

# Oil Taxation Act 1975

## CHAPTER 22

### ARRANGEMENT OF SECTIONS

#### PART I

##### PETROLEUM REVENUE TAX

Section

1. Petroleum revenue tax.
2. Assessable profits and allowable losses.
3. Allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure).
4. Allowance of expenditure on long-term assets.
5. Allowance of abortive exploration expenditure.
6. Allowance of unrelievable loss from abandoned field.
7. Relief for allowable losses.
8. Oil allowance.
9. Annual limit on amount of tax payable by participator.
10. Modification of Part I in connection with certain gas sold to British Gas Corporation.
11. Application of Provisional Collection of Taxes Act 1968.
12. Interpretation of Part I.

#### 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.
14. Valuation of oil disposed of or appropriated in certain circumstances.
15. Oil extraction activities etc.: charges on income.
16. Oil extraction activities etc.: restriction on setting advance corporation tax against income therefrom.
17. Corporation tax: deduction of petroleum revenue tax in computing income.
18. Interest on tax overpaid to be disregarded in computing income.
19. Interpretation of Part II.

#### PART III

##### MISCELLANEOUS AND GENERAL

20. Modification of certain provisions in relation to petroleum companies.
21. Citation, interpretation and construction.

**SCHEDULES:**

Schedule 1—Determination of oil fields.

Schedule 2—Management and collection of petroleum revenue tax.

Schedule 3—Petroleum revenue tax: miscellaneous provisions.

Schedule 4—Provisions supplementary to sections 3 and 4.

Schedule 5—Allowance of expenditure (other than abortive exploration expenditure).

Schedule 6—Allowance of expenditure (other than abortive exploration expenditure) on claim by participator.

Schedule 7—Allowance of abortive exploration expenditure.

Schedule 8—Allowance of unrelievable field loss.

Schedule 9—Extension of section 485 of Taxes Act in relation to petroleum companies.



# Oil Taxation Act 1975

## 1971 CHAPTER 22

An Act to impose a new tax in respect of profits from substances won or capable of being won under the authority of licences granted under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964; to make in the law relating to income tax and corporation tax amendments connected with such substances or with petroleum companies; and for connected purposes. [8th May 1975]

Most Gracious Sovereign,

**W**E, Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom in Parliament assembled, towards raising the necessary supplies to defray Your Majesty's public expenses, and making an addition to the public revenue, have freely and voluntarily resolved to give and grant unto Your Majesty the new tax hereinafter mentioned and to make such other provision as is hereinafter contained; and do therefore most humbly beseech Your Majesty that it may be enacted, and be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

### PART I

#### PETROLEUM REVENUE TAX

1.—(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

## PART I

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.

(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.

Assessable  
profits and  
allowable  
losses.

2.—(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—
- (i) not disposed of and not relevantly appropriated ; or
- (ii) disposed of but not delivered,

**PART I**

(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 subparagraph (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—

(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 subparagraph 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 subparagraph 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

## PART I

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.

Allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure).

3.—(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.

## PART I

(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
- (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, sub-

stantially 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.—(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 in connection with the field and whose useful life continues after the end of the claim period in which it is first so used: Allowance of expenditure on long-term assets.

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.

**PART I**

(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 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.

## PART I

(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.

Allowance of  
abortive  
exploration  
expenditure.

5.—(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.

(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.

## PART I

(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.

Allowance of unrelievable loss from abandoned field.

6.—(1) Subject to Schedule 8 to this Act, the following is, in the case of a participator in an oil field, an allowable unrelievable 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.

PART I  
Relief for  
allowable  
losses.

7.—(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 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.

Oil  
allowance.

8.—(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.

## PART I

(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.

Annual limit  
on amount of  
tax payable by  
participator.

9.—(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).

(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.

## PART I

(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.

Modification  
of Part I in  
connection  
with certain  
gas sold to  
British Gas  
Corporation.

**10.—**(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.

PART I

(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.

(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. 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 " .

Application  
of Provisional  
Collection  
of Taxes  
Act 1968.  
1968 c. 2.

PART I  
Interpretation  
of Part I.

12.—(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

(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) 1934 c. 36, Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964 authorising the winning of oil, and (N.I.)

“ 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

## PART I

1962 c. 58.

- (ii) 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 ;
- “ 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 in 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.

1964 c. 28  
(N.I.).

(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.

## PART II

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

13.—(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,

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

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. 1968 c. 3.

(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

## PART II

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.

Valuation of oil disposed of or appropriated in certain circumstances.

**14.**—(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).

PART II

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.—(1) Section 248 of the Taxes Act (allowance of charges on income) shall have effect subject to the following provisions of this section.

Oil  
extraction  
activities etc.:  
charges on  
income.

(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

## PART II

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.

Oil  
extraction  
activities etc. :  
restriction on  
setting  
advance  
corporation  
tax against  
income  
therefrom.  
1972 c. 41.

**16.**—(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.—(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.

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

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

## PART II

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.

Interest on tax overpaid to be disregarded in computing income.

**18.**—(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.

Interpretation of Part II.

1934 c. 36.  
1964 c. 28  
(N.I.).

**19.**—(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—

PART II

- (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.

### PART III

#### MISCELLANEOUS AND GENERAL

20.—(1) Schedule 9 to this Act shall have effect for the purpose of extending section 485 of the Taxes Act (sales, etc. at undervalue or overvalue) in its application to transactions by petroleum companies and shall apply in relation to—

- (a) any transaction entered into after 31st December 1972; and
- (b) any transaction entered into on or before that date and carried out wholly or partly after that date, unless carried out within the twelve months beginning with the date on which it was entered into.

(2) If and so far as the question in dispute on an appeal to the General Commissioners or, in Northern Ireland, to a county court against an assessment to tax made on a petroleum company as defined in the said Schedule 9 arises from a direction of the Board under the said section 485 and the assessment is for a chargeable period beginning after 31st December 1972, the question shall be referred to and determined by the Special Commissioners.

**PART III**

(3) Subsection (2) above is without prejudice to any other provision requiring questions in dispute on appeals to the General Commissioners to be referred to and determined by the Special Commissioners.

Citation,  
interpretation  
and  
construction.

**21.**—(1) This Act may be cited as the Oil Taxation Act 1975.

(2) In this Act—

“ the Board ” means the Commissioners of Inland Revenue ;

“ designated area ” means an area designated by Order in Council under section 1(7) of the Continental Shelf Act 1964 ;

1964 c. 29.

“ the Taxes Act ” means the Income and Corporation Taxes Act 1970.

1970 c. 10.

(3) Parts II and III of this Act, so far as they relate to income tax, shall be construed as one with the Income Tax Acts and, so far as they relate to corporation tax, shall be construed as one with the Corporation Tax Acts.

(4) Except so far as the context otherwise requires, any reference in this Act to any enactment shall be construed as a reference to that enactment as amended, and as including a reference to that enactment as applied, by or under any other enactment, including this Act.

(5) Without prejudice to the generality of the preceding subsection, any reference in this Act to a licence granted under the Petroleum (Production) Act 1934 includes a reference to a licence granted under section 2 of that Act as applied by section 1(3) of the Continental Shelf Act 1964.

1934 c. 36.

## SCHEDULES

## SCHEDULE 1

Section 1.

## DETERMINATION OF OIL FIELDS

1.—(1) For the purposes of this Part of this Act an oil field is any area which the appropriate authority may determine to be an oil field, being an area of which every part is, or is part of, a licensed area.

(2) For the purposes of this Schedule the appropriate authority, in relation to any area—

(a) is the Secretary of State if the area is such that licences can be granted for all of it under the Petroleum (Production) Act 1934 c. 36. 1934;

(b) is the Department of Commerce for Northern Ireland if the area is such that licences can be granted for all of it under the Petroleum (Production) Act (Northern Ireland) 1964; 1964 c. 28 (N.I). and

(c) is the Secretary of State and that Department acting jointly if the area is such that licences can be granted for part of it under one and for part of it under the other of those Acts; and any reference in this Schedule to the making of representations to the appropriate authority is, in a case falling within (c) above, a reference to the making of them to either the Secretary of State or the said Department.

2. Before determining an area to be an oil field the appropriate authority—

(a) shall give notice in writing of the proposed determination to every person who is a licensee in respect of a licensed area wholly or partly included in that area and to any other licensee whose interests appear to the authority to be affected; and

(b) shall consider any representations in writing which a person to whom a notice under this paragraph has been given may make to the authority within sixty days of receiving the notice,

and the determination may be made either as proposed or with such modifications as appear to the authority to be appropriate after considering any representations made to the authority in accordance with this paragraph.

3. A determination under this Schedule shall be in such form as the appropriate authority thinks fit and shall for purposes of identification assign to the field to which it relates a distinguishing number or other designation.

4. The appropriate authority shall give notice of any determination made by the authority under this Schedule to each, of the persons to whom notice of the proposed determination was given.

5. A determination under this Schedule may from time to time be varied by a new determination thereunder made by the appropriate authority, and paragraphs 2 to 4 above shall apply to any such new determination.

