



# Oil Taxation Act 1975

## 1975 CHAPTER 22

### PART I

#### PETROLEUM REVENUE TAX

#### **1 Petroleum revenue tax**

- (1) A tax, to be known as petroleum revenue tax, shall be charged in accordance with this Part of this Act in respect of profits from oil won under the authority of a licence granted under either the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964; and in this Part of this Act "oil" means any substance so won or capable of being so won other than methane gas won in the course of operations for making and keeping mines safe.
- (2) For each oil field the tax shall, in the case of each participator, be charged at the rate of 45 per cent, on the assessable profit accruing to him in any chargeable period from that field, as reduced under section 7 of this Act by any allowable losses and under section 8 of this Act by reference to his share, if any, of the oil allowance for that period, subject however to the limit imposed in his case by section 9 of this Act.
- (3) In relation to any oil field—
  - (a) the first chargeable period is the period ending at the end of the critical half year (including an unlimited time prior to the beginning of that half year); and
  - (b) each subsequent half year is a chargeable period.
- (4) In this section—

"the critical half year", in relation to an oil field, means the first half year ending after 12th November 1974 at the end of which the total amount of oil ever won and saved from the field exceeds 1,000 long tons (counting 40,000 cubic feet of gas at a temperature of 15 degrees centigrade and pressure of one atmosphere as equivalent to one long ton);

"half year" means a period of six months ending at the end of June or December.

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- (5) Schedule 1 to this Act shall have effect with respect to the determination of oil fields, and Schedule 2 to this Act shall have effect with respect to the management and collection of the tax; and this Part of this Act shall have effect subject to the further provisions in Schedule 3 to this Act and, in connection with certain gas sold to the British Gas Corporation, to section 10 of this Act.

## **2 Assessable profits and allowable losses**

- (1) For the purposes of the tax the assessable profit or allowable loss accruing to a participator in any chargeable period from an oil field shall be computed in accordance with the following provisions of this section.
- (2) The assessable profit or allowable loss so accruing in the period is the difference (if any) between the sum of the positive amounts for the period and the sum of the negative amounts for the period ; and that difference (if any) is an assessable profit if the sum of the positive amounts is greater than the sum of the negative amounts, and is otherwise an allowable loss.
- (3) For the period—
- (a) the positive amounts for the purposes of this section are the following (as defined in this section), namely the gross profit (if any) accruing to the participator in the period, his licence credit (if any) for the period, and any amount to be credited to him for the period in respect of expenditure ; and
  - (b) the negative amounts for those purposes are the following (as so defined) namely the gross loss (if any) so accruing, his licence debit (if any) for the period, and any amount to be debited to him for the period in respect of expenditure.
- (4) The gross profit or loss (if any) accruing to the participator in the period is the difference (if any) between—
- (a) the aggregate of the amounts mentioned in subsection (5) below; and
  - (b) one-half of the market value, at the end of the preceding chargeable period, of so much of his share of oil won from the field as he had then either—
    - (i) not disposed of and not relevantly appropriated ; or
    - (ii) disposed of but not delivered, and the difference (if any) is a gross profit if the said aggregate is greater than one-half of the said market value, and is otherwise a gross loss.
- (5) The amounts referred to in subsection (4)(a) above are—
- (a) the price received or receivable for so much of any oil won from the field and disposed of by him crude in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);
  - (b) the aggregate market value, ascertained in accordance with Schedule 3 to this Act, of so much of any oil so won and disposed of by him crude otherwise than in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);
  - (c) the aggregate market value, ascertained in accordance with Schedule 3 to this Act, of so much of any oil so won as was relevantly appropriated by him in the period without being disposed of (excluding oil so appropriated before 13th November 1974); and
  - (d) one-half of the market value, at the end of the period, of so much of his share of oil so won as he had then either—

