

**1 Supplementary charge: cluster area allowance**

Schedule 1 contains provision about the reduction of adjusted ring fence profits by means of a cluster area allowance.

## SCHEDULES

### SCHEDULE 1

Section 1

#### SUPPLEMENTARY CHARGE: CLUSTER AREA ALLOWANCE

#### PART 1

#### AMENDMENTS OF PART 8 OF CTA 2010

- 1 Part 8 of CTA 2010 (oil activities) is amended in accordance with paragraphs 2 to 4.

#### *Cluster area allowance*

- 2 After Chapter 8 insert –

#### **“CHAPTER 9**

#### SUPPLEMENTARY CHARGE: CLUSTER AREA ALLOWANCE

#### *Introduction*

#### **356JC Overview**

- (1) This Chapter sets out how relief for certain capital expenditure incurred in relation to a cluster area is given by way of reduction of a company’s adjusted ring fence profits.
- (2) The Chapter includes provision about –
  - (a) the determination of cluster areas (sections 356JD and 356JDA);
  - (b) the generation of allowance by the incurring of relievable capital expenditure in relation to a cluster area (section 356JE);
  - (c) how allowance is activated by relevant income from the same cluster area (sections 356JG to 356JGB and 356JI to 356JIB) in order to be available for reducing adjusted ring fence profits (sections 356JF and 356JFA);
  - (d) the division of an accounting period into reference periods where a company has different shares of the equity in a licensed area or sub-area at different times in the period (section 356JH);
  - (e) the transfer of allowance where shares of the equity in a licensed area or sub-area are disposed of (sections 356JJ to 356JJB);

- (f) elections to treat allowance attributable to an unlicensed part of a cluster area as if it were attributable to a licensed area in the cluster area (section 356JK).

*Determination of cluster areas*

**356JD Meaning of “cluster area”**

- (1) In this Part “cluster area” means an offshore area which the Secretary of State determines to be a cluster area.
- (2) A cluster area is treated as not including any previously authorised oil field (or any part of such an oil field) (see section 356JDA).
- (3) An area is “offshore” for the purposes of this section if the whole of it lies on the seaward side of the baselines from which the territorial sea of the United Kingdom is measured.
- (4) Before determining an area to be a cluster area the Secretary of State must—
  - (a) give written notice of the proposed determination to every person who is a licensee in respect of a licensed area which is wholly or partly included in the proposed cluster area and to any other licensee whose interests appear to the Secretary of State to be affected, and
  - (b) publish a notice of the proposed determination on a website that is, and indicates that it is, kept by or on behalf of the Secretary of State.
- (5) The Secretary of State must consider any representations made in writing and within 30 days of the date of the publication of the notice under subsection (4)(b) (or, in the case of representations made by a person to whom notice is given under subsection (4)(a), within 30 days of receipt of the notice, if later).
- (6) A determination under this section—
  - (a) has effect from the day on which it is published,
  - (b) may be in any form the Secretary of State thinks appropriate, and
  - (c) must assign to the cluster area an identifying number or other designation.
- (7) After making a determination the Secretary of State must—
  - (a) give written notice of the determination to every person who is a licensee in respect of a licensed area which is wholly or partly included in the cluster area and any other person to whom notice of the proposed determination was given;
  - (b) publish a notice of the determination on a website that is, and indicates that it is, kept by or on behalf of the Secretary of State.
- (8) The Secretary of State may vary or revoke a determination made under this section, and subsections (4), (5), (6)(a) and (b) and (7) are to apply as if the variation or revocation were a new determination.

