HMRC - OT26245 - Capital Allowances: Extended Ring Fence Expenditure Supplement For Onshore Activities - Reduction In Respect Of Unrelieved Group Ring Fence Profits From The Pre-Commencement Mixed Pool

CTA2010\S329L

The qualifying pre-commencement onshore expenditure for an accounting period (E) is reduced first by capital allowances disposal proceeds (D) allocated to the period (OT26240) and, if any remains, by unrelieved group ring fence profits of the period before it is added to the mixed pool for pre-commencement ERFES.

The qualifying expenditure E less so much of D as is allocated to the period is then reduced by the aggregate of any unrelieved group ring fence profits (OT26220) arising in the pre-commencement period. This reduction is made after any reduction arising from capital allowance disposal proceeds allocated to the period, but cannot reduce the balance to be added to the pool below nil.

Note: if the unrelieved ring fence profits of the period exceed E as reduced by allocated disposal proceeds, the surplus is not carried back against qualifying onshore expenditure of previous pre-commencement periods. This is different from the treatment of capital allowances disposal proceeds.

If the pre-commencement period is a straddling period, the unrelieved group ring fence profits for that period are to be determined as if the period began on 5 December 2013 and ends at the same time as the straddling period.

Where the company has carried on both onshore and off-shore oil related activities in the pre-commencement period then the unrelieved group ring fence profits are first to be reduced by the amount of the company’s net offshore expenditure for the period. In other words the offshore related losses are to be used first in preference to the onshore losses thus minimising the amount of the deduction under the section.

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