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- (i) not disposed of and not relevantly appropriated ; or
  - (ii) disposed of but not delivered,
- (6) The participator's licence debit or credit (if any) for the period is the difference (if any) between—
  - (a) the sum of the amounts mentioned in subsection (7) below; and
  - (b) the sum of—
    - (i) the amount taken into account under paragraph (a) of that subsection in computing his licence debit or credit for the preceding chargeable period; and
    - (ii) the amount of any royalty repaid to the participator in the period in respect of the field;and that difference (if any) is a licence debit if the sum mentioned in paragraph (a) above is greater than the sum mentioned in paragraph (b) above, and is otherwise a licence credit.
- (7) The amounts referred to in subsection (6) (a) above are—
  - (a) the amount shown in the return for the period made under paragraph 2 of Schedule 2 to this Act as the amount of royalty payable for the period in respect of the participator's share of oil won from the field ;
  - (b) the amount of royalty paid in the period in respect of that share; and
  - (c) any amount paid in the period in respect of any periodic payment payable to the Secretary of State under any relevant licence otherwise than by way of royalty.
- (8) The amount (if any) to be debited or credited to the participator for the period in respect of expenditure is the difference (if any) between—
  - (a) the sum of the amounts mentioned in subsection (9) below; and
  - (b) subject to subsection (10) below, any amount taken into account under paragraph (a) of the said subsection (9) in computing the assessable profit or allowable loss accruing to the participator in the last but one preceding chargeable period;and that difference (if any) is an amount to be debited as aforesaid if the sum mentioned in paragraph (a) above is greater than the amount mentioned in paragraph (b) above, and is otherwise an amount to be credited as aforesaid.
- (9) The amounts referred to in subsection (8)(a) above are—
  - (a) subject to subsection (11) below, an amount equal to 5 per cent, of the aggregate of—
    - (i) the sum of the amounts which, in the participator's return under paragraph 2 of Schedule 2 to this Act for the period, are, in the case of deliveries falling within sub-paragraph (2)(a) of that paragraph, stated to be the price received or receivable for the oil or, as the case may be, its market value at the material time in the calendar month in which the delivery was made ; and
    - (ii) the sum of the amounts which, in that return, are, in the case of appropriations falling within sub-paragraph (2)(b) of that paragraph, stated to be the market value of the oil at the material time in the calendar month in which the appropriation was made;
  - (b) the participator's share, as determined on a claim under Schedule 5 to this Act, of the aggregate of—

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- (i) any expenditure allowable under section 3 or 4 of this Act for the field which has been allowed on such a claim before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field; and
  - (ii) an amount equal to 75 per cent, of so much of that expenditure as has been so allowed on such a claim as qualifying for supplement under this sub-paragraph by virtue of subsection (5) of the said section 3, so far as that share has not been taken into account in any previous assessment to tax or determination;
  - (c) the aggregate of—
    - (i) any expenditure allowable in the case of the participator under section 3 or 4 of this Act which has, on a claim made by him under Schedule 6 to this Act, been allowed before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field ; and
    - (ii) an amount equal to 75 per cent, of so much of that expenditure as has been so allowed on such a claim as qualifying for supplement under this sub-paragraph by virtue of subsection (5) of the said section 3, so far as that expenditure and amount have not been taken into account in any previous assessment to tax or determination;
  - (d) any abortive exploration expenditure allowable in the case of the participator under section 5 of this Act which on a claim made by him under Schedule 7 to this Act has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination ; and
  - (e) any unrelievable field losses allowable in the case of the participator under section 6 of this Act which on a claim made by him under Schedule 8 to this Act have been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as those losses have not been taken into account in any previous assessment to tax or determination.
- (10) If, for the period, the expenditure falling within paragraph (b)(i) or (c)(i) of subsection (9) above includes an amount of expenditure (" the relevant amount") incurred in the preceding chargeable period, then—
- (a) the amount which would otherwise be taken into account under subsection (8) (b) above for the first-mentioned period shall be increased by the smaller of the following amounts, namely the relevant amount and the amount (if any) taken into account under paragraph (a) of subsection (9) above in computing the assessable profit or allowable loss accruing to the participator in the preceding chargeable period ; and
  - (b) the amount which would otherwise be taken into account under subsection (8) (b) above for the chargeable period following the first-mentioned chargeable period shall be reduced by an amount equal to that increase.
- (11) If, for the period, the expenditure falling within paragraph (b)(i) or (c)(i) of subsection (9) above includes an amount of expenditure incurred in the period, the amount mentioned in paragraph (a) of that subsection shall be reduced by that amount.

### **3 Allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure)**

(1) Subject to the provisions of this section and Schedules 4, 5 and 6 to this Act, the expenditure allowable under this section for any oil field is any expenditure (whether or not of a capital nature) which, not being expenditure to which section 4 of this Act applies, is incurred by a person at or before the time when he is a participator in the field to the extent that it is incurred for one or more of the following purposes, namely—

- (a) searching for oil anywhere within the area of the field as subsequently determined under Schedule 1 to this Act or not more than 5,000 metres beyond the boundary of that area;
- (b) making to the Secretary of State any payment under or for the purpose of obtaining a relevant licence, not being a payment by way of royalty or other periodic payment;
- (c) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) the extent or characteristics of any oil-bearing area wholly or partly included in the field, or what the reserves of oil of any such oil-bearing area are ;
- (d) winning oil from the field ;
- (e) measuring the quantity of oil won or to be won from the field;
- (f) in the case of oil won from the field that was so won from strata in the sea bed and subsoil of either the territorial sea of the United Kingdom or a designated area, transporting it to the place where it is first landed in the United Kingdom ;
- (g) the initial treatment or initial storage of oil won from the field;
- (h) disposing of any oil won from the field which is disposed of crude in sales at arm's length ;
- (i) closing down the field or any part of it, but only if and to the extent that the expenditure is incurred for the purposes of safety or the prevention of pollution.