### **356JDA Meaning of “previously authorised oil field”**

- (1) In section 356JD “previously authorised oil field”, in relation to a cluster area, means an oil field, other than a decommissioned oil field, whose development (in whole or in part) was authorised for the first time before the relevant day.
- (2) An oil field is a “decommissioned oil field” in relation to a cluster area if immediately before the relevant day all assets of the oil field which are relevant assets have been decommissioned.
- (3) In this section, “relevant day”, in relation to an oil field and a cluster area, means the date of publication of the first determination, or variation of a determination, under section 356JD as a result of which the oil field is (ignoring section 356JD(2)) wholly or partly included in the cluster area.
- (4) Sub-paragraphs (2) to (9) of paragraph 7 of Schedule 1 to OTA 1975 apply for the purpose of determining whether relevant assets of an oil field are decommissioned as they apply for the purpose of determining whether qualifying assets of a relevant area are decommissioned.
- (5) For the purposes of this section, an asset is a relevant asset of an oil field if—
  - (a) it has at any time been a qualifying asset (within the meaning of the Oil Taxation Act 1983) in relation to any participator in the field, and
  - (b) it has at any time been used for the purpose of winning oil from the field.
- (6) In this section references to authorisation of development of an oil field are to be interpreted in accordance with section 351.
- (7) See also paragraph 6 of Schedule 1 to FA 2015, as a result of which certain proposed determinations made before the day on which that Act is passed are treated as made under section 356JD for the purposes of this Chapter.

#### *Cluster area allowance*

### **356JE Generation of cluster area allowance**

- (1) Subsection (2) applies where a company—
  - (a) is a licensee in a licensed area which is wholly or partly included in a cluster area, and
  - (b) incurs any relievable capital expenditure in relation to the cluster area.
- (2) The company is to hold an amount of allowance equal to 62.5% of the amount of the expenditure.  
 Allowance held under this Chapter is called “cluster area allowance”.
- (3) For the purposes of this section capital expenditure incurred by a company is “relievable” only if, and so far as, it is incurred for the purposes of oil-related activities (see section 274).

- (4) But capital expenditure incurred by a company in the acquisition of an asset is not relieviable if capital expenditure incurred before the acquisition, by that or another company, in acquiring, bringing into existence or enhancing the value of that asset is relieviable for the purposes of this section.
- (5) Cluster area allowance is said in this Chapter to be “generated” at the time when the capital expenditure is incurred (see section 356JM) and is referred to as being generated –
  - (a) “by” the company concerned,
  - (b) “in” the cluster area concerned.
- (6) Where –
  - (a) capital expenditure is incurred only partly for the purposes of oil-related activities, or
  - (b) the oil-related activities for the purposes of which capital expenditure is incurred are carried on only partly in relation to a particular cluster area,the expenditure is to be attributed to the activities or area concerned on a just and reasonable basis.

*Reduction of adjusted ring fence profits*

**356JF Reduction of adjusted ring fence profits**

- (1) A company’s adjusted ring fence profits for an accounting period are to be reduced by the cumulative total amount of activated allowance for the accounting period (but are not to be reduced below zero).
- (2) In relation to a company and an accounting period, the “cumulative total amount of activated allowance” is –

$$A + C$$

where –

A is the total of any amounts of activated allowance the company has, for any cluster areas, for the accounting period (see section 356JG(2)) or for reference periods within the accounting period (see section 356JI(1)), and

C is any amount carried forward to the period under section 356JFA.

**356JFA Carrying forward of activated allowance**

- (1) This section applies where, in the case of a company and an accounting period, the cumulative total amount of activated allowance (see section 356JF(2)) is greater than the adjusted ring fence profits.
- (2) The difference is carried forward to the next accounting period.

*Activated and unactivated allowance: basic calculation rules*

**356JG Activation of allowance: no change of equity share**

- (1) This section applies where –

- (a) for the whole or part of an accounting period, a company is a licensee in a licensed area which is wholly or partly included in a cluster area,
  - (b) the accounting period is not divided into reference periods (see section 356JH),
  - (c) the company holds, for the accounting period and the cluster area, a closing balance of unactivated allowance (see section 356JGA) which is greater than zero, and
  - (d) the company has relevant income from the cluster area for the accounting period.
- (2) The amount of activated allowance the company has for that accounting period and that cluster area is the smaller of—
- (a) the closing balance of unactivated allowance held for the accounting period and the cluster area;
  - (b) the company’s relevant income for that accounting period from that cluster area.
- (3) In this Chapter “relevant income”, in relation to a cluster area and an accounting period of a company, means production income of the company from any oil extraction activities carried on in that area that is taken into account in calculating the company’s adjusted ring fence profits for the accounting period.

