



# Oil Taxation Act 1975

## 1975 CHAPTER 22

### PART I

#### PETROLEUM REVENUE TAX

##### Modifications etc. (not altering text)

- C1** Pt. I construed as one with the following enactments: Finance Act 1986 (c. 41), **s. 109** (see s 109(6)); Advance Petroleum Revenue Tax Act 1986 (c. 68, SIF 63:1) (see s. 2(2)); Finance (No. 2) Act 1992 (c. 48), **s. 74** (by s. 74(6)); Finance Act 1993, Pt. III (other than s. 194) (see s. 195(3)); Finance Act 1994 (c. 9), **Pt. V** (see s. 257(2)); Finance Act 1999 (c. 16), **ss. 95-98** (see ss. 97(7), 98(7)); Finance Act 2001 (c. 9), **Sch. 32** (see s. 101(4)(5), Sch. 32 para. 11)
- C2** Pt I applied (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), **ss. 199(7)(c)**, 276(5), 289 (with ss. 60, 101(1), 171, 201(3)).
- C3** Pts. I III modified by Oil Taxation Act 1983 (c. 56), **s. 6A** (as inserted (22.7.2004) by Finance Act 2004 (c. 12), **s. 285(3)**)

#### 1 Petroleum revenue tax.

- (1) A tax, to be known as petroleum revenue tax, shall be charged in accordance with this Part of this Act in respect of profits from oil won under the authority of a licence granted under either [<sup>F1</sup>Part I of the Petroleum Act 1998] or the <sup>M1</sup>Petroleum (Production) Act (Northern Ireland) 1964; and in this Part of this Act “oil” means any substance so won or capable of being so won other than methane gas won in the course of operations for making and keeping mines safe.
- (2) For each oil field [<sup>F2</sup>which is a taxable field] the tax shall, in the case of each participator, be charged at the rate of [<sup>F3</sup>[<sup>F4</sup>0] per cent.] on the assessable profit accruing to him in any chargeable period from that field, as reduced under section 7 of this Act by any allowable losses and under section 8 of this Act by reference to his share, if any, of the oil allowance for that period, subject however to the limit imposed in his case by section 9 of this Act.
- (3) In relation to any oil field—

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- (a) the first chargeable period is the period ending at the end of the critical half year (including an unlimited time prior to the beginning of that half year); and
- (b) each subsequent half year is a chargeable period.

(4) In this section—

“the critical half year”, in relation to an oil field, means the first half year ending after 12th November 1974 at the end of which the total amount of oil ever won and saved from the field exceeds 1,000 [<sup>F5</sup>metric tonnes] (counting [<sup>F5</sup>1,100 cubic metres] of gas at a temperature of 15 degrees centigrade and pressure of one atmosphere as equivalent to one [<sup>F5</sup>metric tonne]);

“half year” means a period of six months ending at the end of June or December.

- (5) Schedule 1 to this Act shall have effect with respect to the determination of oil fields, and Schedule 2 to this Act shall have effect with respect to the management and collection of the tax; and this Part of this Act shall have effect subject to the further provisions in Schedule 3 to this Act and, in connection with certain gas sold to the British Gas Corporation, to section 10 of this Act.

#### Textual Amendments

- F1** Words in s. 1(1) substituted (15.2.1999) by 1998 c. 17, s. 50, **Sch. 4 para. 7(2)** (with Sch. 3 para. 5(1)); S.I. 1999/161, **art. 2(1)**
- F2** Words in s. 1(2) inserted (27.7.1993) by 1993 c. 34, **s. 185(4)(a)**
- F3** Words substituted by **Finance Act 1982 (c. 39), s. 132(1)** in relation to chargeable periods ending after 31 December 1982
- F4** Word in s. 1(2) substituted (with effect in accordance with s. 140(4) of the amending Act) by **Finance Act 2016 (c. 24), s. 140(1)**
- F5** Words substituted by **Finance (No. 2) Act 1979 (c. 47), s. 21(2)** in relation to chargeable periods and half years ending after 31 December 1978

#### Modifications etc. (not altering text)

- C4** See **Oil Taxation Act 1983 (c. 56), s. 12(5)** in relation to the charge of receipts attributable to the U.K. use of foreign fields assets received or receivable after 30 June 1982 and Sch. 1 para. 1(4) in relation to expenditure on associated assets used in connection with an external field
- C5** See **Finance Act 1982 (c. 39), s. 135(1)**
- C6** Definition applied for purposes of **Income and Corporation Taxes Act 1988 (c. 1), s. 500(5)** Deduction of PRT in computing income for corporation tax purposes

#### Marginal Citations

- M1** 1964 c. 28 (N.I.).

## 2 Assessable profits and allowable losses.

- (1) For the purposes of the tax the assessable profit or allowable loss accruing to a participator in any chargeable period from an oil field shall be computed in accordance with the following provisions of this section.
- (2) The assessable profit or allowable loss so accruing in the period is the difference (if any) between the sum of the positive amounts for the period and the sum of the negative amounts for the period; and that difference (if any) is an assessable profit if

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the sum of the positive amounts is greater than the sum of the negative amounts, and is otherwise an allowable loss.

- (3) For the period—
- (a) the positive amounts for the purposes of this section are the following (as defined in this section), namely the gross profit (if any) accruing to the participator in the period, his licence credit (if any) for the period, and any amount to be credited to him for the period in respect of expenditure; and
  - (b) the negative amounts for those purposes are the following (as so defined) namely the gross loss (if any) so accruing, his licence debit (if any) for the period, and any amount to be debited to him for the period in respect of expenditure.
- (4) [<sup>F6</sup>For the purposes of the tax (including advance petroleum revenue tax)] the gross profit or loss (if any) accruing to the participator in the period is the difference (if any) between—
- (a) the aggregate of the amounts mentioned in subsection (5) below; and
  - (b) one-half of the market value, [<sup>F7</sup>on the last business day] of the preceding chargeable period, of so much of his share of oil won from the field as he had [<sup>F8</sup>at the end of that period] either—
    - (i) not disposed of and not relevantly appropriated; or
    - (ii) disposed of but not delivered,and the difference (if any) is a gross profit if the said aggregate is greater than one-half of the said market value, and is otherwise a gross loss.
- (5) [<sup>F9</sup>Subject to [<sup>F10</sup>subsections (5A) and (5B)] below] the amounts referred to in subsection (4)(a) above are—
- (a) the price received or receivable for so much of any oil won from the field and disposed of by him crude in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);
  - (b) the aggregate market value, ascertained in accordance with Schedule 3 to this Act, of so much of any oil [<sup>F11</sup>(not being light gases)] so won and disposed of by him crude otherwise than in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);
  - (c) the aggregate market value, ascertained in accordance with Schedule 3 to this Act, of so much of any oil [<sup>F11</sup>(not being light gases)] so won as was relevantly appropriated by him in the period without being disposed of (excluding oil so appropriated before 13th November 1974); and
- [<sup>F12</sup>(ca) the market value, ascertained in accordance with paragraph 3A of Schedule 3 to this Act, of so much of any light gases so won and disposed of by him otherwise than in sales at arm's length as was delivered by him in the period; and
- (cb) the market value, ascertained in accordance with paragraph 3A of Schedule 3 to this Act, of so much of any light gases so won as was relevantly appropriated by him in the period without being disposed of; and]
  - (d) one-half of the market value, [<sup>F13</sup>on the last business day] of the period, of so much of his share of oil so won as he had [<sup>F8</sup>at the end of that period] either—
    - (i) not disposed of and not relevantly appropriated; or
    - (ii) disposed of but not delivered [<sup>F14</sup>and]
- [<sup>F15</sup>(e) the excess of the nominated proceeds for that period, as defined in section 61 of the Finance Act 1987].

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<sup>F16</sup>(5A) In any case where <sup>F17</sup>[oil] is disposed of in a sale at arm's length and the terms of the contract are such that the seller is required to transport the <sup>F18</sup>[oil] from a place on land in the United Kingdom <sup>F19</sup>[or another country]<sup>F20</sup>, or from its place of extraction (where that is in the territorial sea of the United Kingdom or a designated area),] for delivery at another place in or] outside the United Kingdom or to meet some or all of the costs of or incidental to its transportation from and to such places then, for the purposes of this Part of this Act—

- (a) the price received or receivable for the <sup>F18</sup>[oil] shall be deemed to be that for which it would have been sold, and
- (b) the <sup>F18</sup>[oil] shall be deemed to be delivered at the time it would have been delivered,

if the terms of the contract <sup>F21</sup>[did not require the seller to meet any such costs as are mentioned above but did require the <sup>F18</sup>[oil] to be delivered—

- (i) in the case of <sup>F18</sup>[oil] extracted in the United Kingdom, at the place of extraction; or
- (ii) in the case of <sup>F18</sup>[oil] extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom <sup>F22</sup>[or, in the case of oil first landed in another country, at the place in that or any other country]at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction.]]

<sup>F23</sup>(5B) The Board may by regulations make provision for the purposes of subsection (5)(a) to (c) for determining to which fields and in what proportions blended oil to which subsection (5C) applies is attributable.

(5C) This subsection applies to blended oil within the meaning of section 63(1A) of the Finance Act 1987 (other than light gases) which—

- (a) is not gaseous at a temperature of 15 degrees Centigrade and a pressure of one atmosphere, and
- (b) is not normally disposed of crude by deliveries in quantities of 25,000 metric tonnes or less.

(5D) Regulations under subsection (5B)—

- (a) may apply generally or only to specified cases or circumstances,
- (b) may make different provision for different cases or circumstances,
- (c) may make incidental, consequential, or transitional provision,
- (d) shall be made by statutory instrument, and
- (e) may not be made unless a draft has been laid before and approved by resolution of the House of Commons.]

(6) The participator's licence debit or credit (if any) for the period is the difference (if any) between—

- (a) the sum of the amounts mentioned in subsection (7) below; and
- (b) the sum of—
  - (i) the amount taken into account under paragraph (a) of that subsection in computing his licence debit or credit for the preceding chargeable period; and
  - (ii) the amount of any royalty repaid to the participator in the period in respect of the field;

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and that difference (if any) is a licence debit if the sum mentioned in paragraph (a) above is greater than the sum mentioned in paragraph (b) above, and is otherwise a licence credit.

(7) The amounts referred to in subsection (6)(a) above are—

- (a) the amount shown in the return for the period made under paragraph 2 of Schedule 2 to this Act as the amount of royalty payable for the period in respect of the participator's share of oil won from the field;
- (b) the amount of royalty paid in the period in respect of that share; and
- (c) any amount paid in the period in respect of any periodic payment payable to the [F24OGA] under any relevant licence otherwise than by way of royalty.

[F25(8) The amount (if any) to be debited or credited to the participator for the period in respect of expenditure is the sum of the amounts mentioned in subsection (9) below.]

(9) [F26Subject to section 192 of the Finance Act 1993] the amounts referred to in subsection (8)(a) above are—

- F27(a) .....
- (b) the participator's share, as determined on a claim under Schedule 5 to this Act, of the aggregate of—
  - (i) any expenditure allowable under section 3 or 4 of this Act for the field which has been allowed on such a claim before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field; and
  - (ii) an amount equal to [F2835 per cent.] of so much of that expenditure as has been so allowed on such a claim as qualifying for supplement under this sub-paragraph by virtue of subsection (5) of the said section 3,

so far as that share has not been taken into account in any previous assessment to tax or determination;

- (c) the aggregate of—
  - (i) any expenditure allowable in the case of the participator under section 3 or 4 of this Act which has, on a claim made by him under Schedule 6 to this Act, been allowed before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field; and
  - (ii) an amount equal to [F2835 per cent.] of so much of that expenditure as has been so allowed on such a claim as qualifying for supplement under this sub-paragraph by virtue of subsection (5) of the said section 3,

so far as that expenditure and amount have not been taken into account in any previous assessment to tax or determination;

- (d) any abortive exploration expenditure allowable in the case of the participator under section 5 of this Act which on a claim made by him under Schedule 7 to this Act has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination; and

- (e) any unrelievable field losses allowable in the case of the participator under section 6 of this Act which on a claim made by him under Schedule 8 to this Act have been allowed under that Schedule before the Board have made an

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- assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as those losses have not been taken into account in any previous assessment to tax or determination [<sup>F29</sup>; and]
- [<sup>F30</sup>(f) any exploration and appraisal expenditure allowable in the case of the participator under section 5A of this Act which, on a claim made by him under Schedule 7 to this Act, has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination][<sup>F31</sup>; and]
- [<sup>F32</sup>(g) any research expenditure allowable in the case of the participator under section 5B of this Act which, on a claim made by him under Schedule 7 to this Act, has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination.]

<sup>F33</sup>(10) .....

<sup>F33</sup>(11) .....