(2) Subject to the following provisions of this section and Schedules 4, 5 and 6 to this Act, where any amount is under subsection (2) of section 412 of the Taxes Act (statutory redundancy payments) allowable as a deduction in computing for any accounting period the profits or losses of the relevant trade carried on by a person who was in that period a participator in an oil field, or would be so allowable under that subsection if it were not otherwise so allowable, then that amount less the amount of the rebate recoverable (within the meaning of that subsection) shall be expenditure allowable under this section for that field.

In this subsection " the relevant trade", in relation to a participator in an oil field, means the separate trade which by virtue of subsection (1) of section 13 of this Act consists of activities carried on by him that fall within paragraph (a) or (b) of that subsection or which would have so consisted if that subsection had additionally had effect as regards all past chargeable periods (within the meaning of the Taxes Acts).

(3) Expenditure is not allowable under this section for any oil field if, or to the extent that, it has been allowed under Schedule 5 or 6 to this Act for any other oil field or has been allowed under Schedule 7 to this Act in connection with any oil field.

(4) The expenditure allowable under this section for any oil field does not include—

- (a) expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit; or

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- (b) the cost of acquiring any land or interest in land, other than the cost of making to the Secretary of State any payment falling within subsection (1)(b) above; or
- (c) the cost of acquiring or erecting any building or structure on land, except—
  - (i) a structure to be subsequently placed on the sea bed of either the territorial sea of the United Kingdom or a designated area ; or
  - (ii) a building or structure used or to be used wholly in the process of winning oil from strata in or under land or of measuring the quantity of oil won or to be won from such strata ; or
  - (iii) a building or structure used or to be used for initial treatment or initial storage of oil; or
- (d) any expenditure wholly or partly depending on or determined by reference to the quantity, value or proceeds of, or the profits from, oil won from the field ; or
- (e) any payment made for the purpose of obtaining a direct or indirect interest in oil won or to be won from the field, other than a payment made to the Secretary of State ;

but nothing in paragraph (e) above shall be taken to apply to a payment made by a participator in pursuance of a contract whereby expenditure incurred for any of the purposes mentioned in subsection (1) above is to be shared between that participator and any of the other participators in the field.

- (5) Expenditure allowable under this section for an oil field qualifies for supplement under section 2(9)(b)(ii) or (c)(ii) of this Act if and to the extent that it is incurred for one or more of the following purposes, namely—
  - (a) bringing about the commencement of the winning of oil from the field or the commencement of the transporting of oil won from it to the United Kingdom ;
  - (b) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) any of the matters mentioned in subsection (1)(c) above;
  - (c) carrying out works for, or acquiring an asset or an interest in an asset to be used for the purpose of, substantially improving the rate at which oil can be won or transported to the United Kingdom from the field, or preventing or substantially reducing a decline in that rate ; or
  - (d) providing any installation for the initial treatment or initial storage of oil won from the field ;

but expenditure incurred in hiring an asset shall not so qualify unless the asset is used in carrying out works for a purpose mentioned in paragraph (a), (b) or (c) above or works for the provision of any such installation as is mentioned in paragraph (d) above.

- (6) For the purposes of subsections (1) and (5) above expenditure incurred partly for one or more of the purposes there mentioned and partly not shall be apportioned in such manner as is just and reasonable.

#### **4 Allowance of expenditure on long-term assets**

- (1) Subject to subsection (13) below, this section applies to expenditure (whether or not of a capital nature) which is incurred by a person at or before the time when he is a participator in an oil field, being expenditure incurred in acquiring, bringing into existence, or enhancing the value of an asset which is to be or is subsequently used

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in connection with the field and whose useful life continues after the end of the claim period in which it is first so used:

Provided that this section shall not apply to expenditure incurred as aforesaid in any case where the Board consider that its application to that expenditure would have only a negligible effect on the total expenditure allowable under this Part of this Act for the field and so notify the responsible person.

