
Changes to legislation: Finance Act 2014, Paragraph 3 is up to date with all changes known to be in force on or before 27 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

SCHEDULES

SCHEDULE 15

SUPPLEMENTARY CHARGE: ONSHORE ALLOWANCE

PART 1

AMENDMENTS OF PART 8 OF CTA 2010

Onshore allowance

3 After Chapter 7 insert—

“CHAPTER 8

SUPPLEMENTARY CHARGE: ONSHORE ALLOWANCE

Introduction

Overview

- 356B This Chapter sets out how relief for certain capital expenditure incurred for the purposes of onshore oil-related activities is given by way of reduction of a company's adjusted ring fence profits, and includes provision about—
- (a) the need for allowance held for a site to be activated by relevant income from the same site in order for the allowance to be available for reducing adjusted ring fence profits,
 - (b) elections by a company to transfer allowance between different sites in which it is a licensee (see section 356F), and
 - (c) mandatory transfers of allowance where shares in the equity in a licensed area are disposed of (see sections 356H to 356HB and the related provisions in sections 356G to 356GD).

“Onshore oil-related activities”

- 356B(1) In this Chapter “onshore oil-related activities” means activities of a company which are carried on onshore and—
- (a) fall within any of subsections (1) to (4) of section 356BB, or
 - (b) consist of the acquisition, enjoyment or exploitation of oil rights.
- (2) Activities of a company are carried on “onshore” if they are authorised—
- (a) under a landward licence under Part 1 of the Petroleum Act 1998 or the Petroleum (Production) Act 1934, or

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- (b) under a licence under the Petroleum (Production) Act (Northern Ireland) 1964.
- (3) In subsection (2)(a) “landward licence” means a licence in respect of an area which falls within the definition of “landward area” in the regulations pursuant to which the licence was applied for.

The activities

- 356B(1) Activities of a company in searching for oil or causing such searching to be carried out for the company.
- (2) Activities of a company in extracting oil, or causing oil to be extracted for it, under rights which—
 - (a) authorise the extraction, and
 - (b) are held by it or by a company associated with it.
 - (3) Activities of a company in transporting, or causing to be transported for it, oil extracted under rights which—
 - (a) authorise the extraction, and
 - (b) are held as mentioned in subsection (2)(b),
 but only if the transportation meets the condition in subsection (5).
 - (4) Activities of the company in effecting, or causing to be effected for it, the initial treatment or initial storage of oil won from any site under rights which—
 - (a) authorise its extraction, and
 - (b) are held as mentioned in subsection (2)(b).
 - (5) The condition mentioned in subsection (3) is that the transportation is to a place 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 such place, the one nearest to the place of extraction).
 - (6) In this section “initial storage”—
 - (a) means, in relation to oil won from a site, the storage of a quantity of oil won from the site not exceeding 10 times the relevant share of the maximum daily production rate of oil for the site as planned or achieved (whichever is greater), but
 - (b) does not include the matters excluded by paragraphs (a) to (c) of the definition of “initial storage” in section 12(1) of OTA 1975;
 and in this subsection “the relevant share” means a share proportionate to the company's share of oil won from the site concerned.
 - (7) In this section “initial treatment” has the meaning given by section 12(1) of OTA 1975; but for this purpose that definition is to be read as if the references in it to an oil field were to a site.

“Site”

- 356BC In this Chapter “site” (except in the expression “drilling and extraction site”) means—

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- (a) a drilling and extraction site that is not used in connection with any oil field, or
- (b) an oil field (whether or not one or more drilling and extraction sites are used in connection with it).

Onshore allowance

Generation of onshore allowance

356C(1) Subsection (2) applies where a company incurs any relievable capital expenditure in relation to a qualifying site.