## Section 1

## SCHEDULE 2

## MANAGEMENT AND COLLECTION OF PETROLEUM REVENUE TAX

*Management of tax*

1970 c. 9. 1.—(1) The tax shall be under the care and management of the Board; and the provisions of the Taxes Management Act 1970 specified in the first column of the following Table shall apply in relation to the tax as they apply in relation to a tax within the meaning of that Act, subject to any modifications specified in the second column of that Table and with the substitution, for references to Part IX of that Act or to the Taxes Acts, of references to this Part of this Act and, for references to chargeable periods within the meaning of that Act, of references to chargeable periods within the meaning of this Part of this Act.

<i>Provisions applied</i>		TABLE	<i>Modifications</i>
Section			
1(3)	.. ..		—
4	.. ..		—
33	.. ..	In subsection (1), for the words from “ year of assessment ” to “ in ” substitute “ chargeable period for ”.	
		In subsection (3), after “ assessments made on ” insert “ or determinations made in relation to ”.	
		In subsection (5), for the words following “ profits ” substitute “ means assessable profits.”	
34	.. ..		—
36	.. ..	Omit the reference to section 41, after “ default ”, wherever occurring, insert “ or any neglect ” and at the end add the following paragraph—	
		“ For the purposes of this section any fraud, wilful default or neglect committed at any time by a responsible person for an oil field in connection with or in relation to the tax shall be treated as having been committed on behalf of each of the participators in that field at that time.”	
48	.. ..		—
49(1)	.. ..		—
50(1)–(5)	.. ..	Omit the proviso to subsection (5).	
51	.. ..		—
52	.. ..		—
53	.. ..		—
56	.. ..		—

<i>Provisions applied</i>	<i>Modifications</i>	SCH. 2
Section		
58(2) .. ..	—	
(3) .. ..	Omit the references to section 59 and, for paragraphs (a) and (b), substitute “‘proceedings in Northern Ireland’ means proceedings in respect of an oil field which is wholly situated in an area for which licences can be granted under the Petroleum (Production) Act (Northern Ireland) 1964”.	1964 c. 28 (N.I.).
60 .. ..	In subsection (1), omit the words following “charged therewith”.	
61 .. ..	In subsection (1), omit the words from “distrain upon” to “is charged or”.	
62(1) .. ..	Omit “or which are payable for the year in which the seizure is made” and for “one year” and “one whole year” substitute “two chargeable periods”.	
(2) .. ..	For “one whole year” substitute “two chargeable periods”.	
63 .. ..	—	
64(1) .. ..	For “one year” and “one whole year” substitute “two chargeable periods”.	
(2) .. ..	For “one whole year” substitute “two chargeable periods”.	
66 .. ..	—	
67 .. ..	—	
68 .. ..	—	
69 .. ..	In paragraph (a), substitute a reference to section 68 as applied by this paragraph for the reference to the sections there specified.	
70(1) .. ..	—	
(2) .. ..	For the reference to section 86 or 87 substitute a reference to paragraph 15 of this Schedule.	
89(2) .. ..	For the reference to the rate or rates of interest prescribed by subsection (1) of that section substitute a reference to the rate of interest mentioned in paragraph 15 of this Schedule.	
(3) .. ..	—	
90 .. ..	—	
98 .. ..	Omit the Table, and for references to any of the provisions specified in the Table substitute references to section 51 as applied by this paragraph or to paragraph 7 of this Schedule.	
99 .. ..	—	

SCH. 2	<i>Provisions applied</i>	<i>Modifications</i>
	Section	
	100(1) .. ..	Omit the words from the beginning to " this section ".
	(2) .. ..	—
	(3) .. ..	Omit the reference to the General Commissioners.
	(6)–(9) ..	—
	101 .. ..	For the reference to income or chargeable gains substitute a reference to assessable profits.
	102 .. ..	—
	103(1)—(3) ..	Omit the proviso to subsection (2).
	104 .. ..	—
	105 .. ..	—
	107(1)–(3) ..	—
	108 .. ..	In subsection (2), for the words from the beginning to " Acts " substitute " The tax chargeable ".
	112 .. ..	In subsection (1), after " assessment to tax " and " the assessment " insert " or determination " and after " duplicate of assessment to tax " and " duplicate of assessment " insert " or of determination ".
	113(1A) .. ..	—
	(3) .. ..	After " assessment " insert " determination " and after " notice of assessment " insert " notice of determination ".
	114 .. ..	After " assessment " wherever occurring insert " or determination ".
	115(1)—(3) ..	—
	118(1) .. ..	—
	(2) .. ..	—

1970 c. 9. (2) Any expression to which a meaning is given in this Part of this Act which is used in a provision of the Taxes Management Act 1970 applied by this paragraph shall, in that provision as so applied, have the same meaning as in this Part of this Act.

#### *Returns by participators*

2.—(1) Every participator in an oil field shall, for each chargeable period, prepare and, within two months after the end of the period, deliver to the Board a return complying with the following provisions of this paragraph ; but nothing in this sub-paragraph shall require a participator to deliver a return under this paragraph before 31st August 1975.

(2) A return under this paragraph for a chargeable period shall give the following information in relation to oil which is or was included in the participator's share of any oil won from the oil field (whether or not in that period), that is to say—

(a) in the case of each delivery (other than one made before 13th November 1974) in the period of oil disposed of by him crude (other than oil delivered as mentioned in (c) of this sub-paragraph), the return shall—

(i) state the quantity of oil delivered ;

(ii) state the person to whom the oil was disposed of ;

(iii) in the case of oil disposed of in a sale at arm's length, state the price received or receivable for the oil or, in the case of oil disposed of otherwise than in a sale at arm's length, state the market value of the oil at the material time in the calendar month in which the delivery was made ; and

(iv) contain such other particulars of or relating to the disposal as the Board may prescribe ;

(b) in the case of each relevant appropriation of crude oil (other than one made before 13th November 1974) in the period (not being oil disposed of by him), the return shall—

(i) state the quantity of oil appropriated ;

(ii) state the market value of the oil at the material time in the calendar month in which the appropriation was made ; and

(iii) contain such other particulars of or relating to the appropriation as the Board may prescribe ;

(c) in the case of crude oil delivered to the Secretary of State in the period under the terms of a licence granted under the Petroleum (Production) Act 1934, the return shall state the total quantity of the oil ; 1934 c. 36.

(d) in the case of crude oil which, at the end of the period, has either not been disposed of and not relevantly appropriated or has been disposed of but not delivered, the return shall—

(i) state the quantity of the oil ;

(ii) state the market value of the oil at the end of the period ; and

(iii) contain such other particulars relating to the oil as the Board may prescribe.

(3) A return under this paragraph for a chargeable period shall state—

(a) the amount of royalty payable by the participator for that period in respect of his share of oil won from the field as shown in the return or returns made by him to the Secretary of State under the relevant licence or licences ;

SCH. 2

- (b) the amount of royalty paid by the participator in that period in respect of that share;
- (c) the amount of any royalty paid under any relevant licence in respect of the field which was repaid to the participator in that period; and
- (d) the amount of any periodic payment made by the participator to the Secretary of State in that period under each relevant licence otherwise than by way of royalty.

(4) A return under this paragraph shall be in such form as the Board may prescribe and shall include a declaration that the return is correct and complete.

3.—(1) If a participator fails to deliver a return within the time allowed for doing so under paragraph 2(1) above he shall be liable, subject to sub-paragraph (3) below—

- (a) to a penalty not exceeding, except in the case mentioned in sub-paragraph (2) below, £500; and
- (b) if the failure continues after it has been declared by the court or the Commissioners before whom proceedings for the penalty have been commenced, to a further penalty not exceeding £100 for each day on which the failure so continues.

(2) If the failure continues after the end of six months from the time by which the return ought to have been delivered, the penalty under sub-paragraph (1)(a) above shall be an amount not exceeding the aggregate of £500 and the total amount of the tax with which the participator is charged for the chargeable period in question.

(3) Except in the case mentioned in sub-paragraph (2) above, the participator shall not be liable to any penalty incurred under this paragraph for failure to deliver a return if the failure is remedied before proceedings for the recovery of the penalty are commenced.

*Appointment of responsible person for each oil field*

4.—(1) For each oil field a body corporate or partnership shall be appointed in accordance with this paragraph as the responsible person for that field to perform, in relation to the field, any functions conferred on it as such by this Part of this Act; and the body or partnership which for the time being holds that appointment is in this Part of this Act referred to as “the responsible person”.

(2) No body corporate shall be eligible for appointment as the responsible person for an oil field unless it is resident in the United Kingdom, and no partnership shall be so eligible unless all its members are resident there.

(3) The participators in an oil field shall, by notice in writing to the Board within the initial period, nominate a body corporate or a partnership for appointment as the responsible person for that oil field and, if the Board approve the nomination, the Board shall appoint that body or partnership as the responsible person and give it notice that it has been so appointed.



## (4) If—

- (a) the participators have made no nomination within the initial period ; or
- (b) the Board do not appoint the body or partnership nominated under sub-paragraph (3) above,

the Board shall appoint one of the participators in the oil field as the responsible person for the field and shall give notice to that participator that he has been so appointed.

(5) For the purposes of the preceding provisions of this paragraph, the initial period is the period of thirty days beginning with the latest date on which notice of determination of the oil field is given to any of the participators under paragraph 4 of Schedule 1 to this Act.

(6) The Board may at any time, on the application of all the participators in an oil field, appoint a body corporate or partnership nominated by the participators as the responsible person for that field in place of the body corporate or partnership which is the responsible person at that time, and shall give the body or partnership so appointed notice that it has been so appointed.

