

## Clause 11 and Schedule 7: Oil activities: transferable tax history

### Summary

1. This clause and Schedule provide a mechanism by which an oil company may transfer a portion of its historic profits, and the associated tax paid on those profits, to another company, on the sale of an oil licence. This will allow the buyer company to claim a repayment of the tax paid in certain circumstances when it comes to decommission the oil field. This measure will have effect in relation to licence transfers approved after 1 November 2018.

### Details of the clause and Schedule

2. Clause 11 introduces Schedule 7 which makes provision for elections to transfer tax history for the purposes of certain sections of the Corporation Tax Acts, on the sale of an interest in a UK oil licence.

### Schedule 7

#### Part 1: Election to Transfer Tax History

3. Paragraph 1 states that this schedule applies in circumstances where the Oil and Gas Authority (OGA) gives permission, on or after 1 November 2018, for a company (the seller) to sell a UK oil licence to another company (the purchaser).
4. Sub-paragraphs 2 (1) and (2)(a) allow the seller and purchaser to elect for some or all of the seller company's ring fence profits to be treated as if they were the buyer company's ring fence profits (a Transferable Tax History (TTH) election).
5. Sub-paragraph 2 (2)(b) states that where an amount of the seller's ring fence profits of an accounting period are to be treated as if they were the buyer's, a corresponding, proportionate amount of the seller's adjusted ring fence profits should also be treated as if they were the buyer's adjusted ring fence profits.

#### Part 2: The Total TTH Amount

6. Paragraph 3 defines the 'total TTH amount', being the total amount of the seller's ring fence profits to be treated subject to the provisions of this Schedule, as if they were the purchaser's. The total TTH amount may be made up of the seller's eligible ring fence profits, defined in paragraph 13 of the schedule, of the reference accounting period, defined at paragraph 97 of the Schedule, and of preceding accounting periods, as the purchaser and the seller may agree. However, the total

TTH amount may not contain amounts of eligible ring fence profits for accounting period ending on or after 17 April 2002, as losses incurred in a ring fence trade cannot be carried back to accounting periods ending before this date.

7. Paragraph 4 restricts the total TTH amount, so that it cannot be greater than the 'uplifted decommissioning costs estimate', as defined in paragraph 5 of the schedule, nor can it exceed the total amount of the eligible ring fence profits of the seller for accounting periods beginning on 17 April 2002 and ending with the end of the seller's reference accounting period.
8. Paragraph 5 sets out the steps that must be calculated to arrive at the uplifted decommissioning costs estimate, which the total TTH amount cannot exceed. Firstly, the seller's proportion of the net cost amount must be calculated, and then the proportion of that amount that is attributable to the TTH asset, which is the interest in a transferred oil field to which the TTH election relates, must be identified. Certain adjustment must then be made to the apportioned amount in accordance with paragraph 9 of the Schedule, and the result is then doubled, to arrive at the uplifted decommissioning costs estimate.
9. Paragraph 6 explains how to calculate the net