HMRC - OT26091 - Licence Disposals And Group Relief - Reductions To The Pre-Commencement Mixed Pool

ICTA88\Sch19B\para11, ICTA88\Sch19B\para12

The mixed pool for pre-commencement EES is reduced by proceeds attributable to E&A expenditure due to licence disposals, or unrelieved group ring fence profits. The reductions are made as follows.

Reduction on Disposal of Exploration Licence

A company which has acquired a licence interest and carried out exploration and appraisal activities may sell its interest before it starts to trade. In this case, some of the disposal proceeds may be attributable to the E&A.

If an exploration license is disposed of during a pre-commencement period, the mixed pool of E&A expenditure on which EES is calculated is reduced by the amount of the disposal proceeds that are attributable to the E&A expenditure incurred by the company. This follows the basic rule in CAA01\S555 - see OT26052.

The reduction is done as follows. First, the disposal proceeds referable to E&A expenditure from all pre-commencement licence disposals are added together. This total is then deducted from the qualifying E&A expenditure for each pre-commencement period, taking the latest period before earlier periods. The amount in the pool for any pre-commencement period may not be reduced below nil.

Reduction for Unrelieved Group Ring Fence Profits

The qualifying E&A expenditure for a pre-commencement period is reduced by the aggregate of any unrelieved group ring fence profits (see OT26087) arising in the pre-commencement period. This reduction is made after any reduction arising from the disposal of an oil licence in the pre-commencement period, but cannot reduce the balance in the pool below nil.

Note that, if there are surplus unrelieved ring fence profits, these are not carried back into the pool for an earlier period. This is different from the treatment of disposal proceeds from a licence sale.

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