**356JGA The closing balance of unactivated allowance for an accounting period**

The closing balance of unactivated allowance held by a company for an accounting period and a cluster area is—

$$P + Q - R$$

where—

P is the amount of cluster area allowance generated by the company in the cluster area in the accounting period (including any amount treated under section 356JJB(1) as generated by the company in that cluster area in that accounting period);

Q is any amount carried forward from an immediately preceding accounting period under section 356JGB(2) or from an immediately preceding reference period under section 356JIA;

R is the sum of any amounts transferred by the company under section 356JJ in connection with a disposal or disposals made on the last day of the accounting period.

**356JGB Carrying forward of unactivated allowance**

- (1) This section applies where X is greater than Y in the case of an accounting period of a company and a cluster area, where—
- X is the closing balance of unactivated allowance held for the accounting period and the cluster area;
- Y is the company’s relevant income for the accounting period from that cluster area.
- (2) An amount equal to the difference between X and Y is treated as cluster area allowance held by the company for that cluster area for

the next accounting period (and is treated as held with effect from the beginning of that period).

*Changes in equity share: reference periods*

**356JH Reference periods**

- (1) This section applies where—
  - (a) a company (“C”) is a licensee for the whole or part of an accounting period in one or more licensed areas or sub-areas (“the relevant areas”) which are wholly or partly included in a cluster area, and
  - (b) in the case of at least one of the relevant areas, C has different shares of the equity in the area on different days in the accounting period.
- (2) For the purposes of this Chapter, the accounting period is to be divided into as many consecutive periods (called “reference periods”) as are necessary to secure that—
  - (a) a reference period begins with the first day of the accounting period,
  - (b) a reference period ends with the date of each disposal or acquisition of a share of the equity in any of the relevant areas that is made by the company in that accounting period (not including acquisitions or disposals made on the last day of the accounting period), and
  - (c) a reference period ends with the last day of the accounting period.
- (3) Each such reference period “belongs to” the cluster area concerned.

*Changes in equity share: activation of allowance*

**356JI Activation of allowance: reference periods**

- (1) The amount (if any) of activated allowance that a company has for a cluster area for a reference period is the smaller of the following—
  - (a) the company’s relevant income from the cluster area in the reference period;
  - (b) the total amount of unactivated allowance that is attributable to the reference period and the cluster area (see section 356JIB).
- (2) The company’s relevant income from the cluster area in the reference period is—

$$I \times \frac{R}{L}$$

where—

I is the company’s relevant income from the cluster area in the whole of the accounting period;

R is the number of days in the reference period;

L is the number of days in the accounting period on which the company is a licensee in any of the licensed areas or sub-areas which are wholly or partly included in the cluster area.

### **356JIA Carry-forward of unactivated allowance from a reference period**

- (1) If, in the case of a reference period (“RP1”) of a company, the amount mentioned in subsection (1)(b) of section 356JI exceeds the amount mentioned in subsection (1)(a) of that section, an amount equal to the difference between those amounts is treated as cluster area allowance held by the company for the cluster area concerned for the next period.
- (2) If RP1 is immediately followed by another reference period of the company (belonging to the same cluster area), “the next period” means that reference period.
- (3) If subsection (2) does not apply, “the next period” means the next accounting period of the company.

### **356JIB Unactivated amounts attributable to a reference period**

- (1) For the purposes of section 356JI(1)(b), the total amount of unactivated allowance attributable to a reference period and a cluster area is –

$$P + Q - R$$

where –

- P is the amount of allowance generated by the company in the reference period in the cluster area (including any amount treated under section 356JJB(1) as generated by the company in that area in that reference period);
  - Q is the amount given by subsection (2) or (3);
  - R is the sum of any amounts transferred by the company under section 356JJ in connection with a disposal or disposals made on the last day of the reference period.
- (2) Where the reference period is not immediately preceded by another reference period but is preceded by an accounting period of the company, Q is equal to the amount (if any) that is to be carried forward from that preceding accounting period under section 356JGB(2).
  - (3) Where the reference period is immediately preceded by another reference period, Q is equal to the amount carried forward by virtue of section 356JIA(1).

#### *Transfers of allowance on disposal of equity share*

### **356JJ Disposal of equity share: transfer of allowance**

- (1) Subsections (2) and (3) apply where –
  - (a) a company (“the transferor”) makes a disposal in an accounting period or reference period (“the current period”) of the whole or part of its share of the equity in a licensed area or sub-area which is wholly or partly included in a cluster area (“the relevant cluster area”), and
  - (b) the maximum transferable amount is greater than zero.