(7) The Board may, by notice in writing to the body corporate or partnership which is for the time being the responsible person for an oil field, revoke the appointment of that body or partnership as the responsible person for that field ; and where they do so the Board shall appoint one of the participators in the oil field as the responsible person for that field and shall give notice to the participator that he has been so appointed.

(8) In this paragraph “ participator ”, in relation to an oil field, means a person who is a licensee in respect of any licensed area wholly or partly included in the field.

*Returns by the responsible person*

5.—(1) The responsible person for an oil field shall, for each chargeable period, prepare and, within one month after the end of the period, deliver to the Board a return for that period complying with sub-paragraphs (2) and (3) below ; but nothing in this sub-paragraph shall require the responsible person to deliver a return under this paragraph before 31st July 1975.

(2) A return under this paragraph for a chargeable period shall—

- (a) state the quantity of oil won and saved from the oil field during the period ;
- (b) state the respective interests of the participators in the field in that oil ;
- (c) state what, in accordance with those interests, is each participator's share of that oil ; and
- (d) contain such other particulars of or relating to the field as the Board may require.

(3) A return under this paragraph shall be in such form as the Board may prescribe and shall include a declaration that the return is correct and complete.

SCH. 2

6.—(1) If the responsible person fails to deliver a return within the time allowed for doing so under paragraph 5(1) above he shall be liable—

- (a) to a penalty not exceeding £500, and
- (b) if the failure continues after it has been declared by the court or Commissioners before whom proceedings for the penalty have been commenced, to a further penalty not exceeding £100 for each day on which the failure so continues.

(2) The responsible person shall not be liable to any penalty incurred under sub-paragraph (1) above for failure to deliver a return if the failure is remedied before proceedings for the recovery of the penalty are commenced.

*Production of accounts, books and other information*

7.—(1) Where a participator in or the responsible person for an oil field fails to deliver a return as required by paragraph 2 or, as the case may be, 5 above or the Board are not satisfied with a return delivered in pursuance of either of those paragraphs, the Board may, by notice in writing, require the participator or, as the case may be, the responsible person to do any of the following things, that is to say—

- (a) to deliver to the Board copies of such accounts (including balance sheets) relating to the field or to oil won therefrom as may be specified or described in the notice within such period as may be so specified, including, where the accounts have been audited, a copy of the auditor's certificate ;
- (b) to make available, within such time as may be specified in the notice, for inspection by an officer authorised by the Board all such books, accounts and documents in his possession or power as may be specified or described in the notice, being books, accounts and documents which contain information about transactions relating to the oil field or to oil won therefrom.

(2) An authorised officer of the Board may take copies of, or make extracts from, any books, accounts or documents made available for his inspection under this paragraph.

*Incorrect returns, accounts, etc.*

8.—(1) Where a participator in an oil field fraudulently or negligently—

- (a) delivers an incorrect return under paragraph 2 above ; or
- (b) makes any incorrect statement or declaration in connection with any claim under this Part of this Act for the allowance of any expenditure or for any relief in respect of the tax ; or
- (c) submits to the Board or the Special Commissioners any incorrect accounts in connection with the ascertainment of the participator's liability to the tax,

the participator shall be liable to a penalty not exceeding the aggregate of—

SCH. 2

(i) £50, and

(ii) the amount or, in the case of fraud, twice the amount, of the difference specified in sub-paragraph (2) below.

(2) The difference is that between—

(a) the amount of tax payable by the participator—

(i) for the chargeable period to which the return relates ; or

(ii) for the next chargeable period ending after the allowance of the claim ; or

(iii) for the chargeable period or periods against which the relief is claimed ; or

(iv) for the chargeable period or periods for which the accounts are relevant,

as the case may be ; and

(b) the amount which would have been the amount so payable if the return, statement, declaration or accounts as made or submitted by him had been correct.

(3) Where the responsible person for an oil field fraudulently or negligently—

(a) delivers an incorrect return under paragraph 5 above ; or

(b) makes any incorrect statement or declaration in connection with any claim under this Part of this Act for the allowance of any expenditure,

the responsible person shall be liable to a penalty not exceeding £2,500 or, in the case of fraud on his part, £5,000.

9.—(1) Where any such return, statement, declaration or accounts as are mentioned in paragraph 8 above were made or submitted by any person neither fraudulently nor negligently and it comes to his notice that they were incorrect, then, unless the error is remedied without unreasonable delay, the return, statement, declaration or accounts shall be treated as having been negligently made or submitted by the first-mentioned person.

(2) Where any such return, statement, declaration or accounts were made or submitted by the responsible person for an oil field neither fraudulently nor negligently and it comes to the notice of any person who subsequently becomes the responsible person for that field that they were incorrect, then, unless the error is remedied without unreasonable delay, the return, statement, declaration or accounts shall be treated as having been negligently made or submitted by the responsible person to whose notice the incorrectness came.

(3) For the purposes of paragraph 8 above, any accounts submitted on behalf of any person shall be deemed to have been submitted by that person unless he proves that they were submitted without his consent or connivance.

## SCH. 2

*Assessments to tax and determinations of loss, etc.*

10.—(1) Where it appears to the Board that, in accordance with the provisions of this Part of this Act, an assessable profit has accrued to a participator in a chargeable period from an oil field, they shall make an assessment to tax on the participator and shall give him notice of the assessment.

(2) Where it appears to the Board that, in accordance with those provisions, an allowable loss has accrued to a participator in a chargeable period from an oil field, they shall make a determination that the loss is allowable to the participator and shall give him notice of the determination.

(3) Where it appears to the Board that, in accordance with those provisions, neither an assessable profit nor an allowable loss has accrued to a participator in a chargeable period, they shall make a determination to that effect and shall give him notice of the determination.

(4) A notice of assessment for a chargeable period shall state the amount of any allowable losses which, in accordance with those provisions, have been set against the assessable profit for that period.

(5) A notice of assessment or determination shall state that the participator may appeal against the assessment or determination in accordance with paragraph 14 below.

(6) After the service of the notice of assessment or the notice of determination the assessment or determination, as the case may be, shall not be altered except in accordance with the express provisions of this Part of this Act (including the provisions applied by paragraph 1 above).

11.—(1) Where a participator has under paragraph 2 above delivered to the Board a return for a chargeable period and the Board are satisfied that the information given in the return is correct in so far as it is material for the purpose of computing his assessable profit or allowable loss (if any) for that period, the Board shall (in so far as the computation falls to be made by reference to the matters dealt with in the return) make the assessment or determination under paragraph 10 above in accordance with the return.

(2) Where the Board are not so satisfied in relation to a participator's return or a participator fails to deliver to the Board a return for a chargeable period as required by paragraph 2 above, the Board shall, in so far as the computation of his assessable profit or allowable loss (if any) for that period falls to be made by reference to the matters which were dealt with in the return or, as the case may be, ought to have been dealt with in a return, make the assessment or determination under paragraph 10 above to the best of their judgment.

(3) Nothing in sub-paragraph (2) above or in paragraph 5 above shall be taken, in a case where the participator has delivered a return as to which the Board are not satisfied as mentioned in sub-paragraph (1) above, to prevent the Board from basing their assessment or determination on the participator's having had an interest in oil won and saved from the field different from that on which he based his return.

12.—(1) Where it appears to the Board—

- (a) that the assessable profit charged to tax by or stated in an assessment ought to be or to have been larger or smaller ; or
- (b) that the allowable loss stated in an assessment or a determination of loss ought to be or to have been larger or smaller ; or
- (c) that, where they made a determination that neither an assessable profit nor an allowable loss accrued in a chargeable period, they ought to have made an assessment to tax or a determination of loss for that period,

the Board may make such assessments or determinations or such amendments of assessments or determinations as may be necessary ; and where the Board exercise any of their powers under this paragraph in relation to a chargeable period, they may make such adjustments in assessments or determinations for other chargeable periods as may be necessary in consequence of the exercise of those powers.

(2) Where under sub-paragraph (1) above it appears to the Board that the assessable profit for a chargeable period ought to have been larger and that the deficiency resulted from an excessive allowable loss accruing in a subsequent period having been set against the profit for that period, the Board may (notwithstanding anything in section 34 of the Taxes Management Act 1970 (ordinary time limit for assessments)) make a further assessment by virtue of sub-paragraph (1) above at any time not later than six years after the end of the chargeable period in which the allowable loss accrued. 1970 c. 9.

#### *Payment of tax*

13. Subject to paragraph 14 below, the tax charged in an assessment made on a participator for any chargeable period shall be payable by him four months after the end of that chargeable period or, if later, thirty days after the date of issue of the notice of assessment ; but no tax shall be payable by virtue of this paragraph before 30th April 1976.

#### *Appeals*

14.—(1) A participator may appeal to the Special Commissioners against an assessment or determination made on or in relation to him by notice of appeal in writing given to the Board within thirty days after the date of issue of the notice of assessment or determination.

(2) The notice of appeal shall specify the grounds of appeal, but on the hearing of the appeal the Commissioners may allow the appellant to put forward any ground not specified in the notice, and may take it into consideration if satisfied that the omission was not wilful or unreasonable.