- (2) The company is to hold an amount of allowance equal to 75% of the amount of the expenditure.
- (3) “Qualifying site” means a site whose development (in whole or in part) is authorised for the first time on or after 5 December 2013.
- (4) Capital expenditure incurred by a company is “relievable” only if, and so far as—
 - (a) it is incurred for the purposes of onshore oil-related activities (see section 356BA), and
 - (b) neither of the disqualifying conditions is met at the beginning of the day on which the expenditure is incurred (see section 356CA).
- (5) Allowance held under this Chapter is called “onshore allowance”.
- (6) Onshore allowance is said in this Chapter to be “generated” at the time when the capital expenditure is incurred (see section 356JA).
- (7) Onshore allowance is referred to in this Chapter as being generated—
 - (a) “by” the company concerned,
 - (b) “at” the site concerned.
- (8) Where capital expenditure is incurred only partly for the purposes of onshore oil-related activities, or the onshore oil-related activities for the purposes of which capital expenditure is incurred are carried on only partly in relation to a particular site, the expenditure is to be attributed to the site concerned on a just and reasonable basis.
- (9) In this section, references to authorisation of development of a site—
 - (a) in the case of a site which is an oil field, are to be read in accordance with section 351;
 - (b) in the case of a drilling and extraction site, are to be read in accordance with section 356J.

Disqualifying conditions for section 356C(4)(b)

356C(1) The first disqualifying condition is that production from the site is expected to exceed 7,000,000 tonnes.

- (2) The second disqualifying condition is that production from the site has exceeded 7,000,000 tonnes.

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- (3) For the purposes of this section 1,100 cubic metres of gas at a temperature of 15 degrees celsius and pressure of one atmosphere is to be counted as equivalent to one tonne.

Expenditure not related to an established site

- 356C(1) A company may make an election under this section in relation to capital expenditure incurred by it for the purposes of onshore oil-related activities if the appropriate condition is met.
- (2) The appropriate condition is that at the time of the election no site can be identified as a site in relation to which the expenditure has been incurred.
- (3) An election may not be made before the beginning of the third accounting period of the company after that in which the expenditure is incurred.
- (4) An election must specify—
- (a) the expenditure in question,
 - (b) a site (“the specified site”) every part of which is, or is part of, an area in which the company is a licensee, and
 - (c) an accounting period of the company (“the specified accounting period”).
- (5) The specified accounting period must not be earlier than the accounting period in which the election is made.
- (6) Where a company makes an election under this section in relation to an amount of expenditure, that amount is treated for the purposes of this Chapter as incurred by the company—
- (a) in relation to the specified site, and
 - (b) at the beginning of the specified accounting period.

Reduction of adjusted ring fence profits

Reduction of adjusted ring fence profits

- 356D(1) A company's adjusted ring fence profits for an accounting period are to be reduced by the cumulative total amount of activated allowance for the accounting period (but are not to be reduced below zero).
- (2) In relation to a company and an accounting period, the “cumulative total amount of activated allowance” is—

$$A + C$$

where—

A is the total of any amounts of activated allowance the company has, for any sites, for the accounting period (see section 356E(2)) or for reference periods within the accounting period (see section 356GB(1)), and

C is any amount carried forward to the period under section 356DA.

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Carrying forward of activated allowance

356D(A) This section applies where, in the case of a company and an accounting period—

- (a) the cumulative total amount of activated allowance (see section 356D(2)), is greater than
- (b) the adjusted ring fence profits.

(2) The difference is carried forward to the next accounting period.

Companies with both field allowances and onshore allowance

356D(B) This section applies where a company's adjusted ring fence profits for an accounting period are reducible both—

- (a) under section 333(1) (by the amount of the company's pool of field allowances for the period), and
- (b) under section 356D(1) (by the cumulative total amount of activated allowance for the period).

(2) The company may choose the order in which the different allowances are to be used.

(3) If the company chooses to apply section 333(1) first, then—

- (a) Chapter 7 and this Chapter are to be ignored in calculating the “adjusted ring fence profits” in accordance with section 356AA, and
- (b) if section 356D(1) is also applied: this Chapter, but not Chapter 7, is to be ignored in calculating the adjusted ring fence profits in accordance with section 356JB.

(4) If the company chooses to apply section 356D(1) first, then—

- (a) this Chapter and Chapter 7 are to be ignored in calculating the adjusted ring fence profits in accordance with section 356JB, and
- (b) if section 333(1) is also applied: Chapter 7, but not this Chapter, is to be ignored in calculating the “adjusted ring fence profits” in accordance with section 356AA.