#### Textual Amendments

- F6** Words inserted by [Finance Act 1982 \(c. 39\), s. 139\(1\)\(6\)](#) and Sch. 19 para. 18 in respect to chargeable periods ending after 31 December 1982
- F7** Words in s. 2(4)(b) substituted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 2\(2\)](#)
- F8** Words substituted by [Finance Act 1987 \(c. 16\), s. 62\(2\)](#) for chargeable periods ending after 31 December 1986
- F9** Words inserted by [Finance Act 1982 \(c. 39\), s. 133\(1\)](#) with respect to chargeable periods ending after 31 December 1981
- F10** Words in s. 2(5) substituted (19.7.2006) by [Finance Act 2006 \(c. 25\), s. 148\(1\)](#)
- F11** Words in s. 2(5)(b)(c) inserted (3.5.1994) by [1994 c. 9, s. 236, Sch. 23 para. 1\(1\)](#)
- F12** S. 2(5)(ca)(cb) inserted (3.5.1994) by [1994 c. 9, s. 236, Sch. 23 para. 1\(1\)](#)
- F13** Words in s. 2(5)(d) substituted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 2\(3\)](#)
- F14** Word added by [Finance Act 1987 \(c. 16\), s. 61\(5\)](#)
- F15** S. 2(5)(e) added by [Finance Act 1987 \(c. 16\), s. 61\(5\)](#)
- F16** S. 2(5A) added by [Finance Act 1982 \(c. 39\), s. 133\(1\)](#) with respect to chargeable periods ending after 31 December 1981
- F17** Word in s. 2(5A) substituted (3.5.1994) by [1994 c. 9, s. 235\(1\)\(a\)](#)
- F18** Word in s. 2(5A) substituted (3.5.1994) by [1994 c. 9, s. 235\(1\)\(b\)](#)
- F19** Words in s. 2(5A) substituted (3.5.1994) by [1994 c. 9, s. 235\(1\)\(c\)](#)
- F20** Words in s. 2(5A) inserted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 2\(4\)](#)
- F21** Words in s. 2(5A) substituted (16.7.1992 with effect as mentioned in s. 74(5) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\), s. 74, Sch. 15 para. 1](#)
- F22** Words in s. 2(5A)(ii) inserted (3.5.1994) by [1994 c. 9, s. 235\(1\)\(d\)](#)
- F23** S. 2(5B)-(5D) inserted (19.7.2006) by [Finance Act 2006 \(c. 25\), s. 148\(2\)\(3\)](#)
- F24** Word in s. 2(7)(c) substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\), regs. 1\(2\), 4\(2\)](#)
- F25** S. 2(8) substituted (with effect in accordance with Sch. 43 paras. 1, 3(5) of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 43 para. 3\(2\)](#) (with [Sch. 43 paras. 2, 3\(5\)\(6\), 4](#))
- F26** Words in s. 2(9) inserted (27.7.1993) by [1993 c. 34, s. 192\(3\)](#)

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- F27** S. 2(9)(a) omitted (with effect in accordance with Sch. 43 paras. 1, 3(5) of the amending Act) by virtue of Finance Act 2009 (c. 10), **Sch. 43 para. 3(3)** (with Sch. 43 paras. 2, 3(5)(6), 4)
- F28** Words substituted by Finance (No. 2) Act 1979 (c. 47), **s. 19(1)** in relation to expenditure under post-31 December 1978 contracts. See, however, s. 19(3) of that Act where a change order has been made under a continuing pre-1 January 1979 contract
- F29** “; and” added by Finance Act 1983 (c. 49), **s. 37(2)** and Sch. 8 Part II para. 1
- F30** S. 2(9)(f) added by Finance Act 1983 (c. 49), **s. 37(2)** and Sch. 8 Part II para. 1
- F31** “; and” added by Finance Act 1987 (c. 16), **s. 64(2)** and Sch. 13 Part II para. 1
- F32** S. 2(9)(g) added by Finance Act 1987 (c. 16), **s. 64(2)** and Sch. 13 Part II para. 1
- F33** S. 2(10)(11) omitted (with effect in accordance with Sch. 43 paras. 1, 3(5) of the amending Act) by virtue of Finance Act 2009 (c. 10), **Sch. 43 para. 3(3)** (with Sch. 43 paras. 2, 3(5)(6), 4)

#### **Modifications etc. (not altering text)**

- C7** S. 2 modified by Finance Act 1991 (c. 31, SIF 63:1), **s. 108(4)**.
- C8** See also: Finance (No. 2) Act 1979 (c. 47), **s. 22** Finance Act 1980 (c. 48), **s. 108**; Finance Act 1981 (c. 35), **ss. 118, 126**; Oil Taxation Act 1983 (c. 56), **ss. 6, 7, 9, 12** and Schs. 2, 4
- C9** See Finance Act 1982 (c. 39), **s. 134(3)** where an election for alternative valuation of ethane applies and s. 140(2)(4) in regard to increase of gross profit by reference to royalties in kind for purposes of APRT; Finance Act 1986 (c. 41), **s. 109(4)** where an election for alternative valuation of light gases applies
- C10** S. 2(5A) applied (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), **ss. 280(9), 1184(1)** (with Sch. 2)
- C11** See Oil Taxation Act 1983 (c. 56), **Sch. 1 para. 2** where expenditure incurred in respect of a remote associated asset
- C12** S. 2(9) excluded (27.7.1993) by 1993 c. 34, **s. 192(3)**
- C13** See Finance Act 1987 (c. 16), **s. 65(5)**
- C14** See Oil Taxation Act 1983 (c. 56), **s. 3(6)** and Sch. 1 para. 2
- C15** See Oil Taxation Act 1983 (c. 56), **s. 7(6)** for reduction of supplement when there are disposal receipts in any chargeable period ending after 30 June 1982
- C16** See Finance Act 1981 (c. 35), **ss. 111–113, 115**
- C17** See Income and Corporation Taxes Act 1988 (c. 1, SIF 63:1), **s. 493**

### **3 Allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure).**

- (1) Subject to the provisions of this section and Schedules 4, 5 and 6 to this Act, the expenditure allowable under this section for any oil field is any expenditure (whether or not of a capital nature) which, not being expenditure to which section 4 of this Act applies, is incurred by a person at or before the time when he is a participator in the field to the extent [<sup>F34</sup>subject to subsection (7) below] that it is incurred for one or more of the following purposes, namely—
- (a) searching for oil anywhere within the area of the field as subsequently determined under Schedule 1 to this Act or not more than 5,000 metres beyond the boundary of that area;
  - (b) making to the [<sup>F35</sup>OGA] any payment under or for the purpose of obtaining a relevant licence, not being a payment by way of royalty or other periodic payment;
  - (c) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) the extent or characteristics of any oil-bearing area wholly or partly included in the field, or what the reserves of oil of any such oil-bearing area are;

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- (d) winning oil from the field;
  - (e) measuring the quantity of oil won or to be won from the field;
  - (f) in the case of oil won from the field that was so won from strata in the sea bed and subsoil of either the territorial sea of the United Kingdom or a designated area, transporting it
    - [<sup>F36</sup>(i)] to the place where it is first landed in the United Kingdom [<sup>F37</sup>[<sup>F38</sup> or
    - (ii) to the place in the United Kingdom or, in the case of oil first landed in another country, to the place in that or any other country (other than the United Kingdom)]

at which the seller in a sale at arm's length could reasonably be expected to deliver it or, if there is more than one place at which he could reasonably be expected to deliver it, the one nearest to the place of extraction];
  - (g) the initial treatment or initial storage of oil won from the field;
  - (h) disposing of any oil won from the field which is disposed of crude in sales at arm's length;
  - [<sup>F39</sup>(hh) obtaining an abandonment guarantee, as defined in section 104 of the Finance Act 1991]
  - [<sup>F40</sup>(i) closing down, decommissioning, abandoning or wholly or partially dismantling or removing any qualifying asset;
  - (j) carrying out qualifying restoration work consequential upon the closing down of the field or any part of it.]
- [<sup>F41</sup>(1A) In this section “qualifying asset” has the same meaning as in the Oil Taxation Act 1983; and, in the case of a qualifying asset which was leased or hired, the reference in subsection (1)(i) above to decommissioning includes a reference to carrying out any restoration or similar work which is required to be carried out to comply with the terms of the contract of lease or hire.
- (1B) In subsection (1)(j) above “qualifying restoration work”, in relation to a participator in an oil field, means—
- (a) restoring (including landscaping) land on which a qualifying asset is or was situated; or
  - (b) restoring the seabed (including the subsoil thereof) on which a qualifying asset is or was situated.]
- [<sup>F42</sup>(1C) In any case where—
- (a) any expenditure incurred by a participator in a taxable field would, apart from this subsection, be allowable for the field under subsection (1)(i) or (j) above, and
  - (b) the qualifying asset that is relevant to the incurring of that expenditure has at some time been used otherwise than [<sup>F43</sup>for a qualifying purpose],
- only the relevant portion of the expenditure is allowable for the field under subsection (1)(i) or (j) above.
- (1D) In subsection (1C) above “the relevant portion” of the expenditure is the portion of the expenditure that it is just and reasonable to apportion to use of the asset that is use [<sup>F44</sup>for a qualifying purpose].
- [ In subsections (1C) and (1D) a reference to use for a qualifying purpose is a reference
- <sup>F45</sup>(1DA) to—
- (a) use in connection with the taxable field mentioned in subsection (1C), and



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- (b) other use in—
- (i) the United Kingdom,
  - (ii) the territorial sea of the United Kingdom, or
  - (iii) a designated area,
- except use wholly or partly for an ineligible oil purpose.
- (1DB) In subsection (1DA)(b) the reference to use for an ineligible oil purpose is a reference to—
- (a) use in connection with an oil field other than the taxable field mentioned in subsection (1C), and
  - (b) use for any other purpose (apart from a purpose falling within section 3(1)(b)) of a separate trade consisting of activities falling within <sup>F46</sup>the definition of “oil-related activities” in section 274 of CTA 2010].
- (1DC) In subsections (1DA) and (1DB) a reference to use in connection with a taxable field or other oil field includes use giving rise to receipts which, for the purposes of the Oil Taxation Act 1983, are tariff receipts.]
- (1E) Subsections (1C) and (1D) above have effect subject to the transitional provisions in section 102(5) to (11) of the Finance Act 2001.]
- (2) Subject to the following provisions of this section and Schedules 4, 5 and 6 to this Act, where any amount is <sup>F47</sup>... <sup>F48</sup>[under section 77 of the Income Tax (Trading and Other Income) Act 2005 (“ITTOIA 2005”)]<sup>F49</sup>or section 77 of the Corporation Tax Act 2009] (statutory redundancy payments) allowable as a deduction in computing for any accounting period the profits or losses of the relevant trade carried on by a person who was in that period a participator in an oil field, or would be so allowable under <sup>F50</sup>... <sup>F51</sup>[that section] if it were not otherwise so allowable, then that amount <sup>F52</sup>... shall be expenditure allowable under this section for that field.
- In this subsection “the relevant trade”, in relation to a participator in an oil field, means the separate trade which by virtue of <sup>F53</sup>section 16 of ITTOIA 2005 or section 279 of CTA 2010 consists of activities carried on by the participator that fall within the definition of “oil-related activities” in section 16(2) of ITTOIA 2005 or section 274 of CTA 2010 or which would have so consisted if those sections] had additionally had effect as regards all past chargeable periods <sup>F54</sup>(as defined by section 1119 of CTA 2010)].
- (3) Expenditure is not allowable under this section for any oil field if, or to the extent that, it has been allowed under Schedule 5 or 6 to this Act for any other oil field or has been allowed under Schedule 7 to this Act in connection with any oil field <sup>F55</sup>[but where expenditure allowable under section 5A <sup>F56</sup>or section 5B] of this Act has been allowed on a claim under Schedule 7 to this Act, nothing in this subsection shall prevent a claim being made for an allowance under this section in respect of the same expenditure unless the person making the claim is the participator who made the claim under that Schedule].
- (4) The expenditure allowable under this section for any oil field does not include—
- (a) expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit; or
  - (b) the cost of acquiring any land or interest in land, other than the cost of making to the <sup>F35</sup>OGA] any payment falling within subsection (1)(b) above; or
  - (c) the cost of acquiring or erecting any building or structure on land, except—

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- (i) a structure to be subsequently placed on the sea bed<sup>F57</sup> . . . ; or
- (ii) a building or structure used or to be used wholly in the process of winning oil from strata in or under land or of measuring the quantity of oil won or to be won from such strata; or
- (iii) a building or structure used or to be used for initial treatment or initial storage of oil; or
- [<sup>F58</sup>(iv) a building or structure used or to be used for transporting such oil as is mentioned in subsection (1)(f) above from the place where it is first landed [<sup>F59</sup>to the place in the United Kingdom or, in the case of oil first landed in another country, to the place in that or any other country (other than the United Kingdom)] at which the seller in a sale at arm's length could reasonably be expected to deliver it or, if there is more than one place at which he could reasonably be expected to deliver it, the one nearest to the place of extraction; or]
- (d) any expenditure wholly or partly depending on or determined by reference to the quantity, value or proceeds of, or the profits from, oil won from the field; . . .<sup>F60</sup>
- (e) any payment made for the purpose of obtaining a direct or indirect interest in oil won or to be won from the field, other than a payment made to the [<sup>F35</sup>OGA] ; [<sup>F61</sup>or
- (f) any payment made in pursuance of a notice under section 77C of the Taxes Management Act 1970 (notice requiring licence-holder to pay unpaid tax assessed on non-UK resident);]

but nothing in paragraph (e) above shall be taken to apply to a payment made by a participator in pursuance of a contract whereby expenditure incurred for any of the purposes mentioned in subsection (1) above is to be shared between that participator and any of the other participators in the field.

