HMRC - OT26090 - Pre-Commencement Supplement

ICTA88\Sch19B\para9

A company may, before it starts to trade, acquire a licence interest and carry out oil exploration and appraisal activities in relation to that interest.

Qualifying companies (OT26083) that incur qualifying E&A expenditure (OT26083) in any accounting period ending on or after 1 January 2004 but before 1 January 2006, and before they set up and commence a ring fence trade can claim EES under the rules for pre-commencement supplement (OT26085).

Pre-commencement EES is calculated on a cumulative basis for each pre-commencement accounting period (see below). The pre-commencement supplement must be claimed for the period in which the company’s ring fence trade commences at the same time as the claim for R&D allowances on the qualifying E&A expenditure incurred before the commencement of the ring fence trade (OT26092).

To calculate the EES due for the pre-commencement periods, a company is deemed to have a mixed pool of qualifying E&A expenditure and EES which is carried forward from one period to the next. For any pre-commencement period, the expenditure to be added to the pool is

the qualifying E&A expenditure on which R&D allowances are claimed when the ring fence trade commences incurred in that pre-commencement period less any reduction by proceeds attributable to E&A expenditure due to license disposals, or unrelieved group ring fence profits (OT26091)

the EES for that period.

Transition to RFES

The amount in the EES pre-commencement mixed pool immediately before 1 January 2006 is renamed the relevant amount carried forward under Schedule 19B and included in the RFES mixed pool set up under ICTA88\Sch19C\para10 for the purposes of pre-commencement RFES (see OT26140).

For a company with a 31 December accounting date, the amount carried forward will be the amount in the EES mixed pool at the end the company’s accounting period ending 31 December 2005.

If a company has any other accounting date, the straddling period rules split the accounting period that straddles 1 January 2006 into two separate accounting periods, the first ending on 31 December 2005. It is the amount in the EES mixed pool at the end of that deemed accounting period that is included in the RFES pre-commencement mixed pool.

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