HMRC - OT28701 - Decommissioning Relief Deeds

Decommissioning Relief Deeds (DRD) with companies operating in the UK and UK Continental Shelf to provide certainty on the level of relief they will receive when they decommission installations and equipment. In also it allows companies to provide decommissioning security on a post-tax basis rather than on the gross cost.

For the RFCT/SC the DRD and legislation achieves certainty in two ways:

It guarantees the amount of relief available for allowable decommissioning expenditure, the reference amount, that would have been available at the FA2013 enactment date of 17 July 2013.

In the case of a default (the DRD refers to an imposition) it guarantees that the company incurring the default costs will obtain RFCT and SC relief equal to 30% and 20% respectively on the default decommissioning expenditure incurred.

To support the introduction of DRD’s and allow companies to move from the provision of decommissioning security on a pre-tax basis to a post-tax basis FA2013 introduced a number of measures for PRT and RFCT/SC to:

extend the availability of decommissioning relief for onshore terminals of offshore used in connection with the winning of oil from an oil field part or all of which lies offshore (RFCT/SC),

allow HMRC to release taxpayer information where this is necessary to support the operation of DRDs (PRT),

amend the subsidy rules for decommissioning security settlements (PRT and RFCT/SC),

limit decommissioning relief between connected parties (RFCT/SC),

remove the charge to Inheritance Tax (IHT) on property held in decommissioning security settlements,

remove the possibility of income arising in a decommissioning security settlement being taxed twice, by amending the loan relationship rules (RFCT/SC),

provide for the taxation of any profit which arises to a company from incurring decommissioning expenditure as a consequence of another company’s default (RFCT/SC).

Detailed HM Treasury guidance on the background, scope and operation of the model DRDs can be found at https://www.gov.uk/government/consultations/decommissioning-relief-deeds-increasing-tax-certainty-for-oil-and-gas-investment-in-the-uk-continental-shelf

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