- (5) [<sup>F62</sup>Subject to subsection (5A) below] expenditure allowable under this section for an oil field qualifies for supplement under section 2(9)(b)(ii) or (c)(ii) of this Act if and to the extent that it is incurred for one or more of the following purposes, namely—
- (a) bringing about the commencement of the winning of oil from the field or the commencement of the transporting of oil won from it to the United Kingdom [<sup>F63</sup>or another country];
  - (b) ascertaining (whether before or after the determination of the field under Schedule 1 to the Act) any of the matters mentioned in subsection (1)(c) above;
  - (c) carrying out works for, or acquiring an asset or an interest in an asset to be used for the purpose of, substantially improving the rate at which oil can be won or transported to the United Kingdom [<sup>F63</sup>or another country] from the field, or preventing or substantially reducing a decline in that rate; or
  - (d) providing any installation for the initial treatment or initial storage of oil won from the field;

but expenditure incurred in hiring an asset shall not so qualify unless the asset is used in carrying out works for a purpose mentioned in paragraph (a), (b) or (c) above or works for the provision of any such installation as is mentioned in paragraph (d) above.

[<sup>F64</sup>(5A) Where expenditure incurred in relation to an asset is incurred—

- (a) in part for one of the purposes specified in subsection (5) above (or for what would be one of those purposes if section 10(2) below were disregarded), and

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(b) in part for the purpose of enabling the asset to be used in a way giving rise to tariff receipts within the meaning of the Oil Taxation Act 1983, then, to the extent that the expenditure is incurred for the purpose mentioned in paragraph (b) above, it shall be treated for the purposes of this Part of this Act as incurred for one of the purposes specified in subsection (5) above.]

[<sup>F65</sup>(5B) Expenditure incurred by a participator in an oil field shall be taken to be incurred for the purpose mentioned in paragraph (hh) of subsection (1) above if, and only if,—

- (a) it consists of fees, commission or incidental costs incurred wholly and exclusively for the purposes of obtaining an abandonment guarantee; and
- (b) the abandonment guarantee is obtained in order to comply with a term of a relevant agreement relating to that field under which the participator is required to provide security (whether or not specifically in the form of an abandonment guarantee) in respect of his liabilities to contribute to field abandonment costs;

and expressions used in this subsection shall be construed in accordance with section 104 of the Finance Act 1991.]

(6) [<sup>F66</sup>Without prejudice to any apportionment under [<sup>F67</sup>subsections (1C) and (1D)] above] for the purposes of subsections (1) and (5) above [<sup>F66</sup>other than paragraph (hh) of subsection (1)] expenditure incurred partly for one or more of the purposes there mentioned and partly not shall [<sup>F62</sup>subject to subsection (7) below] be apportioned in such manner as is just and reasonable [<sup>F68</sup>and where, in the case of oil won as mentioned in paragraph (f) of subsection (1) above, expenditure is incurred in transporting—

- (a) oil first landed in the United Kingdom to a place in the United Kingdom which is not the nearest place referred to in sub-paragraph (ii) of that paragraph, or
- (b) oil first landed in another country to a place in that or any other country (other than the United Kingdom) which is not the nearest place so referred to, so much of that expenditure as does not exceed what would have been the expenditure incurred in transporting it to that nearest place shall be regarded as falling within the said paragraph (f).]

[<sup>F64</sup>(7) In any case where—

- (a) expenditure which is incurred by any person as mentioned in subsection (6) above is so incurred in connection with a long-term asset, and
- (b) the long-term asset gives rise to receipts which, for the purposes of the Oil Taxation Act 1983, are tariff receipts of that person attributable to the field for which any of that expenditure is so allowable,

then, so far as relates to that field, in making in accordance with subsection (6) above any apportionment for the purposes of either or both of subsections (1) and (5) above, the whole of the relevant expenditure shall be apportioned to one or more of the purposes mentioned in that subsection or, as the case may be, those subsections.

(8) In subsection (7) above—

- (a) “long-term asset” means an asset whose useful life continues after the end of the claim period for which a claim is first made for an allowance in respect of expenditure incurred in connection with the asset; and
- (b) “relevant expenditure” means that portion of the expenditure in connection with the asset which is reasonably attributable to the use of the asset which gives rise to the receipts referred to in subsection (7)(b) above.]

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### Textual Amendments

- F34** Words inserted by [Oil Taxation Act 1983 \(c. 56\)](#), **s. 5(1)(a)** with respect to expenditure incurred after 30 June 1982
- F35** Word in s. 3 substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\)](#), regs. 1(2), **4(3)**
- F36** Word in s. 3(1)(f) inserted (16.7.1992 but with effect in accordance with [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), s. 74, **Sch. 15 para. 2(1)(a)**
- F37** Words inserted by [Finance \(No. 2\) Act 1979 \(c. 47\)](#), **s. 20(1)** in relation to expenditure claimed after 31 December 1978
- F38** S. 3(1)(f)(ii) and preceding word substituted (16.7.1992 but with effect in accordance with [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), s. 74, **Sch. 15 para. 2(1)(b)**
- F39** S. 3(1)(hh) inserted by [Finance Act 1991 \(c. 31, SIF 63:1\)](#), **s. 103(2)**(with respect to expenditure incurred on or after 19.3.1991).
- F40** S. 3(1A)-(1D) inserted by [Finance Act 1991 \(c. 31, SIF 63:1\)](#), **s. 103(4)(8)**.
- F41** S. 3(1)(i)(j) substituted for para. (i) by [Finance Act 1991 \(c. 31, SIF 63:1\)](#), **s. 103(3)**(with respect to expenditure incurred after 30.6.1991).
- F42** S. 3(1C)-(1E) substituted (11.5.2001 with effect as mentioned in [s. 102\(4\)](#) of the amending Act) for s. 3(1C)(1D) by [2001 c. 9](#), **s. 102(1)**
- F43** Words in s. 3(1C)(b) substituted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 41 para. 1(2)**
- F44** Words in s. 3(1D) substituted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 41 para. 1(3)**
- F45** S. 3(1DA)-(1DC) inserted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 41 para. 1(4)**
- F46** Words in s. 3(1DB)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 161(2)** (with Sch. 2)
- F47** Words in s. 3(2) repealed (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), Sch. 1 para. 314(a), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)
- F48** Words in s. 3(2) inserted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), **Sch. 1 para. 392(a)(i)** (with Sch. 2)
- F49** Words in s. 3(2) inserted (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 314(b)** (with Sch. 2 Pts. 1, 2)
- F50** Words in s. 3(2) repealed (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), Sch. 1 para. 314(c), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)
- F51** Words in s. 3(2) inserted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), **Sch. 1 para. 392(a)(ii)** (with Sch. 2)
- F52** Words in s. 3(2) repealed (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), Sch. 1 para. 392(a)(iii), **Sch. 3** (with Sch. 2)
- F53** Words in s. 3(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 161(3)(a)** (with Sch. 2)
- F54** Words in s. 3(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 161(3)(b)** (with Sch. 2)
- F55** Words inserted by [Finance Act 1983 \(c. 49\)](#), **s. 37(2)** and Sch. 8 Part II para. 2
- F56** Words inserted by [Finance Act 1987 \(c. 16\)](#), **s. 64(2)** and Sch. 13 Part II para. 2
- F57** Words in s. 3(4)(c)(i) repealed (16.7.1992 but with effect in accordance with [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), ss. 55(3), 74, 82, Sch. 15 para. 2(2)(a), **Sch. 18 Pt. VIII**
- F58** S. 3(4)(c)(iv) added by [Finance Act 1981 \(c. 35\)](#), **s. 119(1)** in relation to any expenditure claimed after 31 December 1978
- F59** Words in s. 3(4)(c)(iv) substituted (16.7.1992 with effect in accordance with [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), **s. 74**, Sch. 15 para. 2(2)(b)
- F60** Word repealed by [Finance Act 1984 \(c. 43\)](#), **ss. 124(7)**, 128(6) and Sch. 23 Part XIV

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- F61** S. 3(4)(f) and preceding word substituted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 7 para. 10** (with Sch. 9 paras. 1-9, 22)
- F62** Words inserted by Oil Taxation Act 1983 (c. 56), **s. 5** with respect to expenditure incurred after 30 June 1982
- F63** Words in s. 3(5)(a)(c) inserted (16.7.1992 with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), **s. 74**. Sch. 15 para. 2(3)
- F64** S. 3(5A)(7)(8) inserted by Oil Taxation Act 1983 (c. 56), **s. 5** with respect to expenditure incurred after 30 June 1982
- F65** S. 3(5B) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(5)(8)**.
- F66** Words in s. 3(6) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(6)(8)**.
- F67** Words in s. 3(6) substituted (11.5.2001 with effect as mentioned in s. 102(4) of the amending Act) by 2001 c. 9, **s. 102(2)**
- F68** Words and paragraphs in s. 3(6) added (16.7.1992 with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), **s. 74**. Sch. 15 para. 2(4)

**Modifications etc. (not altering text)**

- C18** See Oil Taxation Act 1983 (c. 56), **Sch. 1 para. 3** and Sch. 4 para. 10
- C19** See Income and Corporation Taxes Act 1988 (c. 1, SIF 63:1), **s. 495**
- C20** S. 3 explained by Finance Act 1991 (c. 31, SIF 63:1), **s. 104(1)(2)**.  
S. 3 modified (3.5.1994) by 1994 c. 9, ss. 231, 234, **Sch. 22 Pt. II para. 12(2)**  
S. 3 restricted (27.7.1999 with application as mentioned) by 1999 c. 16, **s. 95(2)(9)(10)**
- C21** See Oil Taxation Act 1983 (c. 56), **s. 3(6)**
- C22** See Finance Act 1980 (c. 48), **s. 106** and Sch. 17
- C23** See Finance Act 1980 (c. 48), **s. 109** regarding fractionation expenditure incurred after 31 December 1979
- C24** S. 3(5)(c) excluded (3.5.1994) by 1994 c. 9, **s. 232(4)(a)**
- C25** S. 3(5)(d) excluded (3.5.1994) by 1994 c. 9, **s. 232(4)(a)**
- C26** S. 3(5B) explained by Finance Act 1991 (c. 31, SIF 63:1), **s. 104(5)**

**4 Allowance of expenditure on long-term assets.**

- (1) Subject to subsection (13) below [<sup>F69</sup>and section 1 of the Oil Taxation Act 1983], this section applies to expenditure (whether or not of a capital nature) which is incurred by a person at or before the time when he is a participator in an oil field, being expenditure incurred in acquiring, bringing into existence, or enhancing the value of an asset which is to be or is subsequently used in connection with the field and [<sup>F70</sup>which, at the end of the first relevant claim period, is or is expected to be a long-term asset as defined in section 3(8) of the Oil Taxation Act 1983]:

Provided that this section shall not apply to expenditure incurred as aforesaid in any case where the Board consider that its application to that expenditure would have only a negligible effect on the total expenditure allowable under this Part of this Act for the field and so notify the responsible person.

- (2) The following provisions of this section are subject to Schedules 4, 5 and 6 to this Act.

- (3) . . . . .<sup>F71</sup>

- (5) Subject to the following provisions of this section, a proportion of the expenditure shall be allowable under this section on a claim for the first relevant claim period, and that proportion is . . . <sup>F71</sup>the proportion which the time during which the asset has been used in [<sup>F70</sup>connection with the field] in the period between the incurring of the

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expenditure or the asset’s first use in [<sup>F70</sup>connection with the field] (whichever is later) and the end of the first relevant claim period bears to the time between the incurring of the expenditure and the date when the asset’s useful life is reasonably likely to end:

Provided that, where the asset was not used for any purpose in the period between the incurring of the expenditure and the asset’s first use in connection with the field, the expenditure shall for the purposes of this subsection be treated as having been incurred on the date when the asset was first used in connection with the field.

- (6) ..... <sup>F71</sup>
- (7) [<sup>F70</sup>For each claim period subsequent to the first relevant claim period and] up to and including that in which use of the asset in connection with the field permanently ceases, the proportion of the expenditure allowable under this section for the relevant period shall be computed by applying the provisions of [<sup>F70</sup>subsection (5)] above with the omission of the words “on a claim” (wherever occurring) and the substitution of references to the relevant period for references to the first relevant claim period.

For the purposes of this subsection “the relevant period”, in relation to a claim period, means the period consisting of that claim period and each earlier claim period back to and including that in which the expenditure was incurred.

