



Oil Taxation Act 1975

1975 CHAPTER 22

PART I

PETROLEUM REVENUE TAX

5 Allowance of abortive exploration expenditure

(1) Subject to the following provisions of this section and Schedule 7 to this Act, the abortive exploration expenditure allowable in the case of a person who is a participator in an oil field is any expenditure (whether or not of a capital nature) incurred on or after 1st January 1960 which—

- (a) was incurred by that person or, if that person is a company, by that company or a company associated with it in respect of the expenditure ; and
- (b) was incurred wholly and exclusively for the purpose of searching for oil in the United Kingdom, the territorial sea thereof or a designated area ; and
- (c) is not, and is unlikely to become, allowable under section 3 or 4 of this Act for any oil field,

but so that any expenditure to which subsection (2) below applies shall not be allowable under this section except to the extent that it falls by virtue of that subsection to be treated as incurred wholly and exclusively for the purpose mentioned in paragraph (b) above.

(2) Where any person has incurred expenditure in acquiring, bringing into existence, or enhancing the value of an asset which is subsequently used by him for the purpose mentioned in paragraph (b) of subsection (1) above, then—

- (a) subject to paragraph (b) below, if the useful life of the asset continues after the end of the twelve months beginning with the day on which he acquired the asset or brought it into existence, he shall be treated for the purposes of that subsection as having incurred wholly and exclusively for that purpose a fraction of that expenditure on each day after the expenditure was incurred on which the asset is used by him wholly and exclusively for that purpose, and that fraction is the fraction of which the numerator is 1 and the denominator is the number of days in the period beginning with the day on which he incurred

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that expenditure and ending with the day on which the asset's useful life is reasonably likely to end;

- (b) if a subsequent disposal of the asset by that person otherwise than to a person connected with him gives rise to the receipt of a sum that falls to be taken into account under subsection (6) below, being a sum not less than the price which the asset might reasonably have been expected to fetch if sold in the open market at the time of the disposal, paragraph (a) above shall apply with the substitution, for the reference to the day on which the asset's useful life is reasonably likely to end, of a reference to the day on which the disposal was made. Section 4(13) of this Act applies to the preceding provisions of this subsection.
- (3) Expenditure is not allowable under this section in connection with an oil field if, or to the extent that, it has been allowed under Schedule 7 to this Act in connection with any oil field.
- (4) Subsection (4) of section 3 of this Act shall apply for the purposes of this section with the following modifications, that is to say—
- (a) in paragraph (c) the words from " except" to the end of sub-paragraph (iii) shall be omitted ;
 - (b) paragraph (d) shall be omitted ;
 - (c) in paragraph (e), the reference to oil won or to be won from the field shall be read as a reference to oil won or to be won from any area whatsoever.
- (5) Paragraph 2 of Schedule 4 to this Act shall, with the omission of sub-paragraph (2) (b) and (c), apply in relation to this section as it applies in relation to sections 3 and 4 of this Act.
- (6) Where any expenditure which would otherwise be allowable under this section gives rise to the receipt of any sum (whether or not of a capital nature) by the person who incurred the expenditure or any person connected with him, that expenditure shall for the purposes of this section be reduced by an amount equal to that sum.
- (7) For the purposes of this section—
- (a) " company " means any body corporate ;
 - (b) section 533 of the Taxes Act (connected persons) shall apply; and
 - (c) a company which is a participator in an oil field is associated with another company in respect of expenditure incurred by the other company if—
 - (i) throughout that part of the relevant period in which both were in existence one was a 51 per cent, subsidiary of the other and the other was not a 51 per cent, subsidiary of any company ; or
 - (ii) each of them was, throughout that part of the relevant period in which it was in existence, a 51 per cent, subsidiary of a third company which was not itself a 51 per cent, subsidiary of any company.
- (8) For the purposes of subsection (7)(c) above—
- (a) " the relevant period " is the period beginning immediately before the expenditure was incurred and ending with the end of whichever of the following periods ends later, that is to say—
 - (i) the earliest chargeable period in which the company which is a participator in the oil field in question was a participator in that field ;
 - and

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- (ii) the chargeable period (for that field) in which the expenditure was incurred,
(or, if they are the same period, with the end of that period); and
- (b) section 532 of the Taxes Act (subsidiaries) shall apply.