Activated and unactivated allowance: basic calculation rules

Activation of allowance: no change of equity share

356(E) This section applies where—

- (a) a company is a licensee in a licensed area for the whole or part (“the licensed part”) of an accounting period,
- (b) the company's share of the equity in the site is the same throughout the accounting period or, as the case requires, throughout the licensed part of the accounting period,
- (c) the licensed area is or contains a site,
- (d) the company holds, for the accounting period and the site, a closing balance of unactivated allowance (see section 356EA) that is greater than zero, and

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- (e) the company has relevant income from the site for the accounting period.
- (2) The amount of activated allowance the company has for that accounting period and that site is the smaller of—
 - (a) the closing balance of unactivated allowance held for the accounting period and the site;
 - (b) the company's relevant income for that accounting period from that site.
- (3) In this Chapter “relevant income”, in relation to a site and an accounting period of a company, means production income of the company from any oil extraction activities carried on at the site that is taken into account in calculating the company's adjusted ring fence profits for the accounting period.

The closing balance of unactivated allowance for an accounting period

356EA The closing balance of unactivated allowance held by a company for an accounting period and a site is—

Carrying forward of unactivated allowance

356EB(1) This section applies where X is greater than Y in the case of an accounting period of a company and a site, where—

X is the closing balance of unactivated allowance for the accounting period and the site;

Y is the company's relevant income for the accounting period from that site.

- (2) An amount equal to the difference between X and Y is treated as onshore allowance held by the company for that site for the next accounting period (and is treated as held with effect from the beginning of that period).

Transfer of allowances between sites

Transfer of allowances between sites

356F(1) This section applies if a company has, with respect to a site, an amount (“N”) of onshore allowance available to carry forward to an accounting period—

- (a) under section 356EB(2), or
- (b) by virtue of section 356GC(3).
- (2) The company may elect to transfer the whole or part of that amount to another site (“site B”), if the appropriate conditions are met.
- (3) The appropriate conditions are that—
 - (a) every part of site B is, or is part of, an area in which the company is a licensee, and
 - (b) the election is made no earlier than the beginning of the third accounting period of the company after that in which the allowance was generated.

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- (4) For the purposes of subsection (3)(b), a company may regard an amount of onshore allowance held by it for a site as generated in a particular accounting period if the amount does not exceed—

$$A - T$$

where—

A is the amount of onshore allowance generated in that accounting period for that site;

T is the total amount of onshore allowance generated in that period for that site that has already been transferred under this section.

- (5) An election must specify—
- (a) the amount of onshore allowance to be transferred;
 - (b) the site at which it was generated;
 - (c) the site to which it is transferred;
 - (d) the accounting period in which it was generated.
- (6) Where a company makes an election under subsection (2), then—
- (a) if the company elects to transfer the whole of N, no amount is available to be carried forward under section 356EB(2) or (as the case may be) by virtue of section 356GC(3);
 - (b) if the company elects to transfer only part of N, the amount available to be carried forward as mentioned in subsection (1) is reduced by the amount transferred.
- (7) Where an amount of onshore allowance is transferred to a site as a result of an election, this Chapter has effect as if the allowance is generated at that site at the beginning of the accounting period in which the election is made.

Changes in equity share: activation of allowance

Introduction to sections 356GA to 356GD

356G(1) Sections 356GA to 356GD apply to a company in respect of an accounting period and a licensed area that is or contains a site, if the following conditions are met—

- (a) the company is a licensee in the licensed area for the whole, or for part, of the accounting period;
 - (b) the company has different shares (greater than zero) of the equity in the licensed area at different times during the accounting period.
- (2) In a case where a company has three or more different shares of the equity in a licensed area during a particular day, sections 356GA to 356GD (in particular, provisions relating to the beginning or end of a day) have effect subject to the necessary modifications.

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Reference periods

356G(A) For the purposes of sections 356GB to 356GD, the accounting period, or (if the company is not a licensee for the whole of the accounting period) the part or parts of the accounting period for which the company is a licensee, are to be divided into reference periods (each of which “belongs to” the site concerned).