- (2) The following provisions of this section are subject to Schedules 4, 5 and 6 to this Act.
- (3) In the case of expenditure incurred otherwise than in acquiring or bringing into existence a brought-in asset, the whole of the expenditure shall (subject to the following provisions of this section) be allowable under this section on a claim under Schedule 5 or 6 to this Act for the first relevant claim period if, but only if—
  - (a) after the expenditure was incurred, the asset was in that period used (if at all) only in connection with the field; and
  - (b) at the end of that period it was reasonable to assume that the asset would from then until the end of its useful life be used only in connection with the field; and
  - (c) the asset is not a mobile asset.
- (4) If the whole of the expenditure is not by virtue of subsection (3) above allowable on a claim for the first relevant claim period, subsections (5) and (6) below shall apply as regards that claim period.
- (5) Subject to the following provisions of this section, a proportion of the expenditure shall be allowable under this section on a claim for the first relevant claim period, and that proportion is—
  - (a) if, at the end of that period, a reasonable estimate can be made of the proportion which the time during which the asset will eventually have been used in connection with the field in the period between the incurring of the expenditure or the asset's first use in that connection (whichever is later) and the date on which its useful life is reasonably likely to end bears to the time between the incurring of the expenditure and that date, the same proportion as that estimated proportion;
  - (b) in any other case, the proportion which the time during which the asset has been used in that connection in the period between the incurring of the expenditure or the asset's first use in that connection (whichever is later) and the end of the first relevant claim period bears to the time between the incurring of the expenditure and the date when the asset's useful life is reasonably likely to end:

Provided that, where the asset was not used for any purpose in the period between the incurring of the expenditure and the asset's first use in connection with the field, the expenditure shall for the purposes of this subsection be treated as having been incurred on the date when the asset was first used in connection with the field.

- (6) In the case of a mobile asset, the proportion of the expenditure allowable by virtue of subsection (5) above on a claim for the first relevant claim period shall not exceed the proportion which the time during which the asset was used in connection with the field in the period mentioned in paragraph (b) of that subsection bears to the time between the incurring of the expenditure and the end of that claim period:

Provided that, where the asset was not used for any purpose in the period between the incurring of the expenditure and the asset's first use in connection with the field, the

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expenditure shall for the purposes of this subsection be treated as having been incurred on the date when the asset was first used in connection with the field.

- (7) Whether or not the whole of the expenditure is by virtue of subsection (3) above allowable under this section on a claim for the first relevant claim period, for each subsequent claim period up to and including that in which use of the asset in connection with the field permanently ceases, the proportion of the expenditure allowable under this section for the relevant period shall be computed by applying the provisions of subsections (5) and (6) above with the omission of the words " on a claim " (wherever occurring) and the substitution of references to the relevant period for references to the first relevant claim period.

For the purposes of this subsection " the relevant period " , in relation to a claim period, means the period consisting of that claim period and each earlier claim period back to and including that in which the expenditure was incurred.

- (8) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period exceeds the amount thereof which (taking into account any previous adjustments made under the following subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the excess shall be allowable under this section on a claim for that claim period.
- (9) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period is exceeded by the amount thereof which (taking into account any previous adjustments made under this subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the total amount of expenditure allowable under this and the preceding section on a claim for the first-mentioned claim period shall be reduced by an amount equal to the excess.
- (10) Subsections (3) to (5) of section 3 of this Act shall apply for the purposes of this section as they apply for the purposes of that section; and where in accordance with subsection (9) above the total amount of the expenditure allowable under this and the preceding section on a claim for any claim period is reduced, the amount falling to be taken into account under section 2(9)(b)(ii) or (c)(ii) of this Act by reference to that expenditure shall be reduced by a proportion equal to the proportion by which the total amount of that expenditure is so reduced.
- (11) For the purposes of subsections (5) and (6) above (including those subsections as they apply under subsection (7) above) an asset which is throughout any period of time simultaneously used partly in connection with the field and partly otherwise shall be treated as being used in connection with the field for a proportion of that period equal to the proportion which the extent of its use in the period in that connection bears to the extent of its use in the period in that connection and otherwise.
- (12) For the purposes of this section—
- (a) the asset is a brought-in asset if, between the time when it was acquired or brought into existence and its first use in connection with the field, the asset was used otherwise than in connection with the field; and
  - (b) " the first relevant claim period "—
    - (i) in the case of expenditure incurred in acquiring or bringing into existence a brought-in asset, means the claim period in which the asset was first used in connection with the field ; and
    - (ii) in the case of any other expenditure, means the claim period in which the expenditure was incurred.



- (13) The preceding provisions of this section, and any other provisions in this Part of this Act as to which it is provided that this subsection applies, shall, with any necessary modifications, apply in relation to expenditure incurred by a person in acquiring an interest in an asset, or in bringing into existence an asset in which he is to have an interest, or in enhancing the value of an asset in which he has an interest, as the provisions in question apply in relation to expenditure incurred by a person in acquiring, bringing into existence, or enhancing the value of an asset, as the case may be.