Each company to which a share of the equity is disposed of is referred to in this section as a “transferee”.



- (2) The transferor may by an election transfer to the transferee (or transferees) a specified amount of cluster area allowance which is –
- (a) not less than the minimum transferable amount, and
  - (b) not more than the maximum transferable amount.
- (3) If the transferor does not make an election under subsection (2), the minimum transferable amount of cluster area allowance is transferred to the transferee (or transferees).
- (4) An election under subsection (2) must be made within the 60 days beginning with the date of the disposal and must –
- (a) specify the date of the disposal and the amount of cluster area allowance transferred, and
  - (b) identify the transferees.
- (5) The minimum transferable amount is –

$$(G - A) \times \frac{E1 - E2}{E1}$$

where –

G is so much of the total generated allowance for the relevant cluster area (see subsection (6)) as is attributable on a just and reasonable basis to the licensed area or sub-area mentioned in subsection (1);

A is the total of any amounts of allowance which have, in relation to any accounting period or reference period of the company (including the current period), been activated under section 356JG or 356JI in relation to the relevant cluster area;

E1 is the transferor's share of the equity in the licensed area or sub-area immediately before the disposal;

E2 is the transferor's share of the equity in the licensed area or sub-area immediately after the disposal.

- (6) In the definition of “G” in subsection (5), “the total generated allowance for the relevant cluster area” means the total of all amounts of cluster area allowance generated by the company in that cluster area on or before the date of the disposal (including any amounts treated under section 356JJB(1) as so generated).
- (7) The maximum transferable amount is –

$$M \times \frac{E1 - E2}{E1}$$

where M is the smaller of –

- (a) G (as defined in subsection (5)), and
- (b) the pre-transfer total of unactivated allowance for the relevant cluster area.

- (8) In subsection (7) “the pre-transfer total of unactivated allowance for the relevant cluster area” means –

$$P + Q - S$$

where –

P and Q are the same as in –

- (a) section 356JGA, if the disposal is made on the last day of an accounting period, or
- (b) section 356JIB(1), if the disposal is made on the last day of a reference period;

S is the total of any amounts of allowance transferred by the transferor in connection with any prior disposals (see section 356JJA) made in relation to the relevant cluster area on the last day of the current period.

- (9) For the effect of a transfer of cluster area allowance in relation to the transferor, see –
  - (a) for disposals made on the last day of an accounting period, section 356JGA (reduction of closing balance of unactivated allowance held for the relevant cluster area for the accounting period), or
  - (b) for disposals made on the last day of a reference period, section 356JIB(1) (reduction of total amount of unactivated allowance attributable to the relevant cluster area and the reference period).

#### **356JJA More than one disposal on a single day**

- (1) Subsections (2) to (4) apply where a company makes, on a single day and in relation to a single cluster area, more than one disposal falling within section 356JJ(1)(a).
- (2) The company may, by an election, choose the order of priority of the disposals for the purposes of section 356JJ(8).
- (3) A disposal which is placed higher in the order of priority than another disposal is a “prior disposal” in relation to the other for the purposes of the definition of “S” in section 356JJ(8).
- (4) An election under subsection (2) is irrevocable.

#### **356JJB Effect of transfer of allowance for transferee**

- (1) Where a transfer of cluster area allowance is made under section 356JJ, each transferee is treated as generating in the cluster area concerned, at the beginning of the accounting period or reference period of the transferee that begins with, or because of, the disposal, cluster area allowance of the amount given by subsection (2).

- (2) The amount is –

$$T \times \frac{E3}{E1 - E2}$$

where –

T is the total amount of cluster area allowance transferred in connection with the disposal;

E3 is the share of equity in the licensed area or sub-area that the transferee has acquired from the transferor;

E1 and E2 are the same as in section 356JJ(5).

- (3) In this section references to the transferor and the transferees are to be interpreted in accordance with section 356JJ(1).