(3) A participator who has given notice of appeal under sub-paragraph (1) above against an assessment charging him with any tax for a chargeable period may, if he delivered a return for that period as required by paragraph 2 above, withhold, until the determination

SCH. 2 or abandonment of the appeal, so much of the tax charged in the assessment as is the smaller of—

(a) the amount of the tax so charged ; and

(b) tax on the difference between—

(i) the aggregate of the consideration received or receivable for oil as stated in the participator's return in pursuance of sub-paragraph (2) of that paragraph and, subject to sub-paragraph (4) below, the market value of oil as so stated ; and

(ii) the aggregate of the corresponding consideration and value as included in the assessment.

(4) Subject to sub-paragraph (5) below, where the market value of all the oil for which a market value is stated in the participator's return is, as stated in that return, less than the value which is produced for that oil by applying to it the average price mentioned in sub-paragraph (6) below, sub-paragraph (3) above shall have effect as if, for the reference to the market value of oil as so stated, there were substituted a reference to the value which is so produced for that oil.

(5) The comparison of values and the substitution required by sub-paragraph (4) above shall, in the case of an appeal by a participator whose return relates both to gas and to other oil, be made separately for the gas and for the other oil.

(6) The average price referred to in sub-paragraph (4) above is the average price at which all oil included in the relevant returns as oil delivered in the period covered by the returns and disposed of in sales at arm's length was so disposed of.

(7) The relevant returns for the purposes of sub-paragraph (6) above are all the returns of all the participators in all oil fields which—

(a) were made for the chargeable period preceding that to which the appeal relates ; and

(b) were delivered before the end of the chargeable period to which the appeal relates.

(8) The participator may at any time, if the Board do not object to his doing so, abandon an appeal instituted by him ; and for this purpose he shall notify his desire to do so to the Board who may, within thirty days after being so notified, object by notice in writing to the participator.

(9) Where, at any time between—

(a) the giving of a notice of appeal against the assessment or determination or from a decision of the Board on a claim under section 33 of the Taxes Management Act 1970 as applied by paragraph 1 above, and

(b) the determination of the appeal by the Special Commissioners, the Board and the participator agree on the adjustments that should be made in the assessment or determination and on any consequential

adjustments to other assessments or determinations, the Board may make the adjustments agreed on and thereupon the appeal shall be deemed to be abandoned. SCH. 2

(10) If, on the appeal, it appears to a majority of the Commissioners present at the hearing that the assessable profit charged to tax by or stated in the assessment ought to have been larger or smaller, they shall amend the assessment accordingly or substitute for the assessment any determination which could have been made by the Board under paragraph 10 above, but otherwise the assessment shall stand good.

(11) Save as otherwise provided by this Schedule (including the provisions applied by paragraph 1 above), the determination of the Special Commissioners in any proceedings under this Part of this Act shall be final and conclusive.

#### *Interest on tax*

15.—(1) Subject to sub-paragraph (2) below, tax charged in an assessment for a chargeable period shall carry interest at the rate of 9 per cent. per annum from four months after the end of the period until payment.

(2) Nothing in sub-paragraph (1) above shall authorise or require interest to be charged from any time before 30th April 1976.

(3) Where, under paragraph 14(3) above, tax may be withheld until the determination or abandonment of an appeal, the interest on that tax may also be withheld until the determination or abandonment of the appeal.

16. Where any amount of tax charged by an assessment to tax becomes repayable under any provision of this Part of this Act that amount shall carry interest at the rate of 9 per cent. per annum from four months after the end of the chargeable period for which the assessment was made until repayment.

Section 1.

### SCHEDULE 3

#### PETROLEUM REVENUE TAX: MISCELLANEOUS PROVISIONS

##### *Definition of sale of oil at arm's length*

1.—(1) For the purposes of this Part of this Act a sale of any oil is a sale at arm's length if, but only if, the following conditions are satisfied with respect to the contract of sale, that is to say—

- (a) the contract price is the sole consideration for the sale;
- (b) the terms of the sale are not affected by any commercial relationship (other than that created by the contract itself) between the seller or any person connected with the seller and the buyer or any person connected with the buyer; and
- (c) neither the seller nor any person connected with him has, directly or indirectly, any interest in the subsequent resale or disposal of the oil or any product derived therefrom.

SCH. 3

(2) Section 533 of the Taxes Act (connected persons) shall apply for the purposes of the preceding sub-paragraph.

*Definition of market value of oil*

2.—(1) For the purposes of this Part of this Act the market value of any oil shall be ascertained in accordance with this paragraph ; and in this paragraph the time as at which market value is to be ascertained is referred to as “ the relevant time ”.

(2) Subject to the following provisions of this paragraph, the market value of any oil at the relevant time is the price at which the oil could have been sold to a willing buyer at that time in a sale at arm's length under a contract of sale made at that time and satisfying the following conditions, that is to say—

(a) the contract requires the oil to have been subjected to appropriate initial treatment before delivery ;

(b) the contract requires the oil to be delivered—

(i) in the case of oil extracted in the United Kingdom, at the place of extraction ; or

(ii) in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction ;

(c) in the case of oil whose market value falls to be ascertained as at a particular time for the purposes of paragraph (b) of section 2(4) or paragraph (d) of section 2(5) of this Act or, subject to sub-paragraph (3) below, under paragraph 3 below for the purposes of paragraph (b) or (c) of the said section 2(5), the contract is for the sale of the whole quantity of oil whose market value falls to be ascertained as at that time for the purposes of the paragraph in question, and of no other oil.

(3) If oil whose market value falls to be ascertained as at a particular time under paragraph 3 below for the purposes of paragraph (b) of the said section 2(5) was not all disposed of to the same person, then the market value at that time of so much of that oil as was disposed of to any one person shall be ascertained in accordance with sub-paragraphs (1) and (2) above as if that were the only oil whose market value fell to be ascertained as at that time for those purposes (with sub-paragraph (2)(b) above applying accordingly).

(4) The provisions of sub-paragraphs (2) and (3) above shall apply for the ascertainment of the market value of oil in any case mentioned in paragraph 2(2) of Schedule 2 to this Act as they apply in relation to the corresponding case mentioned in those provisions.

*Aggregate market value of oil for purposes of section 2(5)*

3.—(1) For the purposes of subsection (5) of section 2 of this Act the aggregate market value of any oil falling within paragraph (b) or (c) of that subsection shall be arrived at by ascertaining, for each



calendar month in the chargeable period in question, the market value at the material time of so much, if any, of that oil as was—

SCH. 3

- (a) in the case of oil falling within the said paragraph (b), delivered as there mentioned in that month; or
- (b) in the case of oil falling within the said paragraph (c), appropriated as there mentioned in that month,

and, in either case, aggregating the market values so ascertained.

(2) In this paragraph and elsewhere in this Part of this Act “calendar month” (where those words are used) means a month of the calendar year, and “the material time”, in relation to a calendar month, means noon on the relevant day, that is to say—

- (a) for a month containing an odd number of days, the middle day of the month;
- (b) for a month containing an even number of days, the last day of the first half of the month.

*Oil delivered in place of royalties to be disregarded for certain purposes*

4. Oil delivered to the Secretary of State under the terms of a licence granted under the Petroleum (Production) Act 1934 shall be disregarded for the purposes of section 2(5) of this Act and for the purposes of the references in section 8(3) and (4) of this Act to a participant's share of the oil won and saved from an oil field in a chargeable period. 1934 c. 36.

*Effect of transfer to an associated company of participant's rights etc. in connection with an oil field or relevant licence*

5.—(1) This paragraph applies to any agreement or other arrangement between a participant in an oil field and a company associated with the participant whereby—

- (a) ownership of all or any of the participant's share of the oil won and saved from the field is transferred to the company; and
- (b) the company obtains or assumes all or any of the participant's other rights, interests and obligations in connection with the field or any relevant licence.

(2) As regards any chargeable period in which a participant in an oil field is a party to an arrangement to which this paragraph applies, the other party to the arrangement shall be treated for all purposes of this Part of this Act (except this paragraph) and for the purposes of section 17 of this Act as having been a participant in the field at all times when the actual participant was such a participant (including times before the arrangement was made), and shall be assessable and chargeable to tax and entitled to make any claim under this Part of this Act, and any deduction or claim under the said section 17, accordingly.

(3) Where a participant in an oil field is or has been a party to an arrangement to which this paragraph applies then for all purposes of this Part of this Act—

## SCH. 3

- (a) anything done by or in relation to the participator in connection with the field or any relevant licence shall be treated as being or having been done by or, as the case may be, in relation to the other party to the arrangement ; and
- (b) all rights, interests or obligations of the participator in connection with the field or any relevant licence shall be treated as being or having been rights, interests or obligations of the other party.

(4) Where a participator in an oil field is or has been a party to an arrangement to which this paragraph applies, then, if any tax or interest payable under this Part of this Act by the other party to the arrangement is not paid within thirty days after the date on which it becomes payable, the Board may by notice in writing require the participator to pay that tax or interest ; and where such a notice is served on the participator, the tax or interest in question shall be payable by him forthwith, but without prejudice to the Board's right to recover it from the other party.

(5) For the purposes of this paragraph "company" means any body corporate, and a participator in an oil field and another company are associated with one another if—

- (a) the participator has control over or is under the control of the other company ; or
- (b) the participator and the other company are both under the control of the same person or persons ;

and in this sub-paragraph "control" has the meaning given by section 534 of the Taxes Act.