- (2) A reference period is a period of consecutive days that meets the following conditions—
- (a) at the beginning of each day in the period, the company is a licensee in the licensed area;
 - (b) at the beginning of each day in the period, the company's share of the equity in the licensed area is the same;
 - (c) each day in the period falls within the accounting period.

Activation of allowance: reference periods

356G(B) The amount (if any) of activated allowance that a company has with respect to a site for a reference period is the smaller of the following—

- (a) the company's relevant income from the site in the reference period;
- (b) the total amount of unactivated allowance that is attributable to the reference period and the site (see section 356GD).

- (2) The company's relevant income from the site in the reference period is—

$$I \times \frac{R}{L}$$

where—

I is the company's relevant income from the site in the whole of the accounting period;

R is the number of days in the reference period;

L is the number of days in the accounting period for which the company is a licensee in the licensed area concerned.

Carry-forward of unactivated allowance from a reference period

356G(C) If, in the case of a reference period (“RP1”) of a company, the amount mentioned in subsection (1)(b) of section 356GB exceeds the amount mentioned in subsection (1)(a) of that section, an amount equal to the difference between those amounts is treated as onshore allowance held by the company for the site concerned for the next period.

- (2) If RP1 is immediately followed by another reference period of the company (belonging to the same site), “the next period” means that reference period.
- (3) If subsection (2) does not apply, “the next period” means the next accounting period of the company.

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Unactivated amounts attributable to a reference period

356GD) For the purposes of section 356GB(1)(b), the total amount of unactivated allowance attributable to a reference period and a site is—

$$P + Q - R$$

where—

P is the amount of allowance generated by the company in the reference period at the site (including any amount treated under section 356F(7) or 356HB(1) as generated by the company in that accounting period at that site);

Q is the amount given by subsection (2) or (3);

R is any amount to be deducted under section 356HA(1) in respect of a disposal of the whole or part of the company's share of the equity in a licensed area that is or contains the site.

- (2) Where the reference period is not immediately preceded by another reference period but is preceded by an accounting period of the company, Q is equal to the amount (if any) that is to be carried forward from that preceding accounting period under section 356EB(2).
- (3) Where the reference period is immediately preceded by another reference period, Q is equal to the amount carried forward by virtue of section 356GC(2).

Transfers of allowance on disposal of equity share

Introduction to sections 356HA and 356HB

356H) Sections 356HA and 356HB apply where a company (“the transferor”)—

- (a) disposes of the whole or part of its share of the equity in a licensed area that is or contains a site;
 - (b) immediately before the disposal holds (unactivated) onshore allowance for the site concerned.
- (2) Each company to which a share of the equity is disposed of is referred to in section 356HB as “a transferee”.

Reduction of allowance if equity disposed of

356HA) The following amount is to be deducted, in accordance with section 356GD(1), in calculating the total amount of unactivated allowance attributable to a reference period and a site—

$$F \times \frac{E1 - E2}{E1}$$

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where—

F is the pre-transfer total of unactivated allowance for the reference period that ends with the day on which the disposal is made;

E1 is the transferor's share of the equity in the licensed area immediately before the disposal;

E2 is the transferor's share of the equity in the licensed area immediately after the disposal.

(2) The “pre-transfer total of unactivated allowance” for a reference period is—

$$P + Q$$

where P and Q are the same as in section 356GD.

Acquisition of allowance if equity acquired

356H(1) A transferee is treated as generating at the site concerned, at the beginning of the reference period or accounting period of the transferee that begins with, or because of, the disposal, onshore allowance of the amount given by subsection (2).

(2) The amount is—

$$R \times \frac{E3}{E1 - E2}$$

where—

R is the amount determined for the purposes of the deduction under section 356HA(1);

E3 is the share of equity in the licensed area that the transferee has acquired from the transferor;

E1 and E2 are the same as in section 356HA.

Miscellaneous

Adjustments

356I(1) This section applies if there is any alteration in a company's adjusted ring fence profits for an accounting period after this Chapter has effect in relation to the profits.

(2) Any necessary adjustments to the operation of this Chapter (whether in relation to the profits or otherwise) are to be made (including any necessary adjustments to the effect of section 356D on the profits or to the calculation of the amount to be carried forward under section 356DA).

