persons. Without this additional protection it would be possible for an oil contractor to enter into separate contracts with an oil producer; one for the provision of a lease of an asset and one for the provision of the services to operate that asset in order to prevent the operation of CTA2010 Part 8ZA. In the unlikely event that an oil producer deliberately entered into such arrangements in order to reduce its own costs, it may well be acting together with the oil contractor and the lease would therefore be treated as one between connected parties.

To avoid uncertainty and to prevent more complex contracts being entered into to sidestep Part 8ZA of CTA2010, CTA2010\S285A has been introduced to split the amount paid under a lease by the oil producer into two parts.

The first part up to a prescribed cap is allowed as a deduction against the producers ring fence profit. The second part the excess above the cap can be set against any other non ring fence activity. This includes the option of surrendering the excess as group relief.

A non-statutory clearance service is offered by HMRC for all customers and their advisers who need clarification on guidance or new legislation. If a customer has fully considered the relevant guidance and has not been able to find the information required or remains uncertain about HMRC’s interpretation of CTA2010\S285A to their circumstances, they may make a request under the requirements set out on the HMRC Website -

Seeking clearance or approval for a transaction: Other Non-Statutory Clearance Guidance.

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