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(Bristol South – Lab)

Amendment 225

Schedule 18, page 98 [Vol II], leave out lines 11 to 26 and insert—

“(A1) Where the conditions in subsection (A2) below are met in the case of a disposal of oil by a person, section 2(5A) of the Oil Taxation Act 1975 (“the 1975 Act”) (transportation etc) is to apply in determining the amount which the person is to bring into account for the purposes of the charge to corporation tax on income in respect of the disposal as it applies (or would apply) for the purposes of petroleum revenue tax.

(A2) The conditions are that—

(a) the oil is oil won from an oil field in the United Kingdom,

(b) the disposal is a disposal of the oil by the person crude in a sale at arm’s length, as defined in paragraph 1 of Schedule 3 to the 1975 Act,

(c) the circumstances are such that the price received or receivable—

(i) falls to be taken into account under section 2(5)(a) of that Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to the person in any chargeable period from the oil field, or

(ii) would fall to be so taken into account, had the oil field been a taxable field, as defined in section 185 of the Finance Act 1993,

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- (d) the terms of the contract are such as are described in the opening words of section 2(5A) of the 1975 Act,
 - (e) apart from subsection (A1) above, the person is not entitled to a transportation allowance in respect of the oil (see subsection (A3)) in computing his ring fence profits,
 - (f) the person does not claim a transportation allowance in respect of the oil in computing for the purposes of corporation tax any profits of his that are not ring fence profits.
- (A3) In subject (A2) above “transportation allowance”, in relation to any oil, means any of the following—
- (a) a deduction in respect of the expense of transporting the oil as mentioned in the opening words of section 2(5A) of the 1975 Act,
 - (b) a deduction in respect of any costs of or incidental to the transportation of the oil as there mentioned,
 - (c) any such reduction in the price to be regarded as received or receivable for the oil as would result from the application of section 2(5A) of the 1975 Act, if that provision applied for the purposes of corporation tax.”.’

SUMMARY

1. The amendment ensures that the scope of Schedule 18 is appropriate in providing relief for Corporation Tax purposes for the transportation costs of oil extracted onshore.
2. Under the existing legislation, the ring fence for Corporation Tax purposes does not include transportation costs for onshore oil. The

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ring fence starts at the shoreline. Some companies have entered into alternative arrangements as a way of getting relief for such costs within the ring fence.

3. Paragraph 12 of Schedule 18 of the Finance Bill provides for relief for these costs but there may be circumstances in which other costs could also be claimed and some transportation costs could be double counted.
4. The amendment ensures the extension of the relief applies its intended target.

DETAILS OF THE AMENDMENT

5. The amendment inserts new subsections (A2) and (A3) and changes the wording of (A1) in paragraph 12 of Schedule 18.
6. Subsection (A1) requires that where the conditions in (A2) are met, section 2(5A) of the Oil Taxation Act is to apply in determining the amount to be brought into account for Petroleum Revenue Tax purposes.
7. The conditions in (A2) are that the oil is won from an oil field in the United Kingdom; that the oil is disposed at arm's length; that the price is taken into account for the purposes of Petroleum Revenue Tax (or would be if the field were a chargeable field); the terms of the contract are such as described in section 2(5A) of the Oil Taxation Act 1975; and apart from under (A1), the person is not entitled to a transportation deduction (as defined in (A3)) in computing ring fence profits and has not claimed such costs in arriving at non-ring fence profits.
8. For the purposes of subsection (A2), 'transportation deduction' means; a deduction in respect of the expense of transporting oil as mentioned in the opening words of section 2(5A); a deduction in respect of any costs of or incidental to such transportation; or any reduction in the price as would result from the application of 2(5A) if that provision applied for the purposes of corporation tax.

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BACKGROUND NOTE

9. The Government has consulted with the oil industry since mid-2005 on measures to ensure that the oil taxation valuation and pricing rules more closely reflect the full value of oil produced in the UK and on the UK continental shelf.
10. One subsidiary issue, which has arisen in the course of the discussions, is the inability of companies that extract their oil onshore to claim onshore transportation costs as a deduction for the purposes of ring fence Corporation Tax. Companies have entered into arrangements, via sales of oil to affiliates and use of Statement of Practice 14/1993 to relieve the costs inside the ring fence.
11. The other legislative changes on oil pricing in this year's Finance Bill provided the opportunity to set the relief for onshore transportation costs on a formal footing. The Amendment ensures that the scope of the relief is appropriate and that companies will not need to use the Statement of Practice.