- (8) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period exceeds the amount thereof which (taking into account any previous adjustments made under the following subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the excess shall be allowable under this section on a claim for that claim period.
- (9) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period is exceeded by the amount thereof which (taking into account any previous adjustments made under this subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the total amount of expenditure allowable under this and the preceding section on a claim for the first-mentioned claim period shall be reduced by an amount equal to the excess.
- (10) Subsections (3) to (5) of section 3 of this Act shall apply for the purposes of this section as they apply for the purposes of that section; and where in accordance with subsection (9) above the total amount of the expenditure allowable under this and the preceding section on a claim for any claim period is reduced, the amount falling to be taken into account under section 2(9)(b)(ii) or (c)(ii) of this Act by reference to that expenditure shall be reduced by a proportion equal to the proportion by which the total amount of that expenditure is so reduced.
- (11) For the purposes of [<sup>F70</sup>subsection (5) above (including that subsection as it applies] under subsection (7) above) an asset which is throughout any period of time simultaneously used partly in connection with the field and partly otherwise shall be treated as being used in connection with the field for a proportion of that period equal to the proportion which the extent of its use in the period in that connection bears to the extent of its use in the period in that connection and otherwise.
- (12) For the purposes of this section—
  - (a) the asset is a brought-in asset if, between the time when it was acquired or brought into existence and its first use in connection with the field, the asset was used otherwise than in connection with the field; and
  - (b) “the first relevant claim period”—

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- (i) in the case of expenditure incurred in acquiring or bringing into existence a brought-in asset, means the claim period in which the asset was first used in connection with the field; and
  - (ii) in the case of any other expenditure, means the claim period in which the expenditure was incurred.
- (13) The preceding provisions of this section, and any other provisions in this Part of this Act as to which it is provided that this subsection applies, shall, with any necessary modifications, apply in relation to expenditure incurred by a person in acquiring an interest in an asset, or in bringing into existence an asset in which he is to have an interest, or in enhancing the value of an asset in which he has an interest, as the provisions in question apply in relation to expenditure incurred by a person in acquiring, bringing into existence, or enhancing the value of an asset, as the case may be.

#### Textual Amendments

- F69** Words inserted by [Oil Taxation Act 1983 \(c. 56\), s. 1](#) in relation to expenditure incurred after 30 June 1982 on non-dedicated mobile assets
- F70** Words substituted by [Oil Taxation Act 1983 \(c. 56\), s. 1](#) in relation to expenditure incurred after 30 June 1982 on non-dedicated mobile assets
- F71** S. 4(3)(4)(5)(a) “(b)” and words and (6) repealed by [Oil Taxation Act 1983 \(c. 56\), s. 1](#) in relation to expenditure incurred after 30 June 1982 on non-dedicated mobile assets

#### Modifications etc. (not altering text)

- C27** See [Oil Taxation Act 1983 \(c. 56\), ss. 1–4](#) in relation to expenditure incurred after 30 June 1982 on long-term assets and s. 13(1)(b) and Sch. 5 of that Act for transitional provisions relating to expenditure incurred in a claim period beginning before and ending after 1 July 1982 but not later than 31 December 1983
- C28** S. 4 modified (3.5.1994) by [1994 c. 9, ss. 231, 234, Sch. 22 Pt. II para. 12](#)  
S. 4 restricted (27.7.1999 with application as mentioned) by [1999 c. 16, s. 95\(2\)\(9\)\(10\)](#)
- C29** See [Finance Act 1980 \(c. 48\), s. 106](#) and Sch. 17
- C30** See [Finance Act 1980 \(c. 48\), s. 109\(10\)](#) as regards fractionation expenditure referable to use after 31 December 1979
- C31** See [Income and Corporation Taxes Act 1988 \(c. 1, SIF 63:1\), s. 495](#)

## 5 Allowance of abortive exploration expenditure.

- (1) Subject to the following provisions of this section and Schedule 7 to this Act, the abortive exploration expenditure allowable in the case of a person who is a participator in an oil field is any expenditure (whether or not of a capital nature) incurred on or after 1st January 1960 [<sup>F72</sup>and before 16th March 1983] which—
- (a) was incurred by that person or, if that person is a company, by that company or a company associated with it in respect of the expenditure; and
  - (b) was incurred wholly and exclusively for the purpose of searching for oil in the United Kingdom, the territorial sea thereof or a designated area; and
  - (c) is not, and is unlikely to become, allowable under section 3 or 4 of this Act for any oil field,

but so that any expenditure to which subsection (2) below applies shall not be allowable under this section except to the extent that it falls by virtue of that subsection

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to be treated as incurred wholly and exclusively for the purpose mentioned in paragraph (b) above.

- (2) Where any person has incurred expenditure in acquiring, bringing into existence, or enhancing the value of an asset which is subsequently used by him for the purpose mentioned in paragraph (b) of subsection (1) above, then—
- (a) subject to paragraph (b) below, if the useful life of the asset continues after the end of the twelve months beginning with the day on which he acquired the asset or brought it into existence, he shall be treated for the purposes of that subsection as having incurred wholly and exclusively for that purpose a fraction of that expenditure on each day after the expenditure was incurred on which the asset is used by him wholly and exclusively for that purpose, and that fraction is the fraction of which the numerator is 1 and the denominator is the number of days in the period beginning with the day on which he incurred that expenditure and ending with the day on which the asset's useful life is reasonably likely to end;
  - (b) if a subsequent disposal of the asset by that person otherwise than to a person connected with him gives rise to the receipt of a sum that falls to be taken into account under subsection (6) below, being a sum not less than the price which the asset might reasonably have been expected to fetch if sold in the open market at the time of the disposal, paragraph (a) above shall apply with the substitution, for the reference to the day on which the asset's useful life is reasonably likely to end, of a reference to the day on which the disposal was made.

Section 4(13) of this Act applies to the preceding provisions of this subsection.

[<sup>F73</sup>(2A) For the purpose only of determining under paragraph (c) of subsection (1) above whether expenditure is or is likely to become allowable for any oil field, it shall be assumed that any oil field which, apart from this subsection, would be a non-taxable field is or, as the case may be, will be a taxable field and, accordingly, that section 185(4)(e) of the Finance Act 1993 (no expenditure allowable for non-taxable fields) does not apply.]

- (3) Expenditure is not allowable under this section in connection with an oil field if, or to the extent that, it has been allowed under Schedule 7 to this Act in connection with any oil field.
- (4) Subsection (4) of section 3 of this Act shall apply for the purposes of this section with the following modifications, that is to say—
  - (a) in paragraph (c) the words from “except” to the end of sub-paragraph (iii) shall be omitted;
  - (b) paragraph (d) shall be omitted;
  - (c) in paragraph (e), the reference to oil won or to be won from the field shall be read as a reference to oil won or to be won from any area whatsoever.
- (5) Paragraph 2 of Schedule 4 to this Act shall, . . . <sup>F74</sup>, apply in relation to this section as it applies in relation to sections 3 and 4 of this Act.
- (6) Where any expenditure which would otherwise be allowable under this section gives rise to the receipt of any sum (whether or not of a capital nature) by the person who incurred the expenditure or any person connected with him, that expenditure shall for the purposes of this section be reduced by an amount equal to that sum.
- (7) For the purposes of this section—



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- (a) “company” means any body corporate;
  - (b) [F75section 1122 of CTA 2010] (connected persons) shall apply; and
  - (c) a company which is a participator in an oil field is associated with another company in respect of expenditure incurred by the other company if—
    - (i) throughout that part of the relevant period in which both were in existence one was a 51 per cent. subsidiary of the other and the other was not a 51 per cent. subsidiary of any company; or
    - (ii) each of them was, throughout that part of the relevant period in which it was in existence, a 51 per cent. subsidiary of a third company which was not itself a 51 per cent. subsidiary of any company.
- (8) For the purposes of subsection (7)(c) above—
- (a) “the relevant period” is the period beginning immediately before the expenditure was incurred and ending with the end of whichever of the following periods ends later, that is to say—
    - (i) the earliest chargeable period in which the company which is a participator in the oil field in question was a participator in that field; and
    - (ii) the chargeable period (for that field) in which the expenditure was incurred,(or, if they are the same period, with the end of that period); and
  - (b) [F76Chapter 3 of Part 24 of CTA 2010] (subsidiaries) shall apply.

#### Textual Amendments

**F72** Words inserted by [Finance Act 1983 \(c. 49\), s. 37\(2\)](#) and Sch. 8 Part II para. 3

**F73** S. 5(2A) inserted (1994.05.03) by [1994 c. 9, s. 237\(1\)](#)

**F74** Words repealed by [Finance Act 1980 \(c. 48\), s. 122](#) and Sch. 20 Part XIII

**F75** Words in s. 5(7)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 162\(2\)](#) (with [Sch. 2](#))

**F76** Words in s. 5(8)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 162\(3\)](#) (with [Sch. 2](#))

#### Modifications etc. (not altering text)

**C32** See [Finance Act 1980 \(c. 48\), s. 106](#) and Sch. 17

**C33** See [Finance Act 1984 \(c. 43\), s. 113](#)

**C34** See [Oil Taxation Act 1983 \(c. 56\), s. 3\(6\)](#)

**C35** See [Finance Act 1983 \(c. 49\), s. 37\(3\)](#) and Sch. 8 Part III with respect to sums received after 15 March 1983

#### [F77] 5A Allowance of exploration and appraisal expenditure.

- (1) The exploration and appraisal expenditure which, subject to the provisions of this section and Schedule 7 to this Act, is allowable in the case of a person who is a participator in an oil field is any expenditure (whether or not of a capital nature) which—
- (a) is incurred after 15th March 1983 by that person or, if that person is a company, by that company or a company associated with it in respect of the expenditure; and

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- [ either is incurred before 16th March 1993 or is incurred within the period of two years beginning on that date and is expenditure to which that person or, if that person is a company, that company or a company associated with it in respect of the expenditure, is committed immediately before that date; and]
- <sup>F78</sup>(aa) (b) is so incurred wholly and exclusively for one or more of the purposes specified in subsection (2) below; and
- (c) at the time it is so incurred, does not relate to a field for which a development decision has previously been made.
- [ For the purposes of subsection (1)(aa) above, in respect of expenditure incurred on or <sup>F79</sup>(1A) after 16th March 1993, a person is to be regarded as committed to that expenditure immediately before that date if—
- (a) he has an obligation under an exploration and appraisal contract entered into before that date to incur the expenditure; or
- (b) the expenditure is incurred wholly and exclusively for the same purpose as that for which the contract referred to in paragraph (a) above was entered into and is so incurred pursuant to an obligation under an exploration and appraisal contract entered into on or after 16th March 1993 and before 16th June 1993.
- (1B) In considering whether a person has at any time such a contractual obligation as is referred to in paragraph (a) or paragraph (b) of subsection (1A) above in respect of any expenditure,
- (a) if the contract contains a power (however exercisable) by virtue of which the person concerned, or a company associated with him in respect of the expenditure, is able to bring any contractual obligations to an end, he shall not be regarded as committed to any expenditure which, if the power were to be exercised, would not be incurred; and
- (b) if the person concerned (or a company associated with him in respect of the expenditure) has an option (however described) which was not exercised before 16th March 1993 but the exercise of which would increase his expenditure under the contract, he shall not be regarded as committed to any expenditure which would be incurred only as a result of the exercise of the option.
- (1C) For the purposes of subsection (1A) above a contract is an exploration and appraisal contract if it is a contract for the provision of any services or other business facilities or assets for any of the purposes specified in subsection (2) below.]
- (2) The purposes referred to in [<sup>F80</sup>subsections (1) to (1C)] above are—
- (a) the purpose of searching for oil in [<sup>F81</sup>the territorial sea of the United Kingdom] or a designated area;
- (b) the purpose of ascertaining the extent or characteristics of any oil-bearing area in [<sup>F81</sup>the territorial sea of the United Kingdom] or a designated area;
- (c) the purpose of ascertaining what are the reserves of oil of any such oil-bearing area; and
- (d) subject to subsection (3) below, the purpose of making to the [<sup>F82</sup>OGA] any payment under or for the purpose of obtaining a licence (not being a payment by way of royalty or other periodic payment).
- [ Any reference in subsection (2) above to a designated area does not include a <sup>F83</sup>(2A) sector which, by virtue of subsection (3)(b) of section 107 of the Finance Act 1980 (transmedian fields), is deemed to be a designated area.]

