



# Oil Taxation Act 1975

## 1975 CHAPTER 22

### PART I

#### PETROLEUM REVENUE TAX

#### **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 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>F1</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>F2</sup>in the last calendar month] of the preceding chargeable period, of so much of his share of oil won from the field as he had [<sup>F2</sup>at the end of that period] either—

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- (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>F3</sup>Subject to subsection (5A) 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 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 so won as was relevantly appropriated by him in the period without being disposed of (excluding oil so appropriated before 13th November 1974); and
  - (d) one-half of the market value, [<sup>F2</sup>in the last calendar month] of the period, of so much of his share of oil so won as he had [<sup>F2</sup>at the end of that period] either—
    - (i) not disposed of and not relevantly appropriated; or
    - (ii) disposed of but not delivered [<sup>F4</sup>and]
  - [<sup>F5</sup>(e) the excess of the nominated proceeds for that period, as defined in section 61 of the Finance Act 1987].
- [<sup>F6</sup>(5A) In any case where oil consisting of gas 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 gas from a place on land in the United Kingdom for delivery at a place 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 gas shall be deemed to be that for which it would have been sold, and
  - (b) the gas shall be deemed to be delivered at the time it would have been delivered, if the terms of the contract [<sup>F7</sup>did not require the seller to meet any such costs as are mentioned above but did require the gas to be delivered—
    - (i) in the case of gas extracted in the United Kingdom, at the place of extraction; or
    - (ii) in the case of gas 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 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.]]
- (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

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(ii) the amount of any royalty repaid to the participator in the period in respect of the field;

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 Secretary of State under any relevant licence otherwise than by way of royalty.

(8) The amount (if any) to be debited or credited to the participator for the period in respect of expenditure is the difference (if any) between—

- (a) the sum of the amounts mentioned in subsection (9) below; and
- (b) subject to subsection (10) below, any amount taken into account under paragraph (a) of the said subsection (9) in computing the assessable profit or allowable loss accruing to the participator in the last but one preceding chargeable period;

and that difference (if any) is an amount to be debited as aforesaid if the sum mentioned in paragraph (a) above is greater than the amount mentioned in paragraph (b) above, and is otherwise an amount to be credited as aforesaid.

(9) [<sup>F8</sup>Subject to section 192 of the Finance Act 1993] the amounts referred to in subsection (8)(a) above are—

- (a) subject to subsection (11) below, an amount equal to 5 per cent. of the aggregate of—
  - (i) the sum of the amounts which, in the participator's return under paragraph 2 of Schedule 2 to this Act for the period, are, in the case of deliveries falling within sub-paragraph (2)(a) of that paragraph, stated to be the price received or receivable for the oil or, as the case may be, its market value [<sup>F9</sup>at the material time] in the calendar month in which the delivery was made; and
  - (ii) the sum of the amounts which, in that return, are, in the case of appropriations falling within sub-paragraph (2)(b) of that paragraph, stated to be the market value of the oil [<sup>F9</sup>at the material time] in the calendar month in which the appropriation was made;
- (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 [<sup>F10</sup>35 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,

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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 [<sup>F10</sup>35 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 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>F11</sup>; and]
- [<sup>F12</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>F13</sup>; and]
- [<sup>F14</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.]

(10) If, for the period, the expenditure falling within paragraph (b)(i) or (c)(i) of subsection (9) above includes an amount of expenditure (“the relevant amount”) incurred in the preceding chargeable period, then—

- (a) the amount which would otherwise be taken into account under subsection (8) (b) above for the first-mentioned period shall be increased by the smaller of the following amounts, namely the relevant amount and the amount (if any) taken into account under paragraph (a) of subsection (9) above in computing the assessable profit or allowable loss accruing to the participator in the preceding chargeable period; and
- (b) the amount which would otherwise be taken into account under subsection (8) (b) above for the chargeable period following the first-mentioned chargeable period shall be reduced by an amount equal to that increase.

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- (11) If, for the period, the expenditure falling within paragraph (b)(i) or (c)(i) of subsection (9) above includes an amount of expenditure incurred in the period, the amount mentioned in paragraph (a) of that subsection shall be reduced by that amount.

#### Textual Amendments

- F1** 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
- F2** Words substituted by [Finance Act 1987 \(c. 16\), s. 62\(2\)](#) for chargeable periods ending after 31 December 1986
- F3** Words inserted by [Finance Act 1982 \(c. 39\), s. 133\(1\)](#) with respect to chargeable periods ending after 31 December 1981
- F4** Word added by [Finance Act 1987 \(c. 16\), s. 61\(5\)](#)
- F5** [S. 2\(5\)\(e\)](#) added by [Finance Act 1987 \(c. 16\), s. 61\(5\)](#)
- F6** [S. 2\(5A\)](#) added by [Finance Act 1982 \(c. 39\), s. 133\(1\)](#) with respect to chargeable periods ending after 31 December 1981
- F7** 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](#)
- F8** Words in [s. 2\(9\)](#) inserted (27.7.1993) by 1993 c. 34, [s. 192\(3\)](#)
- F9** Words repealed by [Finance Act 1987 \(c. 16\), ss. 62\(1\)\(a\), 72\(7\)](#) and Sch. 16 Part X for chargeable periods ending after 31 December 1986
- F10** 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
- F11** “; and” added by [Finance Act 1983 \(c. 49\), s. 37\(2\)](#) and Sch. 8 Part II para. 1
- F12** [S. 2\(9\)\(f\)](#) added by [Finance Act 1983 \(c. 49\), s. 37\(2\)](#) and Sch. 8 Part II para. 1
- F13** “; and” added by [Finance Act 1987 \(c. 16\), s. 64\(2\)](#) and Sch. 13 Part II para. 1
- F14** [S. 2\(9\)\(g\)](#) added by [Finance Act 1987 \(c. 16\), s. 64\(2\)](#) and Sch. 13 Part II para. 1

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

- C1** [S. 2](#) modified by [Finance Act 1991 \(c. 31, SIF 63:1\), s. 108\(4\)](#).
- C2** 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
- C3** 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
- C4** See [Oil Taxation Act 1983 \(c. 56\), Sch. 1 para. 2](#) where expenditure incurred in respect of a remote associated asset
- C5** See [Finance Act 1987 \(c. 16\), s. 65\(4\)\(b\)](#)
- C6** [S. 2\(9\)](#) excluded (27.7.1993) by 1993 c. 34, [s. 192\(3\)](#)
- C7** See [Finance Act 1987 \(c. 16\), s. 65\(5\)](#)
- C8** See [Oil Taxation Act 1983 \(c. 56\), s. 3\(6\)](#) and Sch. 1 para. 2
- C9** 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
- C10** See [Finance Act 1981 \(c. 35\), ss. 111–113](#), 115
- C11** See [Income and Corporation Taxes Act 1988 \(c. 1, SIF 63:1\), s. 493](#)

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