



Oil Taxation Act 1975

1975 CHAPTER 22

PART II

PROVISIONS RELATING TO THE EXTRACTION OF PETROLEUM IN THE UNITED KINGDOM OR A DESIGNATED AREA

13 Treatment of oil extraction activities etc. for purposes of income tax and corporation tax

- (1) Where a person carries on as part of a trade—
 - (a) any oil extraction activities ; or
 - (b) any of the following activities, namely the acquisition, enjoyment or exploitation of oil rights ; or
 - (c) activities of both those descriptions,those activities shall be treated for all purposes of income tax, and for the purposes of the charge of corporation tax on income, as a separate trade, distinct from all other activities carried on by him as part of the trade.
- (2) Relief in respect of a loss incurred by a person shall not be given under section 168 or 177(2) of the Taxes Act against income arising from oil extraction activities or from oil rights except to the extent that the loss arises from such activities or rights.
- (3) Subject to the following subsection, a capital allowance which is to be given by discharge or repayment of tax shall not to any extent be given effect under section 71 or 74 of the Capital Allowances Act 1968 by deduction from or set off against income arising from oil extraction activities or from oil rights.
- (4) The preceding subsection shall not apply to a capital allowance such as is there mentioned which falls to be made to a company for any accounting period in respect of an asset used in the relevant accounting period by a company associated with it and so used in carrying on oil extraction activities. For the purposes of this subsection the relevant accounting period is that in which the allowance in question first falls to be made to the company (whether or not it can to any extent be given effect in that period under section 74(1) of the Capital Allowances Act 1968).

- (5) On a claim for group relief made by a claimant company in relation to a surrendering company, group relief shall not be allowed against income of the claimant company arising from oil extraction activities or from oil rights except to the extent that the claim relates to losses incurred by the surrendering company that arose from such activities or rights.
- (6) Subsection (1) above shall have effect as regards chargeable periods beginning after 11th July 1974, subsections (2) and (5) above shall have effect as regards claims for relief in respect of chargeable periods so beginning, and subsection (3) above, with subsection (4), shall have effect as regards capital allowances falling to be made for chargeable periods so beginning; and in the case of a chargeable period beginning on or before and ending after 11th July 1974—
- (a) subsection (1) above shall have effect as regards the part of the period falling after that date ;
 - (b) subsections (2) and (5) above shall have effect as regards the giving of relief against income attributable to that part of the period ; and
 - (c) subsection (3) above, with subsection (4), shall have effect as regards deduction from or set off against income so attributable;
- and there shall be made all such apportionments as are necessary to give effect to paragraphs (a) to (c) above.

14 Valuation of oil disposed of or appropriated in certain circumstances

- (1) Where a person disposes of any oil in circumstances such that the market value of that oil at a particular time falls to be taken into account under section 2 of this Act (otherwise than by virtue of paragraph 6 of Schedule 3 thereto) in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field (or would so fall but for section 10 of this Act), then for all purposes of income tax, and for the purposes of the charge of corporation tax on income, the disposal of the oil and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil as so taken into account under section 2 of this Act (or as would have been so taken into account under that section but for section 10 of this Act).
- (2) Where a person makes a relevant appropriation of any oil without disposing of it and does so in circumstances such that the market value of that oil at a particular time falls to be taken into account under section 2 of this Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field (or would so fall but for section 10 of this Act), then for all purposes of income tax, and for the purposes of the charge of corporation tax on income, he shall be treated as having, at the time of the appropriation—
- (i) sold the oil in the course of the separate trade consisting of activities falling within section 13(1)(a) or (b) of this Act; and
 - (ii) bought it in the course of the separate trade consisting of activities not so falling,

and as having so sold and bought it at a price equal to its market value as so taken into account under section 2 of this Act (or as would have been so taken into account under that section but for section 10 of this Act).

In this subsection " relevant appropriation " has the meaning given in section 12(1) of this Act.