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- (3) Expenditure incurred for the purpose mentioned in subsection (2)(d) above is not allowable under this section unless, at the time the allowance is claimed,—
- (a) the licence to which the expenditure related has expired or has been determined or revoked; or
  - (b) part of the licensed area has been surrendered;
- and where paragraph (b) above applies only that proportion of the expenditure which corresponds to the proportion of the licensed area which has been surrendered is expenditure falling within subsection (1) above.
- (4) Subject to subsection (5) below, subsections (2) and (4) to (8) of section 5 of this Act apply for the purposes of this section as they apply for the purposes of that section.
- (5) In the application for the purposes of this section of the provisions of section 5 of this Act referred to in subsection (4) above,—
- (a) any reference in subsection (2) of section 5 to the purpose mentioned in subsection (1)(b) of that section shall be construed as a reference to any of the purposes specified in subsection (2) of this section;
  - (b) the reference in subsection (2)(a) of section 5 to subsection (1) of that section shall be construed as a reference to subsection (1) of this section; and
  - (c) the reference in subsection (6) of section 5 to a sum received—
    - [ includes a reference to a sum received, or treated by virtue of <sup>F84</sup>(i) subsection (5A) below as received, from the disposal of oil won in the course of operations carried out for any of the purposes in paragraphs (a) to (c) of subsection (2) of this section; but
    - (ii) does not include a reference to a sum received for the assignment of any of the rights conferred by a licence or of any interest in a licensed area.]
- [ Subsection (5B) below applies in any case where—
- <sup>F85</sup>(5A) (a) oil which is won as mentioned in paragraph (c)(i) of subsection (5) above is either disposed of otherwise than in sales at arm's length or appropriated to refining or to any use except for production purposes of an oil field, and
- (b) if that oil had been disposed of in a sale at arm's length, then, by virtue of section 5(6) of this Act as applied by subsection (5) above, certain expenditure would have been reduced by reference to the receipt of a sum from that disposal.
- (5B) Where this subsection applies, the oil concerned shall be treated for the purposes of subsection (5)(c)(i) above and section 5(6) of this Act as having been disposed of for a sum equal to its market value [<sup>F86</sup>at the material time][<sup>F87</sup>determined in accordance with Schedule 3 to this Act for the disposal or appropriation mentioned] in subsection (5A)(a) above and, accordingly, for those purposes—
- (a) a sum equal to that market value shall be treated as having been received from that disposal; and
  - (b) no account shall be taken of any sum actually received from the disposal of any of that oil.
- (5C) In the application of Schedule 3 to this Act for the purpose of ascertaining the market value of oil as mentioned in subsection (5B) above,—
- <sup>F88</sup>(a) . . . . .
  - (b) [<sup>F89</sup>sub-paragraph (4)] of paragraph 2 shall be omitted; and

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- (c) any reference in paragraphs 2 and 2A to oil being relevantly appropriated shall be construed as a reference to its being appropriated as mentioned in subsection (5A)(a) above<sup>[F90]</sup>; and
- (d) any reference in paragraph 2 to the notional delivery day for the actual oil shall be construed as a reference to the day on which the oil is disposed of or appropriated as mentioned in subsection (5A)(a) above.]]
- (6) Expenditure is not allowable under this section in connection with an oil field if, or to the extent that, it has been allowed under Schedule 5, Schedule 6 or Schedule 7 to this Act in connection with any oil field.
- (7) For the purposes of subsection (1)(c) above, a development decision is made when—
- consent for development is granted to a licensee by the <sup>[F82]</sup>OGA in respect of the whole or part of an oil field; or
  - a programme of development is served on a licensee or approved by the <sup>[F82]</sup>OGA for the whole or part of an oil field;
- and subsections (4) and (5) of section 36 of the Finance Act 1983 (meaning of development etc.) apply in relation to this subsection as they apply in relation to subsections (2) and (3) of that section.
- (8) If, at the time when it is incurred, expenditure relates to an area—
- which is not then an oil field, but
  - in respect of which notice of a proposed determination has previously been given under paragraph 2(a) of Schedule 1 to this Act,
- that area shall be treated for the purposes of this section as having become an oil field at the time the notice was given unless, when the actual determination is made, the area is not included in an oil field.]

### Textual Amendments

- F77** S. 5A added by [Finance Act 1983 \(c. 49\), s. 37\(1\)](#) and Sch. 8 Part I
- F78** S. 5A(1)(aa) inserted (27.7.1993) by [1993 c. 34, s. 188\(1\)](#)
- F79** S. 5A(1A)-(1C) inserted (27.7.1993) by [1993 c. 34, s. 188\(2\)](#)
- F80** Words in s. 5A(2) substituted (27.7.1993) by [1993 c.34 s. 188\(3\)](#)
- F81** Words substituted by [Finance Act 1985 \(c. 54\), s. 90\(2\)](#) with respect to expenditure incurred on or after 1 April 1986
- F82** Word in s. 5A substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\), regs. 1\(2\), 4\(4\)](#)
- F83** S. 5A(2A) added by [Finance Act 1985 \(c. 54\), s. 90](#) with respect to expenditure incurred on or after 19 March 1985
- F84** S. 5A(5)(c)(i)(ii) substituted by [Finance Act 1985 \(c. 54\), s. 90](#) with respect to expenditure incurred on or after 19 March 1985
- F85** S. 5A(5A)-(5C) added by [Finance Act 1985 \(c. 54\), s. 90](#) with respect to expenditure incurred on or after 19 March 1985
- F86** Words repealed by [Finance Act 1987 \(c. 16\), ss. 62\(1\)\(b\), 72\(7\)](#) and Sch. 16 Part X for chargeable periods ending after 31 December 1986
- F87** Words in s. 5A(5B) substituted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 3\(2\)](#)
- F88** S. 5A(5C)(a) repealed (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 3\(4\), Sch. 26 Pt. 5\(1\)](#)
- F89** Words in s. 5A(5C)(b) substituted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 3\(5\)](#)

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**F90** S. 5A(5C)(d) and preceding word inserted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 18 para. 3\(6\)](#)

**Modifications etc. (not altering text)**

**C36** See [Finance Act 1984 \(c. 43\)](#), [s. 113](#)

**C37** Also for the purposes of [Oil Taxation Act 1983 \(c. 56\)](#), [s. 8\(3\)](#) and Sch. 1 para. 6(1)

**[<sup>F91</sup>5B Allowance of research expenditure.**

- (1) Subject to the following provisions of this section and Schedule 7 to this Act, the research expenditure which is allowable in the case of a person who is a participator in an oil field is any expenditure (whether or not of a capital nature) which—
  - (a) is incurred by him on or after 17th March 1987; and
  - (b) at the expiry of the period of three years from the time at which it was incurred, has not become allowable under section 3 or section 4 of this Act or section 3 of the Oil Taxation Act 1983; and
  - (c) was not incurred for purposes relating to a particular oil field; and
  - (d) was not incurred wholly and exclusively for one or more of the purposes which, subject to subsection (2) below, are specified in section 5A(2) of this Act; and
  - (e) was incurred for the purpose of research of such a description that, if it had been incurred by the participator in relation to a particular field, it would have been allowable for that field under section 3 or section 4 of this Act or section 3 of the Oil Taxation Act 1983; and
  - (f) was incurred wholly or partly for United Kingdom purposes.
- (2) For the purposes only of subsection (1)(d) above, any reference in section 5A(2) of this Act to the territorial sea of the United Kingdom shall be taken to include a reference to the United Kingdom itself.
- (3) Where expenditure falling within paragraphs (a) to (e) of subsection (1) above is incurred partly for United Kingdom purposes and partly for other purposes, only such part of the expenditure as it is just and reasonable to apportion to United Kingdom purposes shall be allowable by virtue of this section.
- (4) In subsections (1)(f) and (3) above, “United Kingdom purposes” means purposes relating to the United Kingdom, the territorial sea thereof or designated areas, excluding any sector which, by virtue of subsection (3)(b) of section 107 of the Finance Act 1980 (transmedian fields), is deemed to be a designated area.
- (5) Expenditure is not allowable under this section if, or to the extent that, it has been allowed under Schedule 5, Schedule 6 or Schedule 7 to this Act for or in connection with an oil field.
- (6) To the extent that it is reasonable to assume that expenditure which, apart from this subsection, would be allowable under this section has been incurred for purposes relating to excluded oil, within the meaning of section 10(1) of this Act [<sup>F92</sup>or for purposes relating to non-taxable fields], that expenditure is not allowable under this section.
- (7) Subject to subsection (3) above, subsections (2) and (6) of section 5 of this Act apply for the purposes of this section as they apply for the purposes of that section except that—

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- (a) any reference in subsection (2) of section 5 to the purpose mentioned in subsection (1)(b) of that section shall be construed as a reference to the purpose referred to in subsection (1)(e) of this section;
  - (b) the reference in paragraph (a) of subsection (2) to subsection (1) of that section shall be construed as a reference to subsection (1) of this section; and
  - (c) where any expenditure falls to be apportioned under subsection (3) of this section, any receipt to which it gives rise shall be similarly apportioned in the application of subsection (6) of section 5.
- (8) Paragraph 2 of Schedule 4 to this Act applies in relation to this section as it applies in relation to sections 3 and 4 of this Act.]

#### Textual Amendments

- F91** S. 5B added by [Finance Act 1987 \(c. 16\), s. 64\(1\)](#) and Sch. 13 Part I
- F92** Words in s. 5B(6) inserted (27.7.1993) by [1993 c. 34, s. 185\(4\)\(c\)](#)

## 6 Allowance of unrelievable loss from abandoned field.

[<sup>F93</sup>(1) In the case of a participator in an oil field, an allowable unrelievable field loss is the unrelievable portion of an allowable loss falling within subsection (1B) below.

(1A) Subsection (1) above is subject to subsections (5) to (9) below and Schedule 8 to this Act [<sup>F94</sup>and paragraph 5 of [<sup>F95</sup> Schedule 20B ] to the Finance Act 1993].

(1B) An allowable loss falls within this subsection if—

- (a) the loss accrued in any chargeable period from another field (“the abandoned field”),
- (b) the person to whom the loss accrued is—
  - (i) the participator, or
  - (ii) if the participator is a company, a company associated with the participator in respect of the loss (see subsection (3) below),
- (c) the loss accrued to that person as a participator in the abandoned field, and
- (d) the winning of oil from the abandoned field has permanently ceased.

(1C) The “unrelievable portion” of an allowable loss falling within subsection (1B) above is so much of that loss as cannot under the provisions of section 7 of this Act be relieved against assessable profits accruing from the abandoned field to the person to whom the loss accrued.

(1D) Subsection (1C) above is subject to Schedule 32 to the Finance Act 2001 (determination of unrelievable portion where Parts 2 and 3 of Schedule 17 to the Finance Act 1980 did not apply to transfer of interest in abandoned field).]

(2) In determining for the purposes of this section whether an allowable loss has accrued as mentioned in [<sup>F96</sup>subsection (1B) above] from an oil field from which the winning of oil permanently ceased before the total amount of oil ever won and saved from it reached the amount by reference to which the critical half year is defined in section 1(4) of this Act, the first chargeable period for that field shall be taken to have been the period ending at the end of the half year in which the winning of oil from the field so ceased (including an unlimited time prior to the beginning of that half year).

In this subsection “half year” has the same meaning as in section 1 of this Act.

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- (3) For the purposes of this section—
- (a) “company” means any body corporate; and
  - (b) a company which is a participator in an oil field is associated with another company in respect of an allowable loss which accrued to that other company in a chargeable period from another oil field if—
    - (i) throughout that part of the relevant period in which both were in existence one was a 51 per cent. subsidiary of the other and the other was not a 51 per cent. subsidiary of any company; or
    - (ii) each of them was, throughout that part of the relevant period in which it was in existence, a 51 per cent. subsidiary of a third company which was not itself a 51 per cent. subsidiary of any company;and in this section and Schedule 8 to this Act any reference to the winning of oil from an oil field permanently ceasing includes a reference to the permanent cessation of operations for the winning of oil from the field.
- (4) For the purposes of subsection (3)(b) above—
- (a) the relevant period is the period beginning with the chargeable period in which the allowable loss accrued to the other company referred to in that paragraph and ending with the end of whichever of the following period ends later, that is to say—
    - (i) the earliest chargeable period in which the company which is a participator in the oil field in question was a participator in that field; and
    - (ii) the chargeable period in which the allowable loss accrued,(or, if they are the same period, with the end of that period); and
  - (b) [F<sup>97</sup>Chapter 3 of Part 24 of CTA 2010] (subsidiaries) shall apply.
- [F<sup>98</sup>(4A) For the purposes of this section and Schedule 8 to this Act, the winning of oil from an oil field shall not be regarded as having permanently ceased until all the oil wells in the field have been permanently abandoned.]
- [F<sup>99</sup>(5) Subsections (6) to (9) below apply if—
- (a) a claim is made for the allowance of an unrelievable field loss; and
  - (b) the person to whom the loss accrued made a claim or election for the allowance of any expenditure unrelated to that field; and
  - (c) that claim or election was received by the Board on or after 29th November 1994; and
  - (d) the whole or a part of the expenditure to which the claim or election relates is allowed and, accordingly, falls to be taken into account under section 2(8) (a) of this Act for a chargeable period (whether beginning before or after 29th November 1994).
- (6) Subject to subsection (7) below, where this subsection applies, from the amount which, apart from this subsection, would be the amount of the unrelievable field loss referred to in paragraph (a) of subsection (5) above there shall be deducted an amount equal to so much of any expenditure unrelated to the field as is allowed on a claim or election as mentioned in paragraph (d) of that subsection.
- (7) If—
- (a) claims are made for the allowance of more than one unrelievable field loss derived from the same abandoned field, and

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- (b) the person to whom the loss accrued is the same in respect of each of the unrelievable field losses,  
subsection (6) above shall have effect as if the deduction referred to in that subsection fell to be made from the aggregate amount of those losses.
- (8) Where subsection (7) above applies, the deduction shall be set against the unrelievable field losses in the order in which the claims for the allowance of each of those losses were received by the Board.
- (9) In subsections (5) and (6) above, “expenditure unrelated to the field” means—
- expenditure allowable under any of sections 5, 5A and 5B of this Act;
  - expenditure allowable under this section (derived from a different abandoned field); or
  - expenditure falling within section 65 of the <sup>M2</sup>Finance Act 1987 which is accepted by the Board as allowable in accordance with Schedule 14 to that Act;
- and, in relation to expenditure falling within section 65 of the <sup>M3</sup>Finance Act 1987, “election” means an election under Part I of Schedule 14 to that Act.]