## **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 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.

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- (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
    - (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.

## **6 Allowance of unrelievable loss from abandoned field**

- (1) Subject to Schedule 8 to this Act, the following is, in the case of a participator in an oil field, an allowable un-relievable field loss, that is to say so much of any allowable loss which, in the case of any other oil field being a field from which the winning of oil has permanently ceased, has in any chargeable period accrued therefrom to the participator or, if the participator is a company, to a company associated with it in respect of that loss as cannot under the provisions of section 7 of this Act be relieved against assessable profits accruing from that other field to the participator or the company so associated with the participator.

- (2) In determining for the purposes of this section whether an allowable loss has accrued as mentioned in subsection (1) above from an oil field from which the winning of oil permanently ceased before the total amount of oil ever won and saved from it reached the amount by reference to which the critical half year is defined in section 1(4) of this Act, the first chargeable period for that field shall be taken to have been the period ending at the end of the half year in which the winning of oil from the field so ceased (including an unlimited time prior to the beginning of that half year).

In this subsection " half year " has the same meaning as in section 1 of this Act.

- (3) For the purposes of this section—
- (a) " company " means any body corporate ; and
  - (b) a company which is a participator in an oil field is associated with another company in respect of an allowable loss which accrued to that other company in a chargeable period from another oil field 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 ;

and in this section and Schedule 8 to this Act any reference to the winning of oil from an oil field permanently ceasing includes a reference to the permanent cessation of operations for the winning of oil from the field.

- (4) For the purposes of subsection (3)(b) above—
- (a) the relevant period is the period beginning with the chargeable period in which the allowable loss accrued to the other company referred to in that paragraph and ending with the end of whichever of the following period 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
    - (ii) the chargeable period in which the allowable loss accrued,(or, if they are the same period, with the end of that period); and
  - (b) section 532 of the Taxes Act (subsidiaries) shall apply.

## **7 Relief for allowable losses**

- (1) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, then, subject to the following provisions of this section, the assessable profit accruing to him from the field in any succeeding chargeable period shall be treated as reduced by the amount of that allowable loss, or by so much of that amount as cannot, under this subsection or on a claim (if made) under subsection (2) below, be relieved against the assessable profit accruing to him from the field in any earlier chargeable period.
- (2) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, the participator may make a claim requiring that the loss be in the first instance set against any assessable profit which accrued to him from the field in any preceding chargeable

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period; and the assessable profit which so accrued to him in any such period shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against any assessable profit accruing to him from the field in a later chargeable period.

(3) Where—

- (a) the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field ; and
- (b) the winning of oil from that field has permanently ceased,

then so much of that allowable loss as cannot under subsection (1) or (2) above be relieved against assessable profits accruing to the participator from the field shall be relieved under this subsection by treating the assessable profit accruing to him from the field in any chargeable period as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this section against the assessable profit so accruing to him in a later chargeable period.

## 8 Oil allowance

(1) Subject to the provisions of this section and paragraphs 10 and 11 of Schedule 3 to this Act, where a participator in an oil field would, apart from this section and section 9 of this Act, be chargeable to tax for any chargeable period on an amount (" the said amount") consisting of the assessable profit accruing to him in the period from the field or that profit as reduced under section 7 of this Act by any allowable losses, then for the purpose of determining his liability, if any, to tax for that period, the said amount shall be treated as reduced or further reduced as follows, that is to say—

- (a) if the said amount exceeds the cash equivalent of his share of the oil allowance for the field for that period, to an amount equal to the excess; or
- (b) if the said amount does not exceed the cash equivalent of his share of that allowance, to nil.

(2) The oil allowance for an oil field is, for each chargeable period, 500,000 long tons, and shall be divided between the participators in shares proportionate to their shares of the oil won and saved from the field during the period.

(3) For the purposes of this section the cash equivalent of a participator's share of the oil allowance for an oil field for a chargeable period is (subject to subsection (4) below) the amount given by the formula:—

$$£\left(A \times \frac{B}{C}\right)$$

where—

A is the gross profit accruing to him in the period or, if a gross loss (or neither a gross profit nor a gross loss) accrues to him in the period, nil (in which case the cash equivalent itself will be nil);

B is his share of the allowance, in long tons ; and

C is his share, exclusive of excluded oil within the meaning of section 10 of this Act, of the oil won and saved from the field during the period, in long tons.