- (3) Where a person disposes otherwise than in a sale at arm's length (as defined in paragraph 1 of Schedule 3 to this Act) of oil acquired by him in the course of oil extraction activities carried on by him or by virtue of oil rights held by him, then, if subsection (1) above does not apply in relation to the disposal, the following subsection shall apply in relation to it.
- (4) For all purposes of income tax, and for the purposes of the charge of corporation tax on income, the disposal of the oil and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil at the material time in the calendar month in which the disposal was made.
- (5) For the purposes of the preceding subsection "material time" and "calendar month" have the meaning given by paragraph 3(2) of Schedule 3 to this Act; and paragraph 2 of Schedule 3 to this Act (definition of market value of oil) shall apply for the purposes of the preceding subsection as it applies for purposes of Part I of this Act, but with the following modifications, that is to say—
 - (a) for sub-paragraph (2)(c) there shall be substituted—

“(c) the contract is for the sale of the whole quantity of oil whose market value falls to be ascertained for the purposes of section 14(4) of this Act, and of no other oil.”; and
 - (b) sub-paragraphs (3) and (4) shall be omitted.
- (6) Section 485 of the Taxes Act (sales etc. at undervalue or overvalue) shall not apply in relation to any transaction in relation to which subsection (1) or (4) above applies.

15 Oil extraction activities etc.: charges on income

- (1) Section 248 of the Taxes Act (allowance of charges on income) shall have effect subject to the following provisions of this section.
- (2) Interest paid by a company shall not be allowable under the said section 248 as a deduction against that part of the profits of the company which consists of income arising from oil extraction activities or from oil rights except—
 - (a) to the extent that it was payable in respect of money borrowed by the company which is shown to have been used to meet expenditure incurred by the company in carrying on oil extraction activities or in acquiring oil rights otherwise than from a connected person or to have been appropriated to meeting expenditure to be so incurred by the company; and
 - (b) in the case of interest paid by the company to a company associated with it, to the extent that (subject always to the preceding paragraph) the rate at which it was payable did not exceed what, having regard to all the terms on which the money was borrowed and the standing of the borrower, was a reasonable commercial rate.

Section 533 of the Taxes Act (connected persons), shall apply for the purposes of this subsection.

- (3) Where a company pays to a company associated with it a charge on income not consisting of a payment of interest, the charge shall not be allowable to any extent under the said section 248 against that part of the profits of the first-mentioned company which consists of income arising from oil extraction activities or from oil rights.

- (4) The preceding provisions of this section—
- (a) shall have effect as regards accounting periods beginning after 11th July 1974 ;
and
 - (b) in the case of an accounting period beginning on or before and ending after that date, shall have effect as regards the allowance of interest paid and other charges on income against income attributable to the part of the period falling after that date ;
- and there shall be made all such apportionments as are necessary to give effect to paragraph (b) above.

16 Oil extraction activities etc.: restriction on setting advance corporation tax against income therefrom

- (1) Section 85 of the Finance Act 1972 (payments of advance corporation tax to be set against company's liability to corporation tax on its income) shall, as regards any distribution made by a company after 19th November 1974, have effect subject to the following provisions of this section.
- (2) Where advance corporation tax is paid by a company (" the distributing company") in respect of any distribution made by it to a company associated with it and resident in the United Kingdom—
- (a) that advance corporation tax shall not be set against the distributing company's liability to corporation tax on any income of the distributing company arising from oil extraction activities or from oil rights; and
 - (b) if the benefit of any amount of that advance corporation tax is surrendered under section 92 of the Finance Act 1972 to a subsidiary of the distributing company,
the corresponding amount of advance corporation tax which under that section the subsidiary is treated for the purposes of the said section 85 as having paid shall not be set against the subsidiary's liability to corporation tax on any income of the subsidiary arising from such activities or from oil rights.
- (3) Where in the case of any accounting period of a company there is an amount of advance corporation tax which because of subsection (2) above is not available to be set against the company's liability to corporation tax for that period on income of the company arising from oil extraction activities or from oil rights, subsection (2) of the said section 85 (limit on amount of advance corporation tax to be set against liability to corporation tax under subsection (1) of that section) shall as regards that period have effect as if the reference to the company's income charged to corporation tax for that period were a reference to the company's income so charged exclusive of income so arising.