*Oil owned by a person other than a participator in the oil field from which it was won*

6.—(1) Where a proportion of a participator's share in the oil won and saved from an oil field (as distinct from a specific quantity of oil comprised in that share) is owned by another person (in this paragraph referred to as "the owner") who acquired it (whether directly or indirectly) under an agreement to which paragraph 5 above does not apply, the following provisions of this paragraph shall have effect.

(2) For the purposes of this Part of this Act the oil acquired by the owner under the agreement shall be treated in every case as having been disposed of to him by the participator otherwise than in a sale at arm's length.

(3) Where any oil which the owner owns in right of the agreement is in pursuance of the agreement—

- (a) delivered to the owner by the participator ; or
- (b) delivered to a third person by the participator acting on behalf of the owner,

the delivery shall for the purposes of this Part of this Act be regarded as a delivery by the participator although he does not own the oil.

(4) This sub-paragraph applies to all such oil (if any) as, being owned by the owner in right of the agreement, is in any chargeable period delivered by the participator as mentioned in the preceding

sub-paragraph and would accordingly, apart from the following sub-paragraph, fall to be brought into account under section 2(5)(b) of this Act in computing the assessable profit or allowable loss accruing to the participator in that period (in the following sub-paragraph referred to as "the relevant period").

(5) If on a claim made by the participator within two months after the end of the relevant period—

(a) it is shown that some or all of the oil to which sub-paragraph (4) above applies has been disposed of by or on behalf of the owner crude in sales at arm's length ; and

(b) the Board are satisfied that the oil with respect to which it is so shown includes the whole of so much of the oil to which that sub-paragraph applies as has been so disposed of,

then, in computing the assessable profit or allowable loss accruing to the participator in the relevant period, the oil with respect to which it is so shown shall be brought into account by reference to the price received or receivable for it by the owner instead of by reference to its market value.

*Exclusion from section 2(4)(b) and (5)(d) of offshore oil in transit to place of first landing in United Kingdom*

7. In computing the assessable profit or allowable loss accruing to a participator in a chargeable period from an oil field, the market value of any oil won as mentioned in section 3(1)(f) of this Act—

(a) shall not be taken into account under section 2(4)(b) of this Act if and to the extent that at the end of the preceding chargeable period the oil was in the course of being transported to the place where it was first landed in the United Kingdom ; and

(b) shall not be taken into account under section 2(5)(d) of this Act if and to the extent that at the end of the first-mentioned chargeable period the oil was in the course of being so transported.

*Certain subsidised expenditure to be disregarded*

8.—(1) Expenditure shall not be regarded for any of the purposes of this Part of this Act as having been incurred by any person in so far as it has been or is to be met directly or indirectly by the Crown or by any government or public or local authority, whether in the United Kingdom or elsewhere, or by any person other than the first-mentioned person, unless it is so met by a grant made under Part I of the Industry Act 1972 or a grant made under an enactment of the Parliament of Northern Ireland or Measure of the Northern Ireland Assembly and declared by order of the Treasury under section 84 of the Capital Allowances Act 1968 to correspond to a grant made under the said Part I. 1972 c. 63. 1968 c. 3.

(2) In considering, for the purposes of this paragraph, how far any expenditure has been or is to be met directly or indirectly by the

SCH. 3 Crown or by any authority or person other than the person incurring the expenditure, there shall be left out of account any insurance or compensation payable in respect of the loss or destruction of any asset.

*Election to have amounts mentioned in section 2(9)(b) and (c) spread.*

9.—(1) If a participator in an oil field so elects by notice in writing given to the Board before 1st January 1976 or not later than three months after the end of the earliest chargeable period in which he is a participator in that field, the following provisions of this paragraph shall apply in his case as regards that field; and an election under this sub-paragraph shall be irrevocable.

(2) Where, in computing the assessable profit or allowable loss accruing to the participator in the first or any subsequent chargeable period from the field, any amount attributable to expenditure qualifying for supplement under paragraph (b)(ii) or (c)(ii) of section 2(9) of this Act by virtue of section 3(5) of this Act would, apart from the election, fall to be taken into account under paragraph (b) or (c) of the said section 2(9), then only one-tenth of that amount shall be so taken into account for that period, and, subject to sub-paragraph (3) below, one-tenth of that amount shall be so taken into account in computing the assessable profit or allowable loss accruing to the participator in each of the nine following chargeable periods.

(3) If the winning of oil from the field permanently ceases at a time before the end of the last of those nine chargeable periods, so much of the amount mentioned in sub-paragraph (2) above as at that time has not been taken into account as there mentioned for any chargeable period shall be so taken into account in computing the assessable profit or allowable loss accruing to the participator in the chargeable period in which that time falls.

(4) Sub-paragraphs (2) and (3) above shall, if the participator in his notice so elects and specifies accordingly, apply as if for the references to “one-tenth” and “nine” there were substituted references to one of the fractions mentioned in the left-hand column below and the corresponding number mentioned in the right-hand column, namely—

one-eighth	...	...	...	seven
one-sixth	...	...	...	five
one-quarter	...	...	...	three
one-third	...	...	...	two.

(5) The reference in sub-paragraph (2) above to an amount attributable to expenditure qualifying for supplement as there mentioned includes an amount attributable to the expenditure itself as well as an amount calculated by reference to it under paragraph (b)(ii) or (c)(ii) of section 2(9).

10.—(1) Where a participator has made an election under paragraph 9(1) above, section 8 of this Act shall have effect in his case subject to the following provisions of this paragraph.

(2) The reduction made under subsection (1) of that section for any chargeable period shall not exceed the reduction which would have fallen to be so made if the participator had not made any such election.

(3) If for any chargeable period the reduction which would, apart from this sub-paragraph, fall to be made under the said subsection (1) is less than it would have been if the participator had not made any such election, an amount equal to the difference shall be available for use under the following sub-paragraph as regards subsequent chargeable periods.

(4) For any chargeable period for which a reduction falls to be made under paragraph (a) of the said subsection (1), so much, if any, as the participator may specify of, or of the unused balance of, any amount available for use under this sub-paragraph by virtue of sub-paragraph (3) above shall be used by treating for all purposes of the said section 8 the cash equivalent of his share of the oil allowance for the field for that period as increased thereby.

*Restriction of amount of reduction under section 8(1)*

11. Where—

- (a) a claim under Schedule 5 or 6 to this Act is made after the relevant time ; and
- (b) the reduction which would, apart from this paragraph, fall to be made under subsection (1) of section 8 of this Act for any chargeable period is greater than it would have been if the expenditure and other amounts allowed on the claim had been claimed before and allowed at the relevant time,

then, if the Board so direct, the reduction made under that subsection for that chargeable period shall be only what it would have been if the expenditure and other amounts allowed on the claim had been claimed before and allowed at the relevant time.

In this paragraph “the relevant time” means the end of twelve months from the end of the claim period to which the claim mentioned in sub-paragraph (a) above relates.

## SCHEDULE 4

Sections 3 and 4.

### PROVISIONS SUPPLEMENTARY TO SECTIONS 3 AND 4

*Restrictions on expenditure allowable under section 3 or 4*

1.—(1) Expenditure incurred by any person in the acquisition of an asset is not allowable under section 3 or 4 of this Act for an oil field if expenditure previously incurred by another person in acquiring, bringing into existence, or enhancing the value of that asset is allowable under that section for that field.

Section 4(13) of this Act applies to the preceding provisions of this sub-paragraph.

## SCH. 4

(2) Sub-paragraph (1) above shall, with any necessary modifications, have effect in relation to expenditure incurred by a person—

- (a) in renting or hiring an asset or any interest in an asset ; or
- (b) for the provision of services or other business facilities of whatever kind ; or
- (c) for the grant or transfer to him of any right, licence or interest (other than an interest in an asset),

as it has effect in relation to expenditure incurred in the acquisition of, or of an interest in, an asset.

2.—(1) Where a person has incurred expenditure in the acquisition of an asset in a transaction to which this paragraph applies, he shall be treated for the purposes of sections 3 and 4 of this Act as having incurred that expenditure only to the extent that it does not exceed expenditure (other than expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit) incurred by another person in acquiring, bringing into existence, or enhancing the value of that asset in a transaction to which this paragraph does not apply (or, if there has been more than one such transaction, the later or latest of them).

Section 4(13) of this Act applies to the preceding provisions of this sub-paragraph.

(2) This paragraph applies to any transaction between connected persons and to any transaction made otherwise than at arm's length ; and for the purposes of this paragraph a person is connected with another person if—

- (a) they are connected within the meaning of section 533 of the Taxes Act ; or
- (b) they are both participators in the oil field in question ; or
- (c) one of them is a participator in that field and the other is connected (within the meaning of the said section 533) with another participator in that field.

(3) Sub-paragraph (2) of paragraph 1 above shall apply in relation to sub-paragraph (1) above as it applies in relation to sub-paragraph (1) of that paragraph.

3.—(1) This paragraph applies in the case of any oil field from which oil began to be won in commercial quantities before 13th November 1974.

(2) Expenditure incurred before that date which, apart from this paragraph, would be allowable under section 3 or 4 of this Act for an oil field shall be so allowable only to the extent that it was incurred—

- (a) in connection with that field for one or more of the purposes mentioned in paragraphs (a) to (c) of section 3(1) of this Act ; or
- (b) in acquiring, bringing into existence, or enhancing the value of an asset used on or after that date in connection with the field.