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Orders

- 356IA) The Treasury may by order substitute a different percentage for the percentage that is at any time specified in section 356C(2) (calculation of allowance as a percentage of capital expenditure).
- (2) The Treasury may by order amend the number that is at any time specified in section 356CA(1) or (2) (cap on production, or estimated production, at a site for the purposes of onshore allowance).
- (3) An order under subsection (1) or (2) may include transitional provision.

Interpretation

“Authorisation of development”: drilling and extraction sites

- 356I) References in this Chapter to authorisation of development of a site are to be interpreted as follows in relation to a drilling and extraction site that is situated in, or used in connection with, a licensed area.
- (2) The references are to be read as references to a national authority—
- (a) granting a licensee consent for development of the licensed area,
 - (b) serving on a licensee a programme of development for the licensed area, or
 - (c) approving a programme of development for the licensed area.
- (3) References in subsection (2) to a “licensee” are to a licensee in the licensed area mentioned in subsection (1).
- (4) In this section—
- “consent for development”, in relation to a licensed area, does not include consent which is limited to the purpose of testing the characteristics of an oil-bearing area;
 - “development”, in relation to a licensed area, means winning oil from the licensed area otherwise than in the course of searching for oil or drilling wells;
 - “national authority” means—
 - (a) the Secretary of State, or
 - (b) a Northern Ireland Department.

When capital expenditure is incurred

- 356JA Section 5 of CAA 2001 (when capital expenditure is incurred) applies for the purposes of this Chapter as for the purposes of that Act.

Other definitions

- 356JB In this Chapter (except where otherwise specified)—
- “adjusted ring fence profits”, in relation to a company and an accounting period, means the adjusted ring fence profits that would (if this Chapter were ignored) be taken into account in calculating the

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supplementary charge on the company under section 330(1) for the accounting period (but see also section 356DB);

“cumulative total amount of activated allowance” has the meaning given by section 356D(2);

“licence” has the same meaning as in Part 1 of OTA 1975 (see section 12(1) of that Act);

“licensed area” has the same meaning as in Part 1 of OTA 1975;

“licensee” has the same meaning as in Part 1 of OTA 1975;

“onshore allowance” has the meaning given by section 356C(5);

“relevant income”, in relation to an onshore site and an accounting period, has the meaning given by section 356E(3);

“site” has the meaning given by section 356BC.”

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- Sch. 31 para. 2(3)(b) inserted by [2017 c. 32 Sch. 14 para. 45\(2\)\(a\)\(iii\)](#)
- Sch. 31 para. 2(4A) inserted by [2017 c. 32 Sch. 14 para. 45\(2\)\(c\)](#)
- Sch. 31 para. 3(1A) inserted by [2017 c. 32 Sch. 14 para. 45\(3\)\(b\)](#)
- Sch. 31 para. 5(b) inserted by [2017 c. 32 Sch. 14 para. 45\(4\)\(c\)](#)
- Sch. 31 para. 2(3)(a) words inserted by [2017 c. 32 Sch. 14 para. 45\(2\)\(a\)\(ii\)](#)
- Sch. 31 para. 5(a) words inserted by [2017 c. 32 Sch. 14 para. 45\(4\)\(b\)](#)
- Sch. 31 para. 2(3)(a) words renumbered as Sch. 31 para. 2(3)(a) by [2017 c. 32 Sch. 14 para. 45\(2\)\(a\)\(i\)](#)
- Sch. 31 para. 5(a) words renumbered as Sch. 31 para. 5(a) by [2017 c. 32 Sch. 14 para. 45\(4\)\(a\)](#)
- Sch. 32 para. 1(2)(b) inserted by [2017 c. 32 Sch. 14 para. 46\(2\)\(a\)\(iii\)](#)
- Sch. 32 para. 1(3A) inserted by [2017 c. 32 Sch. 14 para. 46\(2\)\(c\)](#)
- Sch. 32 para. 1(2)(a) words inserted by [2017 c. 32 Sch. 14 para. 46\(2\)\(a\)\(ii\)](#)
- Sch. 32 para. 1(2)(a) words renumbered as Sch. 32 para. 1(2)(a) by [2017 c. 32 Sch. 14 para. 46\(2\)\(a\)\(i\)](#)