#### Textual Amendments

- F93** S. 6(1)-(1D) substituted (*retrospective to 7.3.2001*) for s. 6(1)(1A) by [2001 c. 9 s. 101\(1\)\(5\)](#)
- F94** Words in s. 6(1A) inserted (21.7.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 33 para. 2](#)
- F95** Words in s. 6(1A) substituted (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 45 para. 3\(2\)\(a\)](#)
- F96** Words in s. 6(2) substituted (*retrospective to 7.3.2001*) by [2001 c. 9, s. 101\(2\)\(5\)](#)
- F97** Words in s. 6(4)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), [s. 1184\(1\)](#), [Sch. 1 para. 163](#) (with [Sch. 2](#))
- F98** S. 6(4A) inserted (*retrospective to 1.7.2007*) by [Finance Act 2007 \(c. 11\)](#), [s. 104\(1\)\(2\)](#)
- F99** S. 6(5)-(9) inserted (1.5.1995) by [1995 c. 4, s. 146\(3\)](#) (with [Sch. 8 paras. 55\(2\), 57\(1\)](#))

#### Modifications etc. (not altering text)

- C38** S. 6(1C) excluded (*retrospective to 7.3.2001*) by [2001 c. 9, s. 101\(4\)\(5\)](#), [Sch. 32 para. 5](#)

#### Marginal Citations

- M2** [1987 c. 16.](#)
- M3** [1987 c. 16.](#)

## 7 Relief for allowable losses.

- (1) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, then, subject to the following provisions of this section, the assessable profit accruing to him from the field in any succeeding chargeable period shall be treated as reduced by the amount of that allowable loss, or by so much of that amount as cannot, under this subsection or on a claim (if made) under subsection (2) below, be relieved against the assessable profit accruing to him from the field in any earlier chargeable period.
- (2) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, the participator may make a claim requiring that the loss be in the first instance set against any assessable profit which accrued to him from the field in any preceding chargeable period; and the assessable profit which so accrued to him in any such period shall then



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be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against any assessable profit accruing to him from the field in a later chargeable period.

(3) Where—

- (a) the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field; and
- (b) the winning of oil from that field has permanently ceased,

then so much of that allowable loss as cannot under subsection (1) or (2) above be relieved against assessable profits accruing to the participator from the field shall be relieved under this subsection by treating the assessable profit accruing to him from the field in any chargeable period as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this section against the assessable profit so accruing to him in a later chargeable period.

**Modifications etc. (not altering text)**

**C39** See Finance Act 1980 (c. 48), s. 106 and Sch. 17 para. 15; Finance Act 1981 (c. 35), s. 117

**C40** See Finance Act 1980 (c. 48), s. 106 and Sch. 17 paras. 14, 15

## 8 Oil allowance.

- (1) Subject to the provisions of this section and paragraphs 10 and 11 of Schedule 3 to this Act, where a participator in an oil field would, apart from this section and section 9 of this Act, be chargeable to tax for any chargeable period on an amount (“the said amount”) consisting of the assessable profit accruing to him in the period from the field or that profit as reduced under section 7 of this Act by any allowable losses, then for the purpose of determining his liability, if any, to tax for that period, the said amount shall be treated as reduced or further reduced as follows, that is to say—
  - (a) if the said amount exceeds the cash equivalent of his share of the oil allowance for the field for that period, to an amount equal to the excess; or
  - (b) if the said amount does not exceed the cash equivalent of his share of that allowance, to nil.
- (2) The oil allowance for an oil field is, for each chargeable period, [<sup>F100</sup>250,000 metric tonnes], and shall be divided between the participators in shares proportionate to their shares of the oil won and saved from the field during the period.
- (3) For the purposes of this section the cash equivalent of a participator’s share of the oil allowance for an oil field for a chargeable period is (subject to subsection (4) below) the amount given by the formula:—

$$£ \left( A \times \frac{B}{C} \right)$$

where—

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A is the gross profit accruing to him in the period or, if a gross loss (or neither a gross profit nor a gross loss) accrues to him in the period, nil (in which case the cash equivalent itself will be nil);

B is his share of the allowance, in [<sup>F100</sup>metric tonnes]; and

C is his share, exclusive of excluded oil within the meaning of section 10 of this Act, of the oil won and saved from the field during the period, in [<sup>F100</sup>metric tonnes].

- (4) If a participator in an oil field so elects by notice in writing given to the Board at the time when he makes his return under paragraph 2 of Schedule 2 to this Act for a chargeable period, then the cash equivalent of his share of the oil allowance for the field for that period shall be determined under subsection (3) above—
- [<sup>F101</sup>(a) to the extent that his share of that oil allowance does not exceed his share of the oil (other than gas) won and saved from the field in the period, as if—
- (i) in computing the gross profit or gross loss accruing to him in the period all amounts relating to gas fell to be disregarded, and
  - (ii) in the definition of C, for “the oil won and saved” there were substituted “the oil (other than gas) won and saved”; and
- (b) to the extent, if any, that his share of that oil allowance exceeds his share of the oil (other than gas) so won and saved, as if—
- (i) in computing the gross profit or gross loss so accruing all amounts relating to oil other than gas fell to be disregarded, and
  - (ii) in the definition of C, for “the oil won and saved” there were substituted “the gas won and saved”.]

(5) For the purposes of this section the amount of the oil allowance for an oil field utilised by a participator in any chargeable period is—

    - (a) if in his case a reduction is made for that period under subsection (1)(a) above, an amount in [<sup>F100</sup>metric tonnes] equal to his share of the oil allowance for the field for that period;
    - (b) if in his case a reduction is made for that period under subsection (1)(b) above, the amount in [<sup>F100</sup>metric tonnes] arrived at by multiplying his share of the oil allowance for the field for that period (in [<sup>F100</sup>metric tonnes]) by the fraction of which the numerator is the amount of that reduction and the denominator is the cash equivalent of his share of the said oil allowance;
    - (c) in any other case, nil.

(6) The total oil allowance for an oil field shall not exceed [<sup>F100</sup>5 million metric tonnes], and accordingly—

    - (a) for each chargeable period there shall be determined the aggregate of the amounts of the oil allowance for the field utilised by the participators in that period; and
    - (b) as regards the earliest chargeable period such that the sum of the aggregate determined under paragraph (a) above for that period and the aggregates so determined for each earlier chargeable period would, apart from this subsection, exceed [<sup>F100</sup>5 million metric tonnes], the necessary restriction shall be apportioned between the participators in such manner as may be notified to the Board by the responsible person or, in default of such notification, as may be determined by the Board.

In this subsection “the necessary restriction” means the restriction necessary to secure that the aggregate determined under paragraph (a) above for the chargeable period to

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which paragraph (b) above applies will, when added to the sum of the aggregates so determined for each earlier chargeable period, produce a total of [<sup>F100</sup>5 million metric tonnes].

- (7) For the purposes of this section [<sup>F100</sup>1,100 cubic metres] of oil consisting of gas at the temperature and pressure mentioned in section 1(4) of this Act shall be counted as equivalent to one [<sup>F100</sup>metric tonne] of oil other than gas.
- (8) Any reduction to be made under subsection (1) above shall be made before applying the provisions of section 9 of this Act.

#### Textual Amendments

**F100** Words substituted by Finance (No. 2) Act 1979 (c. 47), s. 21(1) in relation to chargeable periods and half years ending after 31 December 1978

**F101** S. 8(4)(a)(b) substituted (with effect in accordance with art. 15(3) of the amending S.I.) by The Enactment of Extra-Statutory Concessions Order 2009 (S.I. 2009/730), arts. 1(1), 15(2)

#### Modifications etc. (not altering text)

**C41** See Oil Taxation Act 1983 (c. 56), Sch. 4 para. 9(2)

**C42** See also Finance Act 1980 (c. 48), s. 106 and Sch. 17 para. 17

**C43** See Finance Act 1983 (c. 49), s. 36; Finance Act 1988 (c. 39, SIF 63:1,2), s. 138(1)

**C44** See Finance Act 1987 (c. 16), s. 66(5)(a)

#### [<sup>F102</sup>9] [<sup>F103</sup>Limit on amount of tax payable].

- (1) The tax payable by a participator in an oil field for any chargeable period to which this subsection applies shall not exceed 80 per cent. of the amount (if any) by which his adjusted profit for that period (as defined in this section) exceeds 15 per cent. of his accumulated capital expenditure at the end of that period (as so defined).

(1A) Subsection (1) above applies to—

- (a) any chargeable period from the first chargeable period up to and including the period which is the participator's net profit period for the field for the purposes of section 111 of the Finance Act 1981 or where section 113 of that Act applies, up to and including the earlier of the periods mentioned in subsection (2) of that section; and
- (b) any subsequent chargeable period up to such number of periods as is equal to half the number of chargeable periods [<sup>F104</sup>which are included in paragraph (a) above and in which the amount of oil won and saved from the field exceeds 1,000 metric tonnes] (counting any resulting fraction of a period as a whole period)

[<sup>F105</sup>and for the purposes of paragraph (b) above 1,100 cubic metres of gas at a temperature of 15 degrees centigrade and pressure of one atmosphere shall be counted as equivalent to one metric tonne].

- (2) The adjusted profit of a participator in an oil field for any chargeable period shall be determined as follows—
- (a) there shall be ascertained—
- (i) the assessable profit (without any reduction under section 7 or 8 of this Act) or allowable loss accruing to him in that period; and

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- (ii) the total amount taken into account under section 2(9)(b), (c), (d) <sup>F106</sup>, (e) <sup>F107</sup>(f) and (g)] of this Act in computing that profit or loss, excluding expenditure so taken into account under section 2(9)(b)(i) or (c)(i) which was not allowed as qualifying for supplement under section 2(9)(b)(ii) or (c)(ii);
  - (b) if there is a profit under paragraph (a)(i) above, the sum of that profit and the total ascertained under paragraph (a)(ii) above is his adjusted profit for the period;
  - (c) if there is a loss under paragraph (a)(i) above smaller than the total ascertained under paragraph (a)(ii) above, the difference is his adjusted profit for the period.
- (3) The accumulated capital expenditure of a participator in an oil field at the end of any chargeable period is the total amount of expenditure taken into account under section 2(9)(b)(i) and (c)(i) of this Act in computing the assessable profit or allowable loss accruing to him in that period and all earlier chargeable periods excluding all expenditure so taken into account which was not allowed as qualifying for supplement under section 2(9)(b)(ii) or (c)(ii).

<sup>F108</sup>(4) . . . . . ]

**Textual Amendments**

**F102** S. 9 substituted by [Finance Act 1981 \(c. 35\), s. 114\(1\)](#) with effect whether the participator's net profit period ends before or after the passing of that Act

**F103** Wording amended without statutory authority to reflect the sense of the revised s. 9

**F104** Words substituted by [Finance Act 1985 \(c. 54\), s. 91\(1\)](#) with respect to any oil field in respect of which the first chargeable period ends after 30 June 1985

**F105** Words added by [Finance Act 1985 \(c. 54\), s. 91\(1\)](#) with respect to any oil field in respect of which the first chargeable period ends after 30 June 1985

**F106** Words substituted by [Finance Act 1983 \(c. 49\), s. 37\(2\)](#) and Sch. 8 Part II para. 4

**F107** Words substituted by [Finance Act 1987 \(c. 16\), s. 64\(2\)](#) and Sch. 13 Part II para. 3

**F108** S. 9(4) omitted (with effect in accordance with Sch. 45 para. 1(5) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\), Sch. 45 para. 1\(3\)](#)

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**Modifications etc. (not altering text)**

**C45** See [Finance Act 1980 \(c. 48\), s. 106](#) and Sch. 17 para. 18

**C46** See [Oil Taxation Act 1983 \(c. 56\), s. 7\(6\)\(b\)](#) for reduction of supplement when there are disposal receipts in any chargeable period ending after 30 June 1982

**C47** See [Finance Act 1987 \(c. 16\), ss. 64\(3\), 65\(6\)\(b\)](#), Sch. 13 para. 12(3) and Sch. 14 para. 13

**C48** See [Finance Act 1981 \(c. 35\), s. 117\(4\)](#)

**<sup>F109</sup>9A Operating expenditure incurred while section 9 applies.**

- (1) Subsections (2) and (3) below apply where—
  - (a) operating expenditure is incurred by a participator in an oil field during a chargeable period to which section 9(1) of this Act applies (“the relevant chargeable period”);
  - (b) a claim for the allowance of the expenditure is made under Schedule 5 or 6 for the claim period which coincides with the relevant chargeable period (“the relevant claim period”); and

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- (c) the claim is made more than four months after the end of the relevant claim period.
- (2) The Board shall not allow the expenditure except to such extent (if any) as they consider necessary to secure that the participator's overall liability to tax is no greater than it would have been if the claim had been allowed before the Board had made an assessment to tax or a determination on or in relation to the participator in respect of the field for the relevant chargeable period.
- (3) Any amounts of oil allowance which, if the claim had been allowed before the Board had made an assessment to tax or a determination on or in relation to the participator in respect of the field for the relevant chargeable period, would not have been utilised by him in that period, or any subsequent chargeable period, shall be disregarded for the purposes of section 8(6) of this Act.
- (4) Where—
- (a) the participator transfers the whole or part of his interest in the oil field to another person; and
- (b) Parts II and III of Schedule 17 to the <sup>M4</sup>Finance Act 1980 apply to the transfer, subsections (2) and (3) above shall have effect as if references to the participator included references to that other person.
- (5) In this section—
- “acquisition”, in relation to an asset, includes acquisition of an interest in the asset;
- “capital expenditure” means expenditure on the acquisition or construction of an asset which is to be used for any of the following purposes—
- (a) for ascertaining the extent or characteristics of any oil-bearing area wholly or partly included in the field, or what the reserves of oil of any such oil-bearing area are;
- (b) for winning oil from the field;
- (c) for transporting oil won from the field, whether to a place in the United Kingdom or to a place in another country; or
- (d) for the initial treatment or initial storage of oil won from the field;
- “operating expenditure” means any expenditure other than capital expenditure.
- (6) Where a claim period is a period of twelve months, this section shall have effect as if—
- (a) that period were two separate claim periods of six months each;
- (b) any claim for that period under Schedule 5 or 6 were two separate claims, one for each of those separate periods; and
- (c) the operating expenditure to which that claim relates were apportioned between those separate periods and those separate claims in such manner as may be just and reasonable.]