(4) If a participator in an oil field so elects by notice in writing given to the Board at the time when he makes his return under paragraph 2 of Schedule 2 to this Act for a chargeable period, then the cash equivalent of his share of the oil allowance for the field for that period shall be determined under subsection (3) above—

- (a) to the extent that his share of that oil allowance does not exceed his share of the oil (other than gas) won and saved from the field in the period, as if in computing the gross profit or gross loss accruing to him in the period all amounts relating to gas fell to be disregarded; and
  - (b) to the extent, if any, that his share of that oil allowance exceeds his share of the oil (other than gas) so won and saved, as if in computing the gross profit or gross loss so accruing all amounts relating to oil other than gas fell to be disregarded.
- (5) For the purposes of this section the amount of the oil allowance for an oil field utilised by a participator in any chargeable period is—
- (a) if in his case a reduction is made for that period under subsection (1)(a) above, an amount in long tons equal to his share of the oil allowance for the field for that period;
  - (b) if in his case a reduction is made for that period under subsection (1)(b) above, the amount in long tons arrived at by multiplying his share of the oil allowance for the field for that period (in long tons) by the fraction of which the numerator is the amount of that reduction and the denominator is the cash equivalent of his share of the said oil allowance ;
  - (c) in any other case, nil.
- (6) The total oil allowance for an oil field shall not exceed 10 million long tons, and accordingly—
- (a) for each chargeable period there shall be determined the aggregate of the amounts of the oil allowance for the field utilised by the participators in that period; and
  - (b) as regards the earliest chargeable period such that the sum of the aggregate determined under paragraph (a) above for that period and the aggregates so determined for each earlier chargeable period would, apart from this subsection, exceed 10 million long tons, the necessary restriction shall be apportioned between the participators in such manner as may be notified to the Board by the responsible person or, in default of such notification, as may be determined by the Board.
- In this subsection " the necessary restriction" means the restriction necessary to secure that the aggregate determined under paragraph (a) above for the chargeable period to which paragraph (b) above applies will, when added to the sum of the aggregates so determined for each earlier chargeable period, produce a total of 10 million long tons.
- (7) For the purposes of this section 40,000 cubic feet of oil consisting of gas at the temperature and pressure mentioned in section 1(4) of this Act shall be counted as equivalent to one long ton of oil other than gas.
- (8) Any reduction to be made under subsection (1) above shall be made before applying the provisions of section 9 of this Act.

## **9 Annual limit on amount of tax payable by participator**

- (1) The total tax payable by a participator in an oil field for the chargeable period or periods comprised in any calendar year shall not exceed 80 per cent, of the amount (if any) by which his adjusted profit for that year (as defined in this section) exceeds 30 per cent, of his accumulated capital expenditure at the end of that year (as so defined).

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*Status: This is the original version (as it was originally enacted).*

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- (2) For a participator in an oil field, his adjusted profit (if any) for any calendar year shall be determined as follows—
- (a) for each chargeable period comprised in that year there shall be ascertained—
    - (i) the assessable profit (without any reduction under section 7 or 8 of this Act) or allowable loss accruing to him in that period ; and
    - (ii) the total amount taken into account under section 2(9)(b), (c), (d) and (e) of this Act in computing that profit or loss, excluding expenditure so taken into account under section 2(9)(b)(i) or (c)(i) which was not allowed as qualifying for supplement under section 2(9)(b)(ii) or (c)(ii);
  - (b) in the case of each such chargeable period—
    - (i) if there is a profit under paragraph (a)(i) above, the sum of that profit and the total ascertained under paragraph (a)(ii) above is his adjusted profit for the period;
    - (ii) if there is a loss under paragraph (a)(i) above smaller than the total ascertained under paragraph (a)(ii) above, the difference is his adjusted profit for the period; and
    - (iii) if there is a loss under paragraph (a)(i) above greater than the total so ascertained, the difference is his adjusted loss for the period ;
  - (c) if the year comprises only one chargeable period, his adjusted profit (if any) for that period is his adjusted profit for the year ;
  - (d) if the year comprises two chargeable periods then—
    - (i) if for each of them he has an adjusted profit, the sum of those profits is his adjusted profit for the year;
    - (ii) if for one of them he has an adjusted profit and for the other an adjusted loss smaller than that profit, the difference is his adjusted profit for the year;
    - (iii) if for one of them he has an adjusted profit and for the other neither an adjusted profit nor an adjusted loss, that profit is his adjusted profit for the year;
    - (iv) in any other case, he has no adjusted profit for the year.
- (3) For a participator in an oil field his accumulated capital expenditure at the end of any calendar year is the total amount of expenditure taken into account under section 2(9)(b)(i) and (c)(i) of this Act in computing the assessable profit or allowable loss accruing to him in each of the relevant chargeable periods, that is to say the chargeable period or periods comprised in that year and all earlier chargeable periods, excluding all expenditure so taken into account which was not allowed as qualifying for supplement under section 2(9)(b)(ii) or (c)(ii):
- Provided that in the case of a participator who has made an election under paragraph 9 of Schedule 3 to this Act, his accumulated capital expenditure at the end of any calendar year shall be taken to be what it would have been if he had made no such election.
- (4) Any reduction necessitated by this section in the total tax otherwise payable by a participator in an oil field in respect of a calendar year comprising two chargeable periods shall be made as far as possible by reducing or extinguishing the tax otherwise payable by him for the later of those periods.

