HMRC - OT26203 - Capital Allowances: Extended Ring Fence Expenditure Supplement For Onshore Activities - Conditions For Relief And Outline

A qualifying company CTA2010\S329B

A company can claim ERFES only if it is a qualifying company. This is defined as a company which carries on a ring fence trade or is engaged in any activities with a view to carrying on a ring fence trade (OT21002 +).

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Onshore and oil-related activities CTA2010\S329C

Additionally, a company must carry on onshore oil-related activities. This is defined in CTA2010\S329C as having the same meaning as in Chapter 8 (supplementary charge: onshore allowance), CTA2010\S356BA & OT21515.

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Outline and the effect of ERFES

A qualifying company can claim ERFES in respect of:

qualifying pre-commencement onshore expenditure incurred before the ring fence trade is set up and commenced,

ring fence trade losses which relate to onshore oil-related activities,

some or all of the supplement (RFES) allowed for earlier periods, and

the additional supplement (ERFES) allowed in respect of earlier periods under Chapter 5A.

ERFES increases the value of unused expenditure carried forward from one period to another (OT26205). The rate of ERFES (the ‘relevant percentage’) is 10 per cent per annum. ERFES can be claimed in respect of not more than four accounting periods, but these need not be consecutive (OT26215). ERFES can only be claimed following RFES claims for six accounting periods.

The time limits for making ERFES claims are the same as time limits for claiming group relief, as set out in FA98\Sch18\para74, generally within 12 months of the filing date for the company’s tax return.

There are separate rules for pre-commencement expenditure OT26225 and for losses arising after the ring fence trade has started OT26250.

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Pre-commencement expenditure

For pre-commencement additional supplement, a ‘mixed pool’ is set up which includes qualifying pre-commencement onshore expenditure, pre-commencement supplement under Chapter 5 (RFES) and pre-commencement additional supplement under this Chapter (Chapter 5A). Cumulative ERFES can be claimed on the pooled amount in the first year of ring fence trading. The pre-commencement rules also contain special provisions to deal with disposals of assets for which allowances under CAA01 are due before trading begins.

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Post commencement losses

For post-commencement supplement, an ‘onshore ring fence pool’ is set up, which includes the company’s onshore ring fence losses, post-commencement supplement under Chapter 5 (RFES) and post-commencement additional supplement under this Chapter (Chapter 5A). Additional supplement can be claimed on the pooled amount, and the supplement is carried forward as an onshore ring fence trading loss.

In either case, if the company is part of a group, the pooled expenditure or losses must be reduced by any unrelieved ring fence profits of other members of the group, OT26220. The scheme is designed so that losses arising from expenditure that does not qualify for ERFES are set against profits before losses arising from qualifying expenditure, to maximise the potential ERFES available.

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