*Use of allowance attributable to unlicensed area*

**356JK Use of allowance attributable to unlicensed area**

- (1) Subsection (2) applies where –
  - (a) a company (“C”) disposes of the whole or part of its share of the equity in a licensed area or sub-area (“area A”),
  - (b) that area is wholly or partly included in a cluster area, and
  - (c) C has generated in the cluster area, on or before the day of the disposal, cluster area allowance which is wholly or partly attributable to an unlicensed area (“area U”) in the cluster area.
- (2) C may, by an election, assign to area A, or to any other relevant licensed area or sub-area in the cluster area, so much of the total of generated allowance for the cluster area as is attributable to area U.
- (3) The reference in subsection (2) to a “relevant” licensed area or sub-area is to a licensed area or sub-area in which C is a licensee.
- (4) In subsection (2), “the total of generated allowance for the cluster area” means the total of all amounts of cluster area allowance generated by C in the cluster area at any time on or before the day of the disposal (including any amounts treated under section 356JJB(1) as so generated).
- (5) An election under this section must be made within the 60 days beginning with the date of the disposal and must specify –
  - (a) the amount of cluster area allowance transferred,
  - (b) the unlicensed area to which it was attributable, and
  - (c) the licensed area or sub-area to which it is assigned.
- (6) An election under this section is irrevocable.
- (7) Where an amount of cluster area allowance is assigned to a licensed area or sub-area by an election under this section, that amount is taken, for the purposes of this Chapter –
  - (a) to have been attributable to that licensed area with effect from the beginning of the day on which the disposal is made, and
  - (b) never to have been attributable to area U.
- (8) In this section –

“attributable” means attributable on a just and reasonable basis;  
“unlicensed area” means an area which is not (and is not part of) a licensed area.

*Miscellaneous*

**356JL Adjustments**

- (1) This section applies if there is any alteration in a company’s adjusted ring fence profits for an accounting period after this Chapter has effect in relation to the profits.
- (2) Any necessary adjustments to the operation of this Chapter (whether in relation to the profits or otherwise) are to be made (including any

necessary adjustments to the effect of section 356JF on the profits or to the calculation of the amount to be carried forward under section 356JFA).

### **356JLA Regulations**

- (1) The Treasury may by regulations substitute a different percentage for the percentage that is at any time specified in section 356JE(2) (calculation of allowance as a percentage of capital expenditure).
- (2) Regulations under subsection (1) may include transitional provision.

### *Interpretation*

### **356JM When capital expenditure is incurred**

Section 5 of CAA 2001 (when capital expenditure is incurred) applies for the purposes of this Chapter as for the purposes of that Act.

### **356JMA Licensed sub-areas**

Where any person is entitled to a share of equity in a licensed area which relates to part only of that area –

- (a) that part is referred to in this Chapter as a “licensed sub-area” and,
- (b) the share of equity is referred to in this Chapter as a share of equity in the licensed sub-area,

and references to a licensee in a licensed sub-area are to be interpreted accordingly.

### **356JMB Other definitions**

In this Chapter (except where otherwise specified) –

- “adjusted ring fence profits”, in relation to a company and an accounting period, is to be read in accordance with section 330ZA;
- “cluster area allowance” has the meaning given by section 356JE(2);
- “cumulative total amount of activated allowance” has the meaning given by section 356JF(2);
- “licence” has the same meaning as in Part 1 of OTA 1975 (see section 12(1) of that Act);
- “licensed area” has the same meaning as in Part 1 of OTA 1975;
- “licensee” has the same meaning as in Part 1 of OTA 1975 (but see also section 356JMA);
- “qualifying oil field” has the meaning given by section 352;
- “relevant income”, in relation to a cluster area and an accounting period, has the meaning given by section 356JG(3).”

### *Restriction of field allowances*

- 3 In section 349A (“additionally-developed oil field”), in subsection (1) –
  - (a) omit the “and” at the end of paragraph (aa);
  - (b) after paragraph (b) insert “, and

- (c) on the authorisation day the oil field has never been (and is not treated by virtue of paragraph 6 of Schedule 1 to FA 2015 as having been) wholly or partly included in a cluster area.”
- 4 In section 350 (meaning of “new oil field”), after subsection (4) insert –
- “(5) Any authorisation of development of an oil field is treated as not being an authorisation of development for the purposes of subsection (1)(b) if it is given on a day on which the oil field is (or is treated by virtue of paragraph 6 of Schedule 1 to FA 2015 as having been) wholly or partly included in a cluster area.”

