HMRC - OT26700 - Production Sharing Contracts - Capital Allowances And Ownership

It is a long-standing feature of the capital allowances regime for plant and machinery that allowances are only available to the owner of the relevant assets (CAA01\S11 & CAA01\S58).

In the mid-1980s, HMRC and the oil industry recognised that an oil company operating under a PSC might have only a limited entitlement to capital allowances because at some point it would fail the ‘ownership’ test, and they agreed on a solution. Under the practice adopted then, where the full costs of the plant or machinery did not qualify for capital allowances because the ownership test was failed, HMRC agreed not to tax an amount representing the proportion of Cost Recovery Oil (CRO) that “matched” the capital expenditure which did not qualify for allowances.

As there was no statutory basis for exempting CRO from the charge to tax, legislation was introduced in FA 2000. The legislation is at CAA01\167 to CAA01\S171.

Previous page

Next page