

**EXPLANATORY MEMORANDUM TO**  
**THE OIL TAXATION (MARKET VALUE OF OIL) REGULATIONS 2006**  
**2006 No. 3313**

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Description**

The Regulations will come into force on the day after that on which they are made. They apply for the purpose of determining the market value of oil which has been won from a field and disposed by way of sale otherwise than at arm's length; relevantly appropriated; or not delivered, at the end of chargeable period.

3. **Matters of special interest to the Select Committee on Statutory Instruments**

None.

4. **Legislative Background**

The powers to make the regulations are within section 21(2) of, and paragraph 2(1B), (1C), (2E) and (2F) of Schedule 3 to the Oil Taxation Act 1975, and section 147(4) and (7) of the Finance Act 2006 (which provides the authority for retrospective provision).

5. **Extent**

This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

The Financial Secretary to the Treasury has made the following statement regarding Human Rights:

In my view the provisions of The Oil Taxation (Market Value of Oil Regulations) 2006 are compatible with the Convention rights.

7. **Policy background**

The previous method for determining a non-arm's length price for tax purposes for non-arm's length disposals of oil by producers provided arbitrage

opportunities. Companies were exploiting these in order to achieve the lowest oil price for tax purposes. This was causing considerable loss of tax to the Exchequer and giving certain companies a commercial advantage.

The Regulations provide for a new method of determining an arm's length price for such disposals. For Category 1 oils (those most commonly traded), this will be based upon actual prices for sale that are quoted on the open market at that time. For the less commonly traded oils, special rules will apply to arrive at an arm's length price based on arm's length sales of such oils or comparable oils.

## **8. Impact**

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.

## **9. Contact**

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