## PART 2

### MINOR AND CONSEQUENTIAL AMENDMENTS

- 5 (1) CTA 2010 is amended as follows.
- (2) In section 270 (overview of Part), after subsection (7A) insert –
- “(7B) Chapter 9 makes provision about the reduction of supplementary charge by an allowance for capital expenditure incurred in relation to a cluster area for the purposes of oil-related activities.”
- (3) In section 330 (supplementary charge in respect of ring fence trades), for subsection (5) substitute –
- “(5) This Chapter is subject to –
- (a) Chapter 7 (reduction of supplementary charge for eligible oil fields),
  - (b) Chapter 8 (reduction of supplementary charge: onshore allowance), and
  - (c) Chapter 9 (reduction of supplementary charge: cluster area allowance).”
- (4) After section 330 insert –
- “330ZA Ordering of allowances**
- (1) In this section “relieving Chapter” means any of the following –
- (a) Chapter 7 (reduction of supplementary charge for eligible oil fields);
  - (b) Chapter 8 (reduction of supplementary charge: onshore allowance);
  - (c) Chapter 9 (reduction of supplementary charge: cluster area allowance).
- (2) Where a company has allowances under more than one relieving Chapter available for reducing the adjusted ring fence profits that are to be chargeable under section 330(1) for an accounting period, the company may choose the order in which the relieving Chapters in question are to be applied.
- (3) In any relieving Chapter, “adjusted ring fence profits”, in relation to a company and an accounting period, means the adjusted ring fence profits which would (ignoring all relieving Chapters except those which the company chooses to apply before that Chapter) be taken

into account in calculating the supplementary charge on the company under section 330(1) for the accounting period.”

- (5) In section 356AA (definitions for Chapter 7), in the definition of “adjusted ring fence profits”, for the words from “means” to the end substitute “is to be read in accordance with section 330ZA”.
- (6) Omit section 356DB (companies with both field allowance and onshore allowance).
- (7) In section 356JB (definitions for Chapter 8), in the definition of “adjusted ring fence profits”, for the words from “means” to the end substitute “is to be read in accordance with section 330ZA”.
- (8) In Schedule 4 (index of defined expressions) –
  - (a) omit the entries for “adjusted ring fence profits (in Chapter 7 of Part 8)” and “adjusted ring fence profits (in Chapter 8 of Part 8)”;
  - (b) at the appropriate places insert –

“adjusted ring fence profits (in Chapters 7, 8 and 9 of Part 8)	section 330ZA”;
“cluster area (in Part 8)	section 356JD”;
“cluster area allowance (in Chapter 9 of Part 8)	section 356JE(2)”;
“cumulative total amount of activated allowance (in Chapter 9 of Part 8)	section 356JF(2)”;
“licence (in Chapter 9 of Part 8)	section 356JMB”;
“licensed area (in Chapter 9 of Part 8)	section 356JMB”;
“licensed sub-area (in Chapter 9 of Part 8)	section 356JMA”;
“licensee (in Chapter 9 of Part 8)	section 356JMB”;
“relevant income (in Chapter 9 of Part 8)	section 356JG(3)”.

### PART 3

#### COMMENCEMENT AND TRANSITIONAL PROVISION

##### *Proposed determinations of cluster areas*

- 6 (1) Sub-paragraph (2) applies if the Secretary of State has published, on any day (“the day of publication”) in the period beginning with 3 December 2014 and ending with the day before the day on which this Act is passed, a proposal to determine a specified offshore area to be a cluster area for the purposes of Chapter 9 of Part 8 of CTA 2010.
- (2) The proposal is treated for the purposes of that Chapter –
  - (a) as a determination validly made under section 356JD of that Act and as having had effect from the day of publication, and
  - (b) if the Secretary of State has published (before the end of the period mentioned in sub-paragraph (1)) an announcement of the

withdrawal of the proposal, as having ceased to have effect on the date of publication of that announcement.

But this sub-paragraph is subject to paragraph 8.

- (3) If a proposal published as mentioned in sub-paragraph (1) (and not withdrawn before the day on which this Act is passed) assigns an identifying number or other designation to the proposed cluster area, that number or other designation is treated as having been assigned under section 356JD(6).
- (4) An area is “offshore” for the purposes of this paragraph if the whole of it lies on the seaward side of the baselines from which the territorial sea of the United Kingdom is measured.
- (5) In this paragraph, references to publication are to publication on a website that is, and indicates that it is, kept by or on behalf of the Secretary of State.

