

FINANCE ACT 2009

EXPLANATORY NOTES

INTRODUCTION

Section 89: Schedule 43: Abolition of Provisional Expenditure Allowance:

Summary

1. [Section 89](#) and Schedule 43 provide that the Provisional Expenditure Allowance (PEA) legislation no longer applies.

Details of the Schedule

2. Paragraph 2 abolishes PEA by providing that it is not to be calculated in respect of a future chargeable period.
3. Paragraph 3 makes amendments which are consequential upon the abolition of the allowance, but subject to Paragraph 4.
4. Paragraph 3(3) omits subsections (9)(a) (which calculates provisional expenditure allowance) and subsections (10) and (11) (which make certain adjustments to the provisional expenditure allowance calculation).
5. Paragraph 3(4) omits paragraph 11 of Schedule 17 to Finance Act (FA) 1980 which makes certain further adjustments to the provisional expenditure allowance calculation when a participator transfers its interest in an oil field.
6. Paragraph 3(5) provides that paragraph 3 only has effect for future chargeable periods, i.e. those beginning after 30 June 2009.
7. Paragraph 4 contains saving provisions. This paragraph only applies if provisional expenditure allowance has been calculated in respect a chargeable period which occurred before the PEA was abolished.
8. Paragraph 4(2) provides that, for future chargeable periods, the saved provisions (defined in subparagraph (3)) will continue to have effect as if they had not been amended by paragraph 3.

Background Note

8. Under the PRT rules, oil companies have to submit a formal claim in order to obtain relief for their costs, and that claim is then considered by HM Revenue & Customs (HMRC). Sometimes oil companies would not get immediate relief for these costs. In the early days of oil exploration, when companies incurred substantial start-up costs, this deferral of relief could have a big impact on their cash-flow. PEA was therefore introduced to ensure that companies obtained partial advance relief in respect of these costs.
10. Now that North Sea exploration is long-established, and the large start-up costs have already been incurred, PEA is no longer needed. Furthermore, Government has become aware that the operation of PEA has had unintended and detrimental consequences to

*These notes refer to the Finance Act 2009 (c.10)
which received Royal Assent on 21 July 2009*

a few companies which have suffered a tax charge when their PEA has been clawed back in a later period.

11. Government, with the agreement of industry, has therefore repealed the PEA legislation.