*Disposal of long-term asset formerly used in connection with an oil field*

SCH. 4

4.—(1) Where an asset is used in connection with an oil field in circumstances such that section 4 of this Act applies to any expenditure incurred in acquiring, bringing into existence, or enhancing the value of that asset, then if—

- (a) the asset is disposed of for valuable consideration while in use in that connection or not more than two years after its use in that connection permanently ceases ;
- (b) the person making the disposal is either a participator in the field or a person connected with a participator ;
- (c) the person to whom the disposal is made is not a person connected with a participator ; and
- (d) the amount or value of the consideration received or receivable for the disposal is 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,

sub-paragraphs (2) to (4) below shall have effect.

(2) If the disposal occurs without the asset permanently ceasing to be used in connection with the field, its use in that connection shall for the purposes of section 4 of this Act and the following provisions of this paragraph be deemed to have permanently ceased at the time of the disposal.

(3) If the disposal takes place not later than the end of the claim period in which the use of the asset in connection with the field permanently ceases, the proportion of the expenditure allowable under section 4 of this Act for the relevant period (that is to say the period which, in relation to that claim period, is the relevant period for the purposes of subsection (7) of that section) or, if the claim period in question is the first relevant claim period (as defined in that section), the proportion of the expenditure so allowable for that claim period shall be computed under that section subject to the provisions of sub-paragraph (5) below.

(4) If the disposal takes place after the end of the claim period in which the use of the asset in connection with the field permanently ceases, then, as regards the claim period in which the disposal takes place—

- (a) subsection (7) of section 4 of this Act shall have effect in relation to the asset as if its use in that connection had permanently ceased in that claim period (but so that for the purposes of subsections (5) and (6) of that section as applied by the said subsection (7) the asset shall not be treated as having been used in that connection at any time when it was not so used) ; and
- (b) the proportion of the expenditure allowable under that section for the relevant period (that is to say the period which, in relation to that claim period is the relevant period for the purposes of the said subsection (7)) shall be computed under that section subject to the provisions of sub-paragraph (5) below.

SCH. 4

(5) For the purposes of the computation mentioned in sub-paragraph (3) or (4) above, as the case may be—

- (a) the amount of the expenditure incurred in acquiring, bringing into existence, or enhancing the value of the asset which would otherwise fall to be taken into account shall be treated as reduced by the amount or value of the consideration received or receivable for the disposal (or, if equal to or smaller than the amount or value of that consideration, as reduced to nil); and
- (b) the asset's useful life shall be treated as having ended at the time of the disposal or, if the asset permanently ceased to be used in connection with the field before that time and was neither used nor available for use by anyone in the interval between its permanently ceasing to be so used and the time of the disposal, at the time when it permanently ceased to be so used.

(6) In any case where, for different parts of the expenditure incurred in the case of an asset as mentioned in sub-paragraph (1) above, different proportions thereof would be allowable under section 4 of this Act apart from sub-paragraph (5)(a) above (including a case where, for some but not all of that expenditure, the proportion thereof so allowable would be 100 per cent.), the amount or value of the consideration received or receivable for the disposition shall for the purposes of this paragraph be treated as referable to those different parts in such proportions as may be just and reasonable.

(7) Section 4(13) of this Act applies to the preceding provisions of this paragraph; and those provisions shall, with any necessary modifications, apply in relation to a disposal of an interest in an asset as they apply in relation to a disposal of an asset.

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

*Long-term assets used in connection with more than one oil field*

5.—(1) Where in any claim period a long-term asset is used to a substantial extent in connection with an oil field (in this paragraph referred to as “the relevant field”) and is in that period also used in connection with one or more other oil fields, then, if any payments for the hire of that asset are receivable by all or any of the persons mentioned in sub-paragraph (3) below in respect of its use in the period in connection with the other field or fields, the following sub-paragraph shall apply.

(2) The use of the asset in the claim period in question in connection with the other field or fields shall be treated for the purposes of this Part of this Act as use in connection with the relevant field; but the total amount of expenditure allowable under sections 3 and 4 of this Act on a claim for that period in respect of the relevant field shall be reduced by an amount equal to the aggregate of the payments for the hire of the asset which are receivable in the period by all or any of the persons mentioned in sub-paragraph (3) below in respect of its use in connection with the other field or fields.



(3) The persons referred to in sub-paragraphs (1) and (2) above are the participators in the relevant field and every other person connected with any of them ; and section 533 of the Taxes Act (connected persons) shall apply for the purposes of this sub-paragraph.

(4) For the purposes of this paragraph an asset used in connection with an oil field is a long-term asset if its useful life continues after the end of the claim period in which it is first used in connection with the field.

*Provisions supplementary to section 4(9) of this Act and paragraph 5(2) above*

6.—(1) Where in the case of an oil field, the total amount of the expenditure allowable under sections 3 and 4 of this Act on a claim for a claim period—

- (a) is, under one or more of the relevant provisions, reduced to nil ; and
- (b) would, under one or more of those provisions, have fallen to be reduced by a further amount if the total amount of that expenditure had been sufficient to enable the maximum reduction thereunder to be made,

that further amount shall be apportioned between the participators in proportions corresponding to what for that claim period would be their respective shares of any expenditure falling within section 2(9)(b)(i) of this Act ; and in computing the assessable profit or allowable loss accruing to any participator in the earliest chargeable period which ends after the end of that claim period, the aggregate mentioned in section 2(4)(a) of this Act shall be increased by an amount equal to the amount apportioned to him under this paragraph.

(2) In this paragraph “the relevant provisions” means section 4(9) of this Act and paragraph 5(2) above.

*Insurance or compensation in respect of loss or destruction of long-term asset formerly used in connection with oil field*

7.—(1) Where, in consequence of the loss or destruction at any time within the period mentioned in sub-paragraph (1) of paragraph 4 above of such an asset as is mentioned in that sub-paragraph, any insurance or compensation in respect of the loss or destruction is receivable by a participator in the field or a person connected with a participator, paragraphs 4 and 6 above shall apply as if at that time the person by whom the insurance or compensation is receivable had disposed of the asset or his interest in it for an amount equal to the insurance or compensation.

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

*Assets acquired jointly by participators in different oil fields*

8. Where an asset was acquired jointly by persons who are participators in two or more different oil fields (whether or not any one of those persons is a participator in more than one of those fields), then in determining for the purposes of section 4 of this Act, in the

SCH. 4 case of any one of those fields, the use which has been, or which it is reasonable to assume will be, made of the asset otherwise than in connection with that field, no regard shall be had to its use or possible use in connection with any other of those fields.

Sections 3 and 4.

## SCHEDULE 5

### ALLOWANCE OF EXPENDITURE (OTHER THAN ABORTIVE EXPLORATION EXPENDITURE)

#### *Claim periods and claims*

1.—(1) In relation to any oil field—

- (a) the first claim period is whichever of the following periods the responsible person elects, namely the period ending at the end of June following the determination of the field or the period ending at the end of December following that determination (including, in either case, an unlimited time prior to that determination);
- (b) each subsequent claim period is whichever of the following periods the responsible person elects, namely the period of six months or the period of twelve months from the end of the preceding claim period:

Provided that unless and until the responsible person elects the period of six months from the end of any particular claim period, the claim period next after that claim period shall be taken to be the period of twelve months from the end of it.

(2) An election under this paragraph must be made by notice in writing to the Board.

2.—(1) A claim under this Schedule for the allowance of any expenditure allowable under section 3 or 4 of this Act for an oil field must be made by the responsible person to the Board and, subject to the provisions of this Part of this Act, must be made in a claim or claims for the claim period in which the expenditure is incurred, but may not be made before the determination of the field or more than six years after the end of the claim period in which the expenditure is incurred.

(2) A claim under this Schedule for the allowance of any expenditure allowable under section 3 or 4 of this Act for an oil field which was incurred by a person before he became a participator in the field must be made in a claim for the claim period in which he became a participator.

(3) A claim under this Schedule shall not include any expenditure allowable under section 3 or 4 of this Act which has been included in a claim under Schedule 6 to this Act.

(4) A claim must state—

- (a) what part (if any) of the expenditure is claimed as qualifying for supplement under section 2(9)(b)(ii) of this Act; and

SER. 5

(b) the shares in which, in accordance with their respective interests in the oil field, the participators propose to divide between them, for the purposes of paragraph (b) of section 2(9) of this Act, the expenditure allowed on the claim and the amount which will arise under sub-paragraph (ii) of that paragraph if some or all of that expenditure is allowed on the claim as so qualifying.

(5) Where a claim for the allowance of any expenditure under section 4 of this Act for an oil field was made in relation to any asset for the claim period which, in the case of that asset, is the first relevant claim period (as defined in that section), then any claim with respect to that field made under this Schedule for any subsequent claim period must give all such information as is relevant for the purpose of enabling the Board to carry into effect the provisions of that section in relation to that asset.

(6) A claim must be in such form as the Board may prescribe and must include a declaration that all statements contained in it are correct to the best of the knowledge and belief of the person making the claim.

3.—(1) The Board shall by notice in writing to the responsible person inform him of their decision on the claim, stating in the notice—

- (a) the amount of the expenditure allowed by them on the claim ;
- (b) the amount, if any, of that expenditure allowed by them on the claim as qualifying for supplement under section 2(9)(b)(ii) of this Act ; and
- (c) the shares determined by the Board to be the shares in which, in the opinion of the Board, the amount stated under (a) above or, as the case may be, the aggregate of that amount and an amount equal to the relevant percentage of the amount stated under (b) above, is divisible between the participators for the purposes of section 2(9)(b) of this Act ;

and where the decision relates to part only of the expenditure claimed, or claimed as so qualifying, the Board shall give a further notice or notices in relation to the remainder.