#### *Commencement of cluster area allowance*

- 7 (1) The amendments made by paragraphs 2 and 5 have effect in relation to capital expenditure incurred on or after 3 December 2014.
- (2) Section 5 of CAA 2001 (when capital expenditure is incurred) applies for the purposes of this paragraph as for the purposes of that Act.

#### *Option to exclude certain fields from cluster area allowance*

- 8 (1) This paragraph applies where –
  - (a) a cluster area has been determined under section 356JD on a day before the cut-off date, or is treated under paragraph 6 as having been so determined, and
  - (b) a particular oil field would (in the absence of this paragraph) be wholly or partly included in the cluster area for the purposes of Chapter 9 of Part 8 of CTA 2010.
- (2) The relevant companies may, within 60 days of the day the determination of the cluster area is published, jointly elect that Chapters 7 and 9 of Part 8 of CTA 2010 are to have effect as if no part of the oil field were included in the cluster area (and an election made as mentioned in this sub-paragraph is effective whether made before or after the day on which this Act is passed).
- (3) In this paragraph “the relevant companies” means the companies which are licensees in the oil field at the date of the election.
- (4) “The cut-off date” means a day to be specified in regulations made by the Treasury.
- (5) In this paragraph expressions which are used in Chapter 9 of Part 8 of CTA 2010 have the same meaning as in that Chapter.

#### *Straddling accounting periods*

- 9 (1) Paragraphs 10 and 11 apply where a company has an accounting period (the “straddling accounting period”) that begins before and ends on or after commencement day.
- (2) In paragraphs 10 and 11 “commencement day” means 3 December 2014.

- (3) Expressions used in paragraph 10 or 11 and in Chapter 9 of Part 8 of CTA 2010 have the same meaning in the paragraph concerned as in that Chapter.
- 10 (1) The amount (if any) by which the company’s adjusted ring fence profits for the straddling accounting period are reduced under section 356JF of CTA 2010 cannot exceed the appropriate proportion of those profits.
- (2) Section 356JFA of CTA 2010 (carrying forward of activated allowance) applies in relation to the company and the accounting period as if the reference in subsection (1) of that section to the adjusted ring fence profits were to the appropriate proportion of those profits.
- (3) The “appropriate proportion” of the company’s adjusted ring fence profits for the straddling accounting period is –

$$\frac{D}{Y} \times N$$

where –

D is the number of days in the straddling accounting period that fall on or after commencement day;

Y is the number of days in the straddling accounting period;

N is the amount of the company’s adjusted ring fence profits for the accounting period.

- (4) If the basis of apportionment in sub-paragraph (3) would work unjustly or unreasonably in the company’s case, the company may elect for its adjusted ring fence profits to be apportioned on another basis that is just and reasonable and specified in the election.
- 11 (1) For the purpose of determining the amount of activated allowance the company has for any cluster area –
- (a) for the straddling accounting period (see section 356JG of CTA 2010),  
or
- (b) for a reference period that is part of the straddling accounting period (see section 356JI of CTA 2010),

the company’s relevant income from the cluster area in the straddling accounting period is taken to be the appropriate proportion of the actual amount of that relevant income.

- (2) Accordingly, in relation to the company, the straddling accounting period and the cluster area in question, section 356JGB of CTA 2010 (carrying forward of unactivated allowance) has effect as if Y in subsection (1) of that section were defined as the appropriate proportion of the company’s relevant income for the straddling accounting period from that cluster area.
- (3) The “appropriate proportion” of the company’s relevant income from a cluster area in the straddling accounting period is –

$$\frac{D}{Y} \times I$$

where –

D is the number of days in the straddling accounting period that fall on or after commencement day;

Y is the number of days in the straddling accounting period;

I is the amount of the company’s relevant income from the cluster area in the straddling accounting period.



- (4) If the basis of apportionment in sub-paragraph (3) would work unjustly or unreasonably in the company's case, the company may elect for its relevant income to be apportioned on another basis that is just and reasonable and specified in the election.