17 Corporation tax: deduction of petroleum revenue tax in computing income

- (1) Where a participator in an oil field has paid any petroleum revenue tax with which he was chargeable for a chargeable period, then, in computing for corporation tax the amount of his income arising in the relevant accounting period from oil extraction activities or oil rights, there shall be deducted an amount equal to that petroleum revenue tax ; and there shall be made all such adjustments of assessments to corporation tax as are required in order to give effect to this subsection.

For the purposes of this subsection the relevant accounting period, in relation to any petroleum revenue tax paid by a company, is the accounting period of the company in or at the end of which the chargeable period for which that tax was charged ends.

- (2) If some or all of the petroleum revenue tax in respect of which a deduction has been made under subsection (1) above is subsequently repaid, that deduction shall be reduced or extinguished accordingly; and any additional assessment to corporation tax required in order to give effect to this subsection may be made at any time not later than six years after the end of the accounting period in which the first-mentioned tax was repaid.
- (3) Where, because of a deduction made under subsection (1) above in computing for corporation tax the amount of a company's income of any kind, the amount of advance corporation tax which can be set against the company's liability to corporation tax for an accounting period is less than the amount of advance corporation tax which could have been set against that liability if the deduction had not been made, then, if a claim in that behalf is made by the company not later than two years after the end of that accounting period, an amount of advance corporation tax equal to the difference shall be repaid to the company.
- (4) In this section the expressions " chargeable period ", " oil field " and " participator " have the same meaning as in Part I of this Act.

18 Interest on tax overpaid to be disregarded in computing income

- (1) Where any amount of petroleum revenue tax paid by a participator in an oil field is, under any provision of Part I of this Act, repaid to him with interest, the amount of the interest paid to him shall be disregarded in computing the amount of his income for the purposes of corporation tax.
- (2) In this section " oil field " and " participator " have the same meaning as in Part I of this Act.

19 Interpretation of Part II

- (1) In this Part of this Act—
 - " oil " means any substance won or capable of being won under the authority of a licence granted under either the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964, other than methane gas won in the course of operations for making and keeping mines safe;
 - " oil extraction activities " means any activities of a person—
 - (a) in searching for oil in the United Kingdom or a designated area or causing such searching to be carried out for him ; or
 - (b) in extracting or causing to be extracted for him oil at any place in the United Kingdom or a designated area under rights authorising the extraction and held by him or, if the person in question is a company, by the company or a company associated with it; or
 - (c) in transporting or causing to be transported for him as far as dry land in the United Kingdom oil extracted at any such place not on dry land under rights authorising the extraction and held as aforesaid ; or

(d) in effecting or causing to be effected for him the initial treatment or initial storage of oil won from any oil field under rights authorising its extraction and held as aforesaid ;

" oil rights " means rights to oil to be extracted at any place in the United Kingdom or a designated area, or to interests in or to the benefit of such oil.

(2) For the purposes of (d) in subsection (1) above—

(a) the expressions " oil field " and " initial treatment " have the same meaning as in Part I of this Act; and

(b) the definition of " initial storage " in section 12(1) above shall apply but, in its application for those purposes in relation to the person mentioned in (d) in subsection (1) above and to oil won from any one oil field, shall have effect as if the reference to the maximum daily production rate of oil for the field as there mentioned were a reference to that person's share of that maximum daily production rate, that is to say a share thereof proportionate to his share of the oil won from that field.

(3) For the purposes of this Part of this Act two companies are associated with one another if—

(a) one is a 51 per cent, subsidiary of the other ;

(b) each is a 51 per cent, subsidiary of a third company ; or

(c) one is owned by a consortium of which the other is a member;

and section 258(8) of the Taxes Act shall apply for the purposes of paragraph (c) above.