- (5) In the case of any oil field the preceding provisions of this section shall have effect as if the calendar year which comprises the critical half year as defined in section 1(4) of this Act comprised the whole of the first chargeable period.

## **10 Modification of Part I in connection with certain gas sold to British Gas Corporation**

- (1) In computing under section 2 of this Act the gross profit or loss (if any) accruing to a participator in any chargeable period from an oil field—

- (a) any oil consisting of gas sold to the British Gas Corporation under a contract made before the end of June 1975 shall be disregarded ; and
- (b) if at the end of that chargeable period the participator's share, exclusive of oil falling within paragraph (a) above or used for production purposes, of the total amount of oil ever won and saved from the field does not exceed 5 per cent, of his share of the total amount of oil so falling which was ever so won and saved, his share of the oil won and saved from the field but not so falling shall also be disregarded ;

and in the following provisions of this section any oil which falls to be disregarded under this subsection is referred to as " excluded oil".'

- (2) Excluded oil shall be deemed not to be oil for the purposes of the following provisions of this Act, namely section 2(7) and (9), section 3 (except paragraphs (a) to (c) and (i) of subsection (1)) and section 4 (including, in the case of any expression used in any of those provisions which is defined elsewhere, its definition so far as it has effect for the purpose of that provision); and in computing under section 2 of this Act the licence debit or credit (if any) of a participator in an oil field for any chargeable period, any royalty repaid to him in the period in respect of excluded oil shall be disregarded.

- (3) If, in the case of any oil field, the oil won and saved therefrom or expected to be won and saved therefrom includes oil falling within subsection (1)(a) above, then the expenditure allowable under section 3 of this Act for that field by virtue of paragraph (a), (b), (c) or (i) of section 3(1) of this Act shall be a proportion of what it would otherwise have been, and that proportion—

- (a) in the case of expenditure which would otherwise have been allowable by virtue of the said paragraph (a), (b) or (c), is the proportion which, according to estimates submitted to the Secretary of State after the end of June 1975 and approved by him as reasonable, the field's original reserves of oil exclusive of oil so falling bear to the field's original reserves of oil inclusive of such oil;
- (b) in the case of expenditure which would otherwise have been allowable by virtue of the said paragraph (i), is the proportion which, at the end of the claim period in which the expenditure was incurred, the total amount of oil ever won and saved from the field, exclusive of excluded oil, bears to the total amount of oil ever won and saved from the field ;

and until estimates have been submitted and approved for the purpose of paragraph (a) above, the expenditure allowable for the field under section 3 of this Act by virtue of the said paragraph (a), (b) or (c) shall be deemed to be nil.

- (4) A return made under paragraph 2 of Schedule 2 to this Act by a participator in an oil field need not, in the case of oil falling within subsection (1)(a) above, state the price received or receivable for the oil.

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*Status: This is the original version (as it was originally enacted).*

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- (5) For the purposes of this section 40,000 cubic feet of oil consisting of gas at the temperature and pressure mentioned in section 1(4) of this Act shall be counted as equivalent to one long ton of oil other than gas.

## **11 Application of Provisional Collection of Taxes Act 1968**

Section 1 of the Provisional Collection of Taxes Act 1968 shall apply to petroleum revenue tax; and accordingly, in subsection (1) of that section after the words " income tax " there shall be inserted the words " petroleum revenue tax ".

