

**EXPLANATORY NOTE****NEW CLAUSE 7: ABANDONMENT EXPENDITURE:  
DEDUCTIONS FROM RING FENCE INCOME****SUMMARY**

1. This clause amends Finance Act 1991, to ensure that participators in an oil field can continue to obtain tax relief against ring fence income, in circumstances where they are obliged to meet decommissioning costs because of the default of a fellow participator.

**DETAILS OF THE CLAUSE**

2. Section (1) provides for amendment to Finance Act 1991.
3. Sections (2) to (5) amend section 64 Finance Act 1991. These amendments are consequential to the changes to Paragraph 2A Schedule 5 Oil Taxation Act 1975 which are introduced in Clause 99 of the Finance Bill. The amendments ensure that the conditions for giving relief under section 64 refer to the appropriate sub-paragraphs and use the correct terminology in new Paragraph 2A.
4. Sections (6) to (9) similarly amend section 65 Finance Act 1991, to ensure that the conditions for giving taxing reimbursements made by defaulters to participators that have met their default costs apply,

using the sub-paragraphs and terminology in new Paragraph 2A Schedule 5 Oil Taxation Act 1975.

5. Section (10) provides that the amendments will have effect in relation to expenditure incurred after 30 June 2008.

### **BACKGROUND NOTE**

6. Clause 99 of the Finance Bill extends the scope of the legislation which gives relief for Petroleum Revenue Tax purposes in the situation where a company which is a licensee in an oil field, a 'participator', defaults on their obligation to meet some or all of the costs of decommissioning that field
7. The current legislation allows fellow current participators PRT relief where they meet the costs of a defaulter.
8. Clause 99 extends the scope of the relief to ex-participators in a field. These companies can also be held liable for the decommissioning costs of current participators in default circumstances and the clause (together with clauses 98 and 100) provide for relief for the payments made by ex-participators.
9. This clause amends sections 64 and 65 Finance Act 1991, which provide relieving provisions (and tax reimbursements) for the purposes of ring fence corporation tax for such default payments.

10. The amendments are consequential upon changes to Paragraph 2A of Schedule 5 Oil Taxation Act 1975 and ensure that the sections 64 and 65 continue to apply as before.