(2) In this paragraph “the relevant percentage” means the percentage mentioned in the said section 2(9)(b)(ii).

4. If, in a case where sub-paragraph (5) of paragraph 2 above requires a claim made for a particular claim period to give all such information as is relevant for the purpose there mentioned in relation to an asset, a claim satisfying the requirements of that sub-paragraph is not made within twelve months after the end of that period, then, in carrying into effect the provisions of section 4 of this Act in relation to that asset for that claim period, the Board may proceed according to the best of their judgment, and may make any adjustments under any of the provisions mentioned in paragraph 6(2) of Schedule 4 to this Act accordingly.

## SCH. 5

*Appeals*

## 5.—(1) If—

- (a) the amount or total of the amounts stated under sub-paragraph (1)(a) of paragraph 3 above in the notice or notices given by the Board under that paragraph on a claim, or the amount or total of the amounts so stated under sub-paragraph (1)(b) of that paragraph, is less than the amount claimed ; or
- (b) the shares so stated under sub-paragraph (1)(c) of that paragraph in the notice or latest of the notices so given differ from the shares stated under paragraph 2(4)(b) above in the claim,

the responsible person may by notice in writing given to the Board not more than three years after the making of the claim appeal to the Special Commissioners ; but the bringing of an appeal under this paragraph shall not affect the operation of any notice so given by the Board.

(2) On an appeal against a decision on a claim brought on the ground mentioned in sub-paragraph (1)(b) above, and in any proceedings arising out of such an appeal, any participator in the oil field to which the claim relates shall be entitled to appear and be heard.

(3) An appeal against a decision on a claim may at any time be abandoned by a notice in writing given to the Board by the responsible person.

(4) On an appeal against a decision on a claim, the Special Commissioners may vary the decision appealed against whether or not the variation is to the advantage of all or any of the participators in the oil field to which the claim relates.

6.—(1) Where the responsible person gives notice of appeal against a decision on a claim on one or both of the grounds mentioned in paragraph 5(1)(a) above and, before the appeal is determined by the Special Commissioners, the Board and the responsible person agree on—

- (a) the amount of the expenditure that ought to be allowed on the claim ; or
- (b) the amount, if any, of the expenditure claimed which ought to be so allowed as qualifying for supplement under section 2(9)(b)(ii) of this Act,

the appropriate amount (if any) of the expenditure claimed or, as the case may be, claimed as so qualifying shall be treated for the purposes of this Part of this Act as having been allowed by the Board on the claim, and as having been so allowed on the date on which the notice of appeal was given.

For the purposes of this sub-paragraph the appropriate amount (if any) of the expenditure claimed or, as the case may be, claimed as so qualifying, is an amount thereof equal to the excess, if any, of the amount so agreed on over the corresponding amount or the total of the corresponding amounts allowed by the notice or notices previously given by the Board under paragraph 3 above.

(2) Where the responsible person gives notice of appeal against a decision on a claim on the ground mentioned in paragraph 5(1)(b) above and, before the appeal is determined by the Special Commissioners, the Board and the responsible person agree on the shares in which the amount of any expenditure allowed on the claim, or so allowed as qualifying for supplement under section 2(9)(b)(ii) of this Act, ought to be divided between the participators for the purposes of section 2(9)(b) of this Act, the shares so agreed on shall be deemed to be the shares stated in any notice previously given by the Board under paragraph 3 above on the claim, and shall apply in the case of any part of the expenditure claimed, or claimed as so qualifying, which is by virtue of this or the following paragraph treated as having been allowed on the claim.

(3) Where the Board and the responsible person agree on the matter mentioned in sub-paragraph (1)(a), sub-paragraph (1)(b) or sub-paragraph (2) above in the circumstances there mentioned, the corresponding ground of appeal shall be treated as having been abandoned; and where by virtue of this sub-paragraph all the grounds of the appeal fall to be so treated, the appeal itself shall be treated as having been abandoned.

7.—(1) Where on an appeal under paragraph 5 above the Special Commissioners determine that any amount or part of an amount in dispute is allowable under section 3 or 4 of this Act or qualifies for supplement under section 2(9)(b)(ii) of this Act, the following provisions of this paragraph shall apply.

(2) Subject to paragraph 8(2) below, the said amount or part shall be treated for the purposes of this Part of this Act as having been allowed on the claim to which the appeal relates, and as having been so allowed on the date on which the notice of appeal was given.

(3) There shall be made in any computation made under section 2 of this Act, and in any assessment to tax or determination, all such adjustments as are necessary in consequence of the determination of the Special Commissioners.

8.—(1) Where—

- (a) a case for the opinion of the court is stated under section 56 of the Taxes Management Act 1970 (as applied by paragraph 1 of Schedule 2 to this Act) in respect of a determination by the Special Commissioners on an appeal under paragraph 5 above; and
- (b) in the proceedings on the case so stated, or in any proceedings arising out of those proceedings, any matter which was determined by the Special Commissioners on that appeal is finally determined otherwise than in accordance with their determination on that appeal,

the following provisions of this paragraph shall apply.

(2) Any expenditure allowable under section 3 or 4 of this Act, which, if the decision of the Board on the claim to which the appeal under paragraph 5 above related had been in accordance with the final determination of that matter, would have been allowed by that

SCH. 5 decision, or allowed by it as qualifying for supplement under section 2(9)(b)(ii) of this Act, shall be treated for the purposes of this Part of this Act as having been allowed by the Board on the claim to the extent that it has not been previously allowed on the claim, and as having been so allowed to that extent on the date on which the original notice of appeal was given under paragraph 5 above.

(3) There shall be made in any computation made under section 2 of this Act and in any assessment to tax or determination all such adjustments or further adjustments as are necessary in consequence of the final determination.

(4) Any tax which becomes payable in consequence of any adjustment made under sub-paragraph (3) above in an assessment for a chargeable period shall carry interest at the rate of 9 per cent. per annum from four months after the end of that period to the date of payment.

(5) For the purposes of this paragraph a matter shall not be deemed to be finally determined in any such proceedings as are mentioned in sub-paragraph (1)(b) above until a determination thereof made in any such proceedings can no longer be varied or overruled by the order of any court.

Sections 3 and 4.

#### SCHEDULE 6

##### ALLOWANCE OF EXPENDITURE (OTHER THAN ABORTIVE EXPLORATION EXPENDITURE) ON CLAIM BY PARTICIPATOR

1.—(1) A claim for the allowance of any expenditure allowable under section 3 or 4 of this Act for an oil field may be made to the Board under this Schedule by the participator who incurred it (instead of under Schedule 5 to this Act by the responsible person for that field) if the participator satisfies the Board that, for reasons of trade secrecy, it would be unreasonable for him to have to provide the responsible person with the information necessary for the making of a claim under that Schedule.

(2) A claim by a participator under this Schedule for the allowance of any such expenditure incurred by him must, subject to the provisions of this Part of this Act, be made in a claim or claims for the claim period in which the expenditure is incurred, but may not be made before the determination of the field or more than six years after the end of the claim period in which the expenditure is incurred.

(3) A claim by a participator under this Schedule for the allowance of any such expenditure incurred by him before he became a participator in the field must be made in a claim for the claim period in which he became a participator.

2. The provisions of Schedule 5 to this Act specified in the first column of the following Table shall apply in relation to a claim under this Schedule as they apply in relation to a claim under that Schedule subject to any modifications specified in the second column

of that Table and with the substitution, for references to the responsible person, of references to the participator by whom the claim under this Schedule is made and, for references to section 2(9)(b)(ii) of this Act, of references to section 2(9)(c)(ii) of this Act.

SCH. 6

TABLE

<i>Provisions applied</i>	<i>Modifications</i>
Paragraph	
2(3)	For the reference to this Schedule substitute a reference to Schedule 5 to this Act.
2(4)	Omit paragraph (b).
2(5)	—
2(6)	—
3(1)	Omit paragraph (c).
4	—
5(1)	Omit paragraph (b).
5(3)	—
5(4)	For the reference to all or any of the participators substitute a reference to the participator by whom the claim is made.
6(1)	—
6(3)	Omit the reference to paragraph 6(2).
7	—
8	—

## SCHEDULE 7

Section 5.

## ALLOWANCE OF ABORTIVE EXPLORATION EXPENDITURE

1.—(1) A claim for the allowance, in connection with an oil field, of any abortive exploration expenditure allowable under section 5 of this Act in the case of a participator in that field must be made by the participator to the Board, but may not be made after the end of the period of six years beginning with the later of the following dates, that is to say the date on which the expenditure was incurred and the date of the determination of the field under Schedule 1 to this Act.

(2) Where a claim under this Schedule has been made and the participator by whom it was made subsequently discovers that an error or mistake has been made in the claim, he may make a supplementary claim within the time allowed for making the original claim.

(3) The provisions of Schedule 5 to this Act specified in the first column of the following Table shall apply in relation to a claim under this Schedule as they apply in relation to a claim under that Schedule, subject to any modifications specified in the second column of that Table and with the substitution, for references to the responsible person, of references to the participator by whom the claim under this Schedule is made and, for references to section 3 or 4 of this Act, of references to section 5 of this Act.