## **12 Interpretation of Part I**

- (1) In this Part of this Act—

" calendar month " (where those words are used) and, in relation to a calendar month, " the material time", have the meaning given by paragraph 3(2) of Schedule 3 to this Act;

" chargeable period ", in relation to an oil field, has the meaning given by section 1(3) of this Act;

" claim period ", in relation to an oil field, has the meaning given by paragraph 1 of Schedule 5 to this Act;

" crude ", where the reference is to oil being disposed of or appropriated crude, refers to its being so dealt with without having been refined (whether or not it has previously undergone initial treatment);

" determination ", in a context relating to an assessment or determination on or in relation to a participator, means a determination under Schedule 2 to this Act that a loss is allowable to him or that neither an assessable profit nor an allowable loss has accrued to him;

" initial storage ", in relation to oil won from an oil field, means the storage in the United Kingdom, the territorial sea thereof or a designated area of a quantity of oil won from the field not exceeding, in the case of storage in the United Kingdom, a quantity equal to ten times the maximum daily production rate of oil for the field as planned or achieved (whichever is the greater), but does not include—

- (a) the storing of oil as part of or in conjunction with the operation of an oil refinery ; or
- (b) deballasting; or
- (c) conveying oil in a pipe-line ;

" initial treatment ", in relation to oil won from an oil field, means the doing, at any place in the United Kingdom, the territorial sea thereof or a designated area, of any of the following things, that is to say—

- (a) subjecting oil won from the field to any process of which the sole purpose is to enable the oil to be safely stored, safely loaded into a tanker or safely accepted by an oil refinery ; or
- (b) separating oil so won and consisting of methane gas from oil so won and consisting of gas other than methane,

but does not include—

- (i) the storing of oil even where this involves the doing to the oil of things within paragraph (a) or (b) of this definition ; or



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- (ii) any activity carried on as part of, or in association with, the refining of oil; or
  - (iii) deballasting;
- " land " includes land in the United Kingdom covered with water;
- " licence " means a licence under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964 authorising the winning of oil, and " licensed area " shall be construed accordingly ;
- " licensee " means—
- (a) the person entitled to the benefit of a licence or, where two or more persons are entitled to the benefit of a licence, each of those persons; and
  - (b) a person who has rights under an agreement which is approved by the Board and is certified by the Secretary of State to confer on that person rights which are the same as, or similar to, those conferred by a licence;
- " oil " has the meaning given by section 1(1) of this Act;
- " oil field " shall be construed in accordance with Schedule 1 to this Act;
- " participator " (except in paragraph 4 of Schedule 2 to this Act) means, in relation to an oil field and any chargeable period—
- (a) a person who is or was at any time in that chargeable period a licensee in respect of any licensed area then wholly or partly included in the field ; and
  - (b) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field, but who was such a licensee at any time in either of the two chargeable periods preceding that chargeable period; and
  - (c) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field (and who does not fall within paragraph (b) of this definition), but who has or had at any time in that chargeable period a share of oil won (whether or not in that period) from the field, being a share with respect to any part of which either of the following conditions is or was satisfied at that time, that is to say—
    - (i) he has or had neither disposed of that part nor relevantly appropriated it; or
    - (i) he has or had disposed of, but not delivered, that part;
- " pipe-line " means a pipe-line as defined in section 65 of the Pipe-lines Act 1962 ;
- " production purposes ", in relation to an oil field, means any of the following purposes, that is to say—
- (a) carrying on drilling or production operations within the field ; or
  - (b) in the case of oil won from the field that was so won from strata in the sea bed and subsoil of either the territorial sea of the United Kingdom or a designated area, pumping it to the place where it is first landed in the United Kingdom ; or
  - (c) the initial treatment of oil won from the field;
- " relevant licence in relation to a participator in an oil field, means any licence held or previously held by him in respect of a licensed area wholly or partly included in the field;
- " relevantly appropriated ", in relation to oil won from an oil field, means appropriated to refining or to any use except use for production purposes, and " relevant appropriation " shall be construed accordingly ;

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*Status: This is the original version (as it was originally enacted).*

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" the responsible person ", in relation to an oil field, has the meaning given by paragraph 4 of Schedule 2 to this Act;

" royalty ", in relation to a participator in an oil field, means royalty payable (but not, it is hereby declared, oil delivered) to the Secretary of State under any relevant licence;

" tax " or " the tax " means petroleum revenue tax.

- (2) In this Part of this Act any reference to the use of an asset connection with an oil field is a reference to its use in connection with that field for one or more of the purposes mentioned in section 3(1) of this Act (excluding section 3(1)(b)).
- (3) In this Part of this Act any reference (however worded) to the doing of anything in a chargeable period in connection with an oil field or with oil won from an oil field shall, as regards the first chargeable period for any oil field, be construed as including the doing of that thing in connection with the area of the field as subsequently determined under Schedule 1 to this Act or, as the case may be, with oil won from that area.
- (4) In so far as a person is a participator in an oil field by virtue of a licence under the Petroleum (Production) Act (Northern Ireland) 1964, references in this Part of this Act to the Secretary of State (except references in Schedule 1) shall be construed in his case as references to the Department of Commerce for Northern Ireland.