



# Finance Act 1986

## 1986 CHAPTER 41

### PART VI

#### OIL TAXATION

#### **108 The on-shore/off-shore boundary**

- (1) For the purposes of the enactments relating to oil taxation, land lying between the landward boundary of the territorial sea and the shoreline of the United Kingdom (as denned below) shall be treated as part of the bed of the territorial sea of the United Kingdom and any reference in those enactments to the territorial sea or the subsoil beneath it shall be construed accordingly.
- (2) Any reference to the United Kingdom in the enactments relating to oil taxation, where that reference is a reference to a geographical area, shall be treated as a reference to the United Kingdom exclusive of the land referred to in subsection (1) above and of any waters for the time being covering that land.
- (3) In this section—
  - (a) "the landward boundary of the territorial sea" means the line for the time being ordered by Her Majesty in Council to be the baseline from which the breadth of the territorial sea is measured; and
  - (b) "the shoreline of the United Kingdom" means, subject to subsection (4) below, the high-water line along the coast, including the coast of all islands comprised in the United Kingdom.
- (4) In the case of waters adjacent to a bay, as denned in the Territorial Waters Order in Council 1964, the shoreline means—
  - (a) if the bay has only one mouth and the distance between the high-water lines of the natural entrance points of the bay does not exceed 5,000 metres, a straight line joining those high-water lines;
  - (b) if, because of the presence of islands, the bay has more than one mouth and the distances between the high-water lines of the natural entrance points of

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- each mouth added together do not exceed 5,000 metres, a series of straight lines across each of the mouths drawn so as to join those high-water lines; and
- (c) if neither paragraph (a) nor paragraph (b) above applies, a straight line 5,000 metres in length drawn from high-water line to high-water line within the bay in such a manner as to enclose the maximum area of water that is possible with a line of that length.
- (5) If, by virtue of this section, it becomes necessary at any time to establish the high-water line at any place, it shall be taken to be the line which, on the current Admiralty chart showing that place, is depicted as "the coastline"; and for this purpose.—
- (a) an Admiralty chart means a chart published under the superintendence of the Hydrographer of the Navy;
- (b) if there are two or more Admiralty charts of different scales showing the place in question and depicting the coastline, account shall be taken only of the largest scale chart; and
- (c) subject to paragraph (b) above, the current Admiralty chart at any time is that most recently published before that time.
- (6) In this section "the enactments relating to oil taxation" means Part I of the Oil Taxation Act 1975 and any enactment which is to be construed as one with that Part.
- (7) This section shall be deemed to have come into force on 1st April 1986.

## **109 Alternative valuation of light gases**

- (1) Where an election is made under this section and accepted by the Board, the market value for the purposes of the Oil Taxation Acts of any light gases to which the election applies shall be determined, not in accordance with paragraphs 2, 2A and 3 of Schedule 3 to the principal Act (value under a notional contract), but by reference to a price formula specified in the election; and, in relation to any such light gases, any reference to market value in any other provision of the Oil Taxation Acts shall be construed accordingly.
- (2) No election may be made under this section in respect of light gases which are "ethane" as defined in subsection (6)(a) of section 134 of the Finance Act 1982 (alternative valuation of ethane used for petrochemical purposes) if the principal purpose for which the gases are being or are to be used is that specified in subsection (2)(b) of the said section 134 (use for petrochemical purposes).
- (3) Subject to subsection (4) below, an election under this section applies only to light gases—
- (a) which, during the period covered by the election, are either disposed of otherwise than in sales at arm's length or relevantly appropriated; and
- (b) which are not subject to fractionation between the time at which they are so disposed of or appropriated and the time at which they are applied or used for the purposes specified in the election.
- (4) In any case where.—
- (a) at a time during the period covered by an election, a market value falls to be determined for light gases to which subsection (4)(b) or (5)(d) of section 2 of the principal Act applies (oil stocks at the end of chargeable periods), and
- (b) after the expiry of the chargeable period in question, the light gases are disposed of or appropriated as mentioned in subsection (3) above,

the market value of those light gases at the time referred to in paragraph (a) above shall be determined as if they were gases to which the election applies.

- (5) Schedule 18 to the Finance Act 1982 (which applies to elections under section 134 of that Act relating to ethane used or to be used for petrochemical purposes) shall have effect for supplementing this section but subject to the modifications in Schedule 21 to this Act (in which "the 1982 Schedule" means the said Schedule 18).
- (6) This section shall be construed as one with Part I of the principal Act and in this section—
- (a) "light gases" means oil consisting of gas of which the largest component by volume over any chargeable period is methane or ethane or a combination of those gases and which—
    - (i) results from the fractionation of gas before it is disposed of or appropriated as mentioned in subsection (3)(a) above, or
    - (ii) before being so disposed of or appropriated, is not subjected to initial treatment or is subjected to initial treatment which does not include fractionation;
  - (b) "the principal Act" means the Oil Taxation Act 1975; and
  - (c) "the Oil Taxation Acts" means Part I of the principal Act and any enactment which is to be construed as one with that Part.
- (7) In this section "fractionation" means the treatment of gas in order to separate gas of one or more kinds as mentioned in paragraph 2A(3) of Schedule 3 to the principal Act; and for the purposes of subsection (6)(a) above.—
- (a) the proportion of methane, ethane or a combination of the two in any gas shall be determined at a temperature of 15°C and at a pressure of one atmosphere; and
  - (b) any component other than methane, ethane or liquified petroleum gas shall be disregarded.

## **110 Attribution of certain receipts and expenditure between oil fields**

- (1) Section 8 of the Oil Taxation Act 1983 (qualifying assets) shall have effect, and be deemed always to have had effect, subject to the amendments in subsections (2) and (3) below.
- (2) In subsection (3) (which determines the oil field to which are attributable tariff receipts or disposal receipts referable to a qualifying asset) after the word "above", both where it occurs in paragraph (c) and also in the words following paragraph (c), there shall be inserted "and subsection (3A) below".
- (3) After subsection (3) there shall be inserted the following subsection—
- “(3A) If development decisions were first made in relation to two or more oil fields on the same day, then, for the purposes of subsection (3)(c) above, it shall be conclusively presumed that the first of those decisions was made in relation to that one of those fields in connection with which it appeared—
- (a) at the time of the decision, or
  - (b) if it is later, at the time the asset was acquired or brought into existence by the participator in question for use in connection with an oil field, that the participator in question would make the most use of the asset.”

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- (4) Paragraph 6 of Schedule 1 to the Oil Taxation Act 1983 (attribution of allowable expenditure) shall have effect and be deemed always to have had effect with the addition of the following sub-paragraph—
- “(3) Subsection (3A) of section 8 of this Act applies for the purposes of sub-paragraph (1) above as it applies for the purposes of subsection (3)(c) of that section.”