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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations prescribe which oils are Category 1 oils for the purposes of paragraph 2(2) of Schedule 3 to the Oil Taxation Act 1975. They also prescribe the methods of valuing Category 1 and Category 2 oils which are held as part of a participator's stock, sold otherwise than at arm's length or are relevantly appropriated.

Regulation 1 provides for citation and commencement.

Regulation 2 defines terms used in the Regulations.

Regulation 3 prescribes those oils which are Category 1 oils for the purposes of valuation.

Regulation 4 defines terms used in connection with the valuation of Category 1 oils.

Regulation 5 explains the scope of the Regulations.

Regulation 6 describes the steps to be taken in determining the value of Category 1 oils.

Regulations 7 and 8 set out the rules for determining the notional delivery day to be used in the calculation for a Category 1 oil.

Regulations 9 to 12 set out the rules for determining the average reference value to be used in such a calculation.

Regulations 13 to 15 set out the rules about adjustment factors to be applied in such a calculation.

Regulation 16 sets out the process by which to arrive at the market value of a quantity of Category 1 oil to which the Regulations apply.

Regulation 17 prescribes two methods of valuing Category 2 oils to which the Regulations apply.

Regulation 18 sets out the first of those methods, and regulations 19 to 23 the second.

Regulation 24 prescribes an alternative method in cases where the participator's contracts normally provide for the price to be determined—

- (a) in the case of oil transported by ship from the place of extraction to a place in the United Kingdom or elsewhere, by reference to the actual date of the completion of the load, or completion of the discharge, of the cargo; or
- (b) in the case of oil transported by pipeline to a place in the United Kingdom and loaded on to a ship there, by reference to the date of the bill of lading.

By virtue of section 147(1) of the Finance Act 2006 these Regulations have effect in relation to oil delivered or appropriated on or after 1st July 2006.

The effect of subsection (A1) of section 493 of the Income and Corporation Taxes Act 1988 (c. 1), inserted by paragraph 12(2) of Schedule 18 to the Finance Act 2006 is to provide that the value of oil disposed of in an arm's length sale is to be computed, for all purposes of income tax, and for the purposes of corporation tax in relation to that disposal, in accordance with section 2(5A) of the Oil Taxation Act 1975.

A regulatory impact assessment was prepared by HM Revenue and Customs in respect of Part 5 of the Finance (No. 2) Bill of the 2005-06 Session and was published on 22nd March 2006. That Bill received Royal Assent as the Finance Act 2006.