## SCH. 7

## TABLE

*Provisions applied*  
Paragraph*Modifications*

2(6)	..	..	—
3(1)	..	..	Omit paragraphs (b) and (c).
5(1)	..	..	Omit the words from “ or the amount ” to “ (1)(b) of that paragraph ” and paragraph (b).
5(3)	..	..	—
5(4)	..	..	For the reference to all or any of the participators substitute a reference to the participator by whom the claim is made.
6(1)	..	..	For “ one or both of the grounds ” substitute “ the ground ”, and omit paragraph (b) and the words “ or, as the case may be, claimed as so qualifying ” (wherever occurring).
6(3)	..	..	Omit “ sub-paragraph (1)(b) or sub-paragraph (2) ”, and for the words from “ the corresponding ” to “ itself ” substitute “ the appeal ”.
7 ..	..	..	In sub-paragraph (1), omit the words from “ or qualifies ” to “ 2(9)(b)(ii) of this Act ”.
8 ..	..	..	In sub-paragraph (2), omit the words from “ or allowed by it ” to “ section 2(9)(b)(ii) of this Act ”.

## Section 6.

## SCHEDULE 8

## ALLOWANCE OF UNRELIEVABLE FIELD LOSS

*Reference and determination of question of abandonment of oil field*

1. Where it appears to the responsible person for an oil field that the winning of oil from the field has permanently ceased he may by notice in writing given to the Board refer to them for their decision the question whether the winning of oil from that field has permanently ceased.

2.—(1) The Board shall, by notice in writing given to the responsible person, inform him of their decision on the question and, if their decision is that the winning of oil has so ceased, shall state the date which they are satisfied is that on which the winning of oil from the field in question ceased.

(2) The responsible person shall, within one month of his receiving a notice under sub-paragraph (1) above informing him of the Board's decision, furnish a copy of that notice to every person who was at any time a participator in the field in question.

3.—(1) The responsible person may appeal to the Special Commissioners against the Board's decision by notice in writing given to the Board within three months of his receiving the notice under paragraph 2(1) above informing him thereof.



(2) An appeal under sub-paragraph (1) above may at any time be abandoned by notice in writing given to the Board by the responsible person.

SCH. 8

*Claims by participators for allowance of unrelievable field losses*

4.—(1) A claim for the allowance, in connection with an oil field, of any unrelievable field loss allowable under section 6 of this Act in the case of a participator in that field must be made by the participator to the Board and must be made within six years of the later of the following dates, that is to say the date of the decision (whether of the Board or on appeal from the Board) that the winning of oil from the oilfield in the case of which the loss accrued has permanently ceased, and the date of the determination under Schedule 1 to this Act of the last-mentioned field.

(2) Where a claim under this Schedule has been made and the participator by whom it was made subsequently discovers that an error or mistake has been made in the claim, he may make a supplementary claim within the time allowed for making the original claim.

(3) The provisions of Schedule 5 to this Act specified in the first column of the Table set out in paragraph 1(3) of Schedule 7 to this Act shall apply in relation to a claim under this Schedule as they apply in relation to a claim under the said Schedule 5, subject to any modifications specified in the second column of that Table and with the substitution, for references to the responsible person, of references to the participator by whom the claim under this Schedule is made, for references to the claiming or allowance of expenditure, of references to the claiming or allowance of an unrelievable field loss and, for references to section 3 or 4 of this Act, of references to section 6 of this Act.

## SCHEDULE 9

Section 20.

### EXTENSION OF SECTION 485 OF TAXES ACT IN RELATION TO PETROLEUM COMPANIES

#### *Definition of petroleum company*

1. For the purposes of this Schedule a company is a petroleum company if—

- (a) its activities include those specified in any of sub-paragraphs (a) to (e) of paragraph 2 below ; or
- (b) it is associated with a company whose activities include those specified in any of those sub-paragraphs and its own activities include those specified in sub-paragraph (f) of paragraph 2 below.

2. The activities referred to in paragraph 1 above are—

- (a) the acquisition or disposal of petroleum or of rights to acquire or dispose of petroleum ;

SCH. 9

- (b) the importation into or exportation from the United Kingdom of petroleum products or the acquisition or disposal of rights to such importation or exportation ;
- (c) the acquisition otherwise than for importation into the United Kingdom of petroleum products outside the United Kingdom or the disposal outside the United Kingdom of petroleum products not exported from the United Kingdom by the company making the disposal ;
- (d) the refining or processing of crude petroleum ;
- (e) the extraction of petroleum, either under rights authorising it or under contractual or other arrangements with persons by whom such rights are exercisable ; and
- (f) the ownership, operation or management of ships or pipelines (as defined in section 65 of the Pipe-lines Act 1962) used for transporting or conveying petroleum or petroleum products.

1962 c. 58.

*Petroleum company as resident buyer or resident seller*

3.—(1) The application to a transaction of subsection (1) or (2) of section 485 of the Taxes Act shall not be excluded by the proviso thereto (resident buyer or resident seller) if—

- (a) either party to the transaction is a petroleum company or both are petroleum companies ; and
- (b) the activities of either or both are or include activities with respect to which the conditions stated in sub-paragraph (2)(a) or (2)(b) below are satisfied ; and
- (c) the transaction is part of such activities or is connected with them.

(2) The conditions referred to in sub-paragraph (1) above are—

- (a) that profits from the activities are or would be chargeable to overseas tax for which credit could be given under section 498 of the Taxes Act or in pursuance of arrangements having effect by virtue of section 497 of that Act ; and
- (b) that the activities are exploration or exploitation activities within the meaning of section 38 of the Finance Act 1973.

1973 c. 51.

4. Where both the buyer and the seller are resident in the United Kingdom and the Board, in pursuance of the preceding paragraphs, direct that subsection (1) or subsection (2) of section 485 of the Taxes Act is to apply to the computation of the income, profits or losses of the one, the direction may extend the application of that subsection to the computation of the income, profits or losses of the other, and where it does so adjustments shall be made under subsection (3) of that section accordingly.

*Modification of section 485 of Taxes Act in relation to certain sales to or by petroleum companies.*

5. Where any property is sold and either the buyer or the seller is a petroleum company or both are petroleum companies, then if—

- (a) the sale is part of a transaction or series of transactions (whether or not between the same persons) and its terms are affected by those of the remainder of the transaction or transactions ; or

- (b) what is sold is petroleum extracted under rights exercisable by a company other than the buyer, and not less than 20 per cent. of that company's ordinary share capital was at the time of the sale owned directly or indirectly by one or more of the following, that is to say the buyer and any companies associated with the buyer,

SCH. 9

section 485 of the Taxes Act shall apply in relation to the sale as if in both subsection (1) and subsection (2) of that section paragraph (a) were omitted.

*Determination of arm's length price*

6.—(1) Where a petroleum company was a party to a sale of property, then, in determining for the purposes of section 485 of the Taxes Act what price the property might have been expected to fetch had the parties to the transaction been independent persons dealing at arm's length and what consequences would have ensued in computing the income, profits or losses of the seller or the buyer for tax purposes if the property had been sold for that price, it shall be assumed—

- (a) that the terms of the transaction would have been such as might have been expected to secure both to the buyer and to the seller a reasonable profit from transactions of the same kind carried out on similar terms over a reasonable period ; and
- (b) that the seller would not have been compelled by law or by executive action of any government to demand a price fixed by law or such action or a price not less than one so fixed ; and
- (c) that, if the transaction was part of a transaction or series of transactions (whether or not between the same persons), its terms would not have been affected by those of the remainder of the transaction or transactions ; and
- (d) in a case where the whole of the property sold is not delivered by the seller within twelve months after the date of the sale—
  - (i) that such part of the property as is delivered within that time would have fetched a price equal to that which it might have been expected to fetch if sold under a contract for the sale of that part and of no other property, being a contract made at the date of the sale ; and
  - (ii) that such part of the property not so delivered as is delivered in any calendar month would have fetched a price equal to that which it might have been expected to fetch if sold under a contract for the sale of that part and of no other property, being a contract made at the material time in that month ;

and no regard shall be had to the terms of similar transactions which were capable of being varied.

(2) In this paragraph “material time” and “calendar month” have the meaning given by paragraph 3(2) of Schedule 3 to this Act.

## SCH. 9

*Supplementary*

7.—(1) In this Schedule—

“petroleum” includes any mineral oil or relative hydrocarbon, and, except in the expression “crude petroleum”, includes natural gas ;

“petroleum products” means products derived from petroleum and wholly or substantially of a hydrocarbon nature.

(2) For the purposes of this Schedule—

(a) two companies are associated with one another if one is under the control of the other or both are under the control of the same person or persons, and “control” has the meaning given by section 534 of the Taxes Act ;

(b) any question whether ordinary share capital is owned by a company directly or indirectly shall be determined as for the purposes of section 532 of the Taxes Act ;

(c) rights are exercisable by a company if they are exercisable by that company alone or jointly with another company or companies ;

(d) subsection (6) of section 485 of the Taxes Act (which extends the provisions of that section to transactions which are not sales) shall apply for the purposes of this Schedule except those of paragraph 5(b).

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PRINTED IN ENGLAND BY HAROLD GLOVER

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