#### **Textual Amendments**

**F109** S. 9A inserted (28.7.2000 with effect in relation to expenditure incurred on or after 21.3.2000) by 2000 c. 17, s. 139(1)(2)

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#### Marginal Citations

M4 1980 c. 48.

### 10 Modification of Part I in connection with certain gas sold to British Gas Corporation.

- (1) In computing under section 2 of this Act the gross profit or loss (if any) accruing to a participator in any chargeable period from an oil field—
- (a) any oil consisting of gas sold to the British Gas Corporation under a contract made before the end of June 1975 shall be disregarded; and
  - (b) if at the end of that chargeable period the participator's share, exclusive of oil falling within paragraph (a) above or used for production purposes, of the total amount of oil ever won and saved from the field does not exceed 5 per cent. of his share of the total amount of oil so falling which was ever so won and saved, his share of the oil won and saved from the field but not so falling shall also be disregarded;

and in the following provisions of this section any oil which falls to be disregarded under this subsection is referred to as “excluded oil”.

- (2) Excluded oil shall be deemed not to be oil for the purposes of the following provisions of this Act, namely section 2(7) and (9), section 3 (except paragraphs (a) to (c) [F110(hh), (i) and (j) of subsection (1) and [F111]subsections (1C) and (1D)]) and section 4 (including, in the case of any expression used in any of those provisions which is defined elsewhere, its definition so far as it has effect for the purpose of that provision); and in computing under section 2 of this Act the licence debit or credit (if any) of a participator in an oil field for any chargeable period, any royalty repaid to him in the period in respect of excluded oil shall be disregarded.
- [F112](3) Subsections (3A) to (3H) below apply where, in the case of any taxable field, the oil—
- (a) won and saved from the field, or
  - (b) expected to be won and saved from the field,
- includes oil falling within subsection (1)(a) above.
- (3A) Any expenditure allowable under section 3 of this Act for the field by virtue of any of paragraphs (a) to (c) of section 3(1) of this Act shall be a proportion of what it would otherwise have been.
- (3B) The proportion mentioned in subsection (3A) above is that which, according to estimates submitted to the [F113]OGA after the end of June 1975 and approved by [F114]it as reasonable, the field's original reserves of oil exclusive of oil falling within subsection (1)(a) above bear to the field's original reserves of oil inclusive of oil so falling.
- (3C) Until estimates have been submitted and approved for the purpose of subsection (3B) above, the expenditure allowable for the field under section 3 of this Act by virtue of section 3(1)(a), (b) or (c) of this Act shall be deemed to be nil.
- (3D) Any expenditure allowable under section 3 of this Act for the field by virtue of section 3(1)(hh) of this Act shall be a portion of what it would otherwise have been.
- (3E) That portion is determined in accordance with the following rules—

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- (1) Identify the abandonment guarantee (within the meaning given by section 104 of the Finance Act 1991 (c. 31)) on the obtaining of which the expenditure was incurred.
  - (2) Identify the liabilities covered by the guarantee.
  - (3) Identify which of those liabilities relate to qualifying assets.
  - (4) Identify the portion of the expenditure that it is just and reasonable to apportion to the liabilities identified under rule 3.
  - (5) Identify the qualifying assets to which the liabilities identified under rule 3 relate.
  - (6) Identify the use of those qualifying assets that has been (or is expected to be) non-excluded use.
  - (7) Assume that expenditure is incurred on the provision of those qualifying assets and identify the proportion of the hypothetical expenditure that it would be just and reasonable to apportion to the use of those assets identified under rule 6.
  - (8) The portion mentioned in subsection (3D) above is then determined by multiplying—
    - (i) the portion identified under rule 4, by
    - (ii) the proportion (expressed as a fraction) identified under rule 7.
- (3F) Any expenditure allowable under section 3 of this Act for the field by virtue of section 3(1)(i) or (j) of this Act shall be a portion of what it would otherwise have been.
- (3G) That portion is determined in accordance with the following rules—
- (1) Identify the qualifying asset that is relevant to the incurring of the expenditure.
  - (2) Identify the use of that qualifying asset that has been non-excluded use.
  - (3) Assume that expenditure is incurred on the provision of that qualifying asset and identify the proportion of the hypothetical expenditure that it would be just and reasonable to apportion to the use of that asset identified under rule 2.
  - (4) The portion mentioned in subsection (3F) above is then determined by multiplying—
    - (i) the expenditure, by
    - (ii) the proportion (expressed as a fraction) identified under rule 3.
- (3H) In subsections (3E) and (3G) above—
- “non-excluded use” means—
- (a) use in connection with the winning and saving of oil, other than excluded oil, from the field, or
  - (b) use giving rise to receipts that, for the purposes of the Oil Taxation Act 1983 (c. 56), are tariff receipts attributable to a participator in the field;
- “qualifying asset” has the same meaning as it has for the purposes of the Oil Taxation Act 1983 (see section 8 of that Act).]
- (4) A return made under paragraph 2 of Schedule 2 to this Act by a participator in an oil field need not, in the case of oil falling within subsection (1)(a) above, state the price received or receivable for the oil.
  - (5) For the purposes of this section [<sup>F115</sup>1,100 cubic metres] of oil consisting of gas at the temperature and pressure mentioned in section 1(4) of this Act shall be counted as equivalent to one [<sup>F115</sup>metric tonne] of oil other than gas.

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### Textual Amendments

- F110** Words in s. 10(2) substituted by [Finance Act 1991 \(c. 31, SIF 63:1\)](#), **s. 103(7)(a)(8)**.
- F111** Words in s. 10(2) substituted (11.5.2001 with effect as mentioned in [s. 102\(4\)](#) of the amending Act) by [2001 c. 9, s. 102\(3\)](#)
- F112** S. 10(3)-(3H) substituted (11.5.2001 with effect as mentioned in [s. 103\(2\)](#) of the amending Act) for s. 10(3) by [2001 c. 9, s. 103\(1\)](#)
- F113** Word in [s. 10\(3B\)](#) substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\)](#), regs. 1(2), **4(5)(a)**
- F114** Word in [s. 10\(3B\)](#) substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\)](#), regs. 1(2), **4(5)(b)**
- F115** Words substituted by [Finance \(No. 2\) Act 1979 \(c. 47\)](#), **s. 21(3)** deemed to have taken effect on 1 January 1979

### Modifications etc. (not altering text)

- C49** See [Finance Act 1980 \(c. 48\)](#), **s. 106** and Sch. 17 para. 9 relating to interests in oil fields transferred after 1 August 1980
- C50** S. 10(1)(a) modified (8.11.1995) by [1995 c. 45, s. 17\(1\)](#), [Sch. 5 Pt. I paras. 1, 11\(a\)](#)  
S. 10(1)(a) modified (retrospectively) by [1999 c. 16, s. 94\(2\)](#)
- C51** S. 10(1)(b) modified (27.7.1993) by [1993 c. 34 s. 209\(3\)](#)
- C52** See [Oil Taxation Act 1983 \(c. 56\)](#), **s. 4** and Sch. 1 para. 3
- C53** See [Oil Taxation Act 1983 \(c. 56\)](#), **ss. 3(6)** and 4

## 11 Application of Provisional Collection of Taxes Act 1968.

Section 1 of the <sup>M5</sup>Provisional Collection of Taxes Act 1968 shall apply to petroleum revenue tax ; and accordingly, in subsection (1) of that section after the words “income tax” there shall be inserted the words “ petroleum revenue tax ”.

### Marginal Citations

- M5** [1968 c. 2](#).

## 12 Interpretation of Part I.

(1) In this Part of this Act—

[<sup>F116</sup>“business day” has the same meaning as in the Bills of Exchange Act 1882;]

[<sup>F117</sup>“calendar month” (where those words are used) means a month of the calendar year;]

[<sup>F116</sup>“Category 1 oil” and “Category 2 oil” have the meaning given by paragraph 2(1B) of Schedule 3 to this Act;]

“chargeable period”, in relation to an oil field, has the meaning given by section 1(3) of this Act;

“claim period”, in relation to an oil field, has the meaning given by paragraph 1 of Schedule 5 to this Act; “crude”, where the reference is to oil being disposed of or appropriated crude, refers to its being so dealt with without having been refined (whether or not it has previously undergone initial treatment); “determination”, in a context relating to an assessment or determination on or in relation to a participator, means a determination under



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Schedule 2 to this Act that a loss is allowable to him or that neither an assessable profit nor an allowable loss has accrued to him;

“initial storage”, in relation to oil won from an oil field, means the storage<sup>F118</sup> . . . of a quantity of oil won from the field not exceeding, in the case of storage in the United Kingdom [<sup>F119</sup>or another country], a quantity equal to ten times the maximum daily production rate of oil for the field as planned or achieved (whichever is the greater), but does not include—

- (a) the storing of oil as part of or in conjunction with the operation of an oil refinery; or
- (b) deballasting; or
- (c) conveying oil in a pipe-line;

“initial treatment”, in relation to oil won from an oil field, means the doing, at any place<sup>F118</sup> . . . , of any of the following things, that is to say—

- (a) subjecting oil won from the field to any process of which the sole purpose is to enable the oil to be safely stored, safely loaded into a tanker or safely accepted by an oil refinery; or
- (b) [<sup>F120</sup>separating oil so won and consisting of gas from other oil so won; or
- (c) separating oil so won and consisting of gas of a kind that is transported and sold in normal commercial practice from other oil so won and consisting of gas; or
- (d) liquifying oil so won and consisting of gas of such a kind as aforesaid for the purpose of transporting it; or
- (e) subjecting oil so won to any process of which the purpose is to secure that oil disposed of crude has the quality that is normal for oil so disposed of from the field,]

but does not include—

- (i) the storing of oil even where this involves the doing to the oil of things within [<sup>F121</sup>any of paragraphs (a) to (e) of this definition] or
- (ii) [<sup>F122</sup>any activity carried on as part of, or in association with, the refining of oil not consisting of gas or any activity the sole or main purpose of which is to achieve a chemical reaction in respect of oil consisting of gas; or]
- (iii) deballasting;

“land” includes land in the United Kingdom [<sup>F123</sup>or another country] covered with water;

“licence” means a licence under [<sup>F124</sup>Part I of the Petroleum Act 1998] or the<sup>M6</sup>Petroleum (Production) Act (Northern Ireland) 1964 authorising the winning of oil, and “licensed area” shall be construed accordingly;

“licensee” means—

- (a) the person entitled to the benefit of a licence or, where two or more persons are entitled to the benefit of a licence, each of those persons; and
- (b) a person who has rights under an agreement which is approved by the Board and is certified by the [<sup>F125</sup>OGA] to confer on that person rights which are the same as, or similar to, those conferred by a licence;

[<sup>F126</sup>“light gases”, except in relation to an election under section 134 of the Finance Act 1982 or section 109 of the Finance Act 1986, means oil consisting of gas of which the largest component by volume over any chargeable period, measured at a temperature of 15 degrees centigrade and a pressure of one atmosphere, is methane or ethane or a combination of those gases]

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[<sup>F127</sup>“the OGA” means the Oil and Gas Authority;]

“oil” has the meaning given by section 1(1) of this Act;

“oil field” shall be construed in accordance with Schedule 1 to this Act [<sup>F128</sup>(which also includes provision about areas that are to be treated as continuing to be oil fields)] [<sup>F129</sup>and “taxable field” and “non-taxable field” have the same meaning as in Part III of the Finance Act 1993];

