HMRC - OT28601 - Introduction

As part of the terms of becoming a participator in a North Sea licence, companies have a responsibility for decommissioning any installations and infrastructure remaining on an oil field once oil and gas production has ceased.

Decommissioning Security Agreements (DSA), are standard oil and gas industry agreements. Their use is not compulsory, but they can be used by joint venture partners as a means of agreeing decommissioning liability and ownership, and ensure that appropriate provision is in place to cover each company’s share of future decommissioning costs.

The model or template DSA will typically incorporate two trusts. One to deal with any monies placed in trust and a second which will deal with alternative provision for decommissioning e.g. letters of credit.

Where adopted the DSA provides for implementation of security arrangements and may reduce duplication. The DSA also provides protection against default for all parties including the Department of Energy and Climate Change (DECC).

The following paragraphs set out the HMRC view in relation to the tax treatment of sums paid into the trust, income arising to the trust, the question of liability to Inheritance Tax (IHT) and sums ultimately paid out of the trust to meet decommissioning costs.

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