“participator” (except in paragraph 4 of Schedule 2 to this Act) means, in relation to an oil field and [<sup>F130</sup>a] chargeable period [<sup>F131</sup>(“the relevant chargeable period”)]—

(a) a person who is or was at any time in [<sup>F132</sup>the relevant chargeable period] a licensee in respect of any licensed area then wholly or partly included in the field; and

(aa) [<sup>F133</sup>a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field, but who—

(i) was such a licensee at any time in any chargeable period preceding the relevant chargeable period, and

(ii) ceased to be such a licensee because of a cessation event; and]

(b) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field [<sup>F134</sup>(and who does not fall within paragraph (aa) of this definition)], but who was such a licensee at any time in either of the two chargeable periods preceding [<sup>F132</sup>the relevant chargeable period]; and

(c) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field (and who does not fall within paragraph [<sup>F135</sup>(aa) or] (b) of this definition), but who has or had at any time in [<sup>F132</sup>the relevant chargeable period] a share of oil won (whether or not in that period) from the field, being a share with respect to any part of which either of the following conditions is or was satisfied at that time, that is to say—

(i) he has or had neither disposed of that part nor relevantly appropriated it; or

(ii) he has or had disposed of, but not delivered, that part; [<sup>F136</sup>and

(d) a former participator to whom an amount is attributed under paragraph 2A(2) of Schedule 5 in respect of a default payment made in relation to the field in the relevant chargeable period; and

(e) a former participator to whom an amount was attributed under paragraph 2A(2) of Schedule 5 in respect of a default payment made in relation to the field in either of the two chargeable periods preceding the relevant chargeable period; and

(f) a person who—

(i) made a default payment in relation to the field (whether the person was then a current participator or former participator),

(ii) is not a participator during the relevant chargeable period under any of paragraphs (a) to (e) of this definition, and

(iii) receives, in the relevant chargeable period, reimbursement expenditure (within the meaning of section 108(1)(c) of the Finance Act 1991) in respect of the default payment; and

(g) a person who—

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- (i) made a default payment in relation to the field (whether the person was then a current participator or former participator),
- (ii) is not a participator during the relevant chargeable period under any of paragraphs (a) to (f) of this definition, and
- (iii) receives, in either of the two chargeable periods preceding the relevant chargeable period, reimbursement expenditure (within the meaning of section 108(1)(c) of the Finance Act 1991) in respect of the default payment;

<sup>F137</sup> ...]

“pipe-line” means a pipe-line as defined in section 65 of the <sup>M7</sup>Pipe-lines Act 1962;

“production purposes”, in relation to an oil field, means any of the following purposes, that is to say—

- (a) carrying on drilling or production operations within the field; or
- (b) in the case of oil won from the field that was so won from strata in the sea bed and subsoil of either the territorial sea of the United Kingdom or a designated area, pumping it to the place where it is first landed in the United Kingdom [<sup>F138</sup>or to the place in the United Kingdom [<sup>F139</sup>or another country] at which the seller in a sale at arm’s length could reasonably be expected to deliver it or, if there is more than one place at which he could reasonably be expected to deliver it, the one nearest to the place of extraction]; or
- (c) the initial treatment of oil won from the field;

[<sup>F140</sup>“refining”, in relation to oil, does not include subjecting it to initial treatment and “refined” and “refinery” shall be construed accordingly;];

“relevant licence”, in relation to a participator in an oil field, means any licence held or previously held by him in respect of a licensed area wholly or partly included in the field;

“relevantly appropriated”, in relation to oil won from an oil field, means appropriated to refining or to any use except use for production purposes [<sup>F141</sup>in relation to that or any other oil field], and “relevant appropriation” shall be construed accordingly;

“the responsible person”, in relation to an oil field, has the meaning given by paragraph 4 of Schedule 2 to this Act;

“royalty”, in relation to a participator in an oil field, means royalty payable (but not, it is hereby declared, oil delivered) to the Secretary of State under any relevant licence;

“tax” or “the tax” means petroleum revenue tax.

[<sup>F142</sup>(1A) In the definition of “participator” in subsection (1)—

- (a) “cessation event”, in relation to an oil field to which a licence relates, means any of the following—
  - (i) determination of the licence by the licensee,
  - (ii) revocation of the licence by the [<sup>F143</sup>OGA] or a Northern Ireland Department,
  - (iii) expiry of the licence at the end of its term,
  - (iv) the licensed area ceasing to include any relevant area whatsoever, by reason of the licensee surrendering the licence so far as it relates to the whole of the relevant area, and

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- (v) the licence ceasing to apply to the oil field by reason of the operation of the licence;
- and for the purposes of sub-paragraph (iv) “relevant area” means an area which is, or combination of areas each of which is, included in the oil field (whether or not such an area falls partly outside the oil field);
- (b) “current participator”, “former participator” and “default payment” have the same meanings as in paragraph 2A of Schedule 5.]
- (2) In this Part of this Act any reference to the use of an asset in connection with an oil field is a reference to its use in connection with that field for one or more of the purposes mentioned in section 3(1) of this Act (excluding section 3(1)(b)).
- (3) In this Part of this Act any reference (however worded) to the doing of anything in a chargeable period in connection with an oil field or with oil won from an oil field shall, [<sup>F144</sup>as regards the first chargeable period for any oil field], be construed as including the doing of that thing in connection with the area of the field as subsequently determined under Schedule 1 to this Act or, as the case may be, with oil won from that area.
- (4) In so far as a person is a participator in an oil field by virtue of a licence under the <sup>M8</sup>Petroleum (Production) Act (Northern Ireland) 1964, references in this Part of this Act to the Secretary of State [<sup>F145</sup>or the OGA] (except references in Schedule 1) shall be construed in his case as references to the Department of Commerce for Northern Ireland.

#### Textual Amendments

- F116** Words in s. 12(1) inserted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 4\(2\)](#)
- F117** Words in s. 12(1) substituted (with effect in accordance with s. 147(1)(2) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 18 para. 4\(3\)](#)
- F118** Words in s. 12(1) repealed (16.7.1992 with effect as mentioned in ss. 55(3), 74(5) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\), ss. 55\(3\), 74, 82, Sch. 15 para. 3\(a\), Sch. 18 Pt. VIII](#)
- F119** Words in s. 12(1) inserted (16.7.1992 with effect as mentioned in s. 74(5) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\), s. 74, Sch. 15 para. 3\(b\)](#).
- F120** Paragraphs (b)–(e) substituted for paragraph (b) by [Finance Act 1980 \(c. 48\), s. 109\(2\)\(3\)](#) in relation to chargeable periods ending after 31 December 1979
- F121** Words substituted by [Finance Act 1980 \(c. 48\), s. 109\(2\)\(3\)](#) in relation to chargeable periods ending after 31 December 1979
- F122** Paragraph (ii) substituted by [Finance Act 1980 \(c. 48\), s. 109\(4\)](#) in relation to chargeable periods ending after 31 December 1979
- F123** Words in s. 12(1) inserted (16.7.1992 with effect as mentioned in s. 74(5) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\), s. 74, Sch. 15 para. 3\(c\)](#).
- F124** Words in s. 12(1) substituted (15.2.1999) by 1998 c. 17, s. 50, [Sch. 4 para. 7\(3\)](#) (with s. 9(1)(2)); S.I. 1999/161, [art. 2\(1\)](#)
- F125** Word in s. 12(1) substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\), regs. 1\(2\), 4\(6\)\(a\)\(i\)](#)
- F126** S. 12(1): definition inserted (3.5.1994) by 1994 c. 9, [s. 236\(4\)](#)
- F127** Words in s. 12(1) inserted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\), regs. 1\(2\), 4\(6\)\(a\)\(ii\)](#)
- F128** Words in s. 12(1) inserted (with effect in accordance with Sch. 42 para. 8 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 42 para. 6](#)
- F129** Words in definition of “oil field” in s. 12(1) added (27.7.1993) by [Finance Act 1993 c. 34, s. 185\(5\)](#)

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- F130** Word in s. 12(1) substituted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(2\)\(a\)](#)
- F131** Words in s. 12(1) inserted (with effect in accordance with s. 102(5) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [s. 102\(2\)](#)
- F132** Words in s. 12(1) substituted (with effect in accordance with s. 102(5) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [s. 102\(3\)](#)
- F133** Words in s. 12(1) inserted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(2\)\(b\)](#)
- F134** Words in s. 12(1) inserted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(2\)\(c\)](#)
- F135** Words in s. 12(1) inserted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(2\)\(d\)](#)
- F136** Words in s. 12(1) inserted (with effect in accordance with s. 102(5) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [s. 102\(4\)](#)
- F137** Words in s. 12(1) omitted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(2\)\(e\)](#)
- F138** Words inserted by [Finance \(No. 2\) Act 1979 \(c. 47\)](#), [s. 20\(1\)](#) in relation to expenditure claimed after 31 December 1978
- F139** Words in s. 12(1) inserted (16.7.1992 with effect as mentioned in [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), [s. 74](#), [Sch. 15 para. 3\(d\)](#).
- F140** Definitions inserted by [Finance Act 1980 \(c. 48\)](#), [s. 109\(5\)](#) in relation to chargeable periods ending after 31 December 1979
- F141** Words inserted by [Finance Act 1983 \(c. 49\)](#), [s. 39](#), deemed to be effective for chargeable periods ending after 31 December 1977
- F142** S. 12(1A) inserted (with effect in accordance with Sch. 42 para. 4 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 42 para. 2\(3\)](#)
- F143** Word in s. 12(1A)(a)(ii) substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\)](#), [regs. 1\(2\)](#), [4\(6\)\(b\)](#)
- F144** Words repealed by [Finance Act 1982 \(c. 39\)](#), [ss. 135\(4\)](#), 157 and Sch. 22 Part IX in relation to determinations made after 31 December 1981
- F145** Words in s. 12(4) inserted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\)](#), [regs. 1\(2\)](#), [4\(6\)\(c\)](#)

#### **Modifications etc. (not altering text)**

- C54** S. 12 applied (6.3.1992 with effect as mentioned in [s. 289\(1\)\(2\)](#) of the amending Act) by [Taxation of Chargeable Gains Act 1992 \(c. 12\)](#), [ss. 197\(1\)](#), 289 (with [ss. 60](#), 101(1), 171, 201(3))
- C55** S. 12 applied by 1992 c. 12, s. 198E(6) (as inserted (with effect in accordance with Sch. 40 para. 13 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 40 para. 12](#))
- C56** Definition of “chargeable period” employed for purposes of [Income and Corporation Taxes Act 1988 \(c. 1, SIF 63:1\)](#), [s. 500](#)
- C57** Definitions of “initial storage” and “initial treatment”: see [Oil Taxation Act 1983 \(c. 56\)](#), [Sch. 1 para. 1\(4\)](#) in relation to expenditure on associated assets used in connection with an external field.
- C58** Definitions of “initial storage”, “oil field” and “participator” applied for purposes of [Income and Corporation Taxes Act 1988 \(c. 1, SIF 63:1\)](#), [s. 502](#)
- C59** Definitions of “licence”, “licensee” and “oil” applied for purposes of [Finance Act 1988 \(c.39, SIF 63:1,2\)](#), [ss. 62-64](#).
- C60** Definition of “relevantly appropriated”: see [Oil Taxation Act 1983 \(c. 56\)](#), [Sch. 2 para. 12\(2\)\(b\)](#) in relation to oil purchased at place of extraction
- C61** Definitions of “relevant appropriation” applied for purposes of [Income and Corporation Taxes Act 1988 \(c. 1, SIF 63:1\)](#), [S. 493\(2\)](#)
- C62** The Department of Commerce for Northern Ireland to be construed as the Department of Economic Development by S.I. 1982 No. 846 (N.I. 11) from 6 September 1982 by N.I. Order 1982 No. 221 (C. 4)

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#### Marginal Citations

- M6** 1964 c. 28 (N.I.)  
**M7** 1962 c. 58.  
**M8** 1964 c. 28 (N.I.)

#### [<sup>F146</sup>12A Date of delivery or appropriation: shipped oil not sold at arm's length

- (1) This section has effect for the purpose of determining the date on which any oil to which it applies is to be regarded for the purposes of this Part as delivered or relevantly appropriated.
- (2) This section applies to—
  - (a) oil (not being light gases) won from a field and disposed of crude by a participator otherwise than in sales at arm's length, and
  - (b) oil (not being light gases) so won and relevantly appropriated by a participator, if the condition in subsection (3)(a) or (b) below is met.
- (3) The condition is that the oil is or has been, or is to be,—
  - (a) transported by ship from the place of extraction to a place in the United Kingdom or elsewhere, or
  - (b) transported by pipeline to a place in the United Kingdom and loaded on to a ship there.
- (4) The date on which the oil is to be taken to be delivered, or (as the case may be) relevantly appropriated, by the participator is—
  - (a) the date of completion of load, in a case where the condition in subsection (3)(a) above is met,
  - (b) the date of the bill of lading, in a case where the condition in subsection (3)(b) above is met.]

#### Textual Amendments

- F146** S. 12A inserted (with effect in accordance with Sch. 18 para. 5(2) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 18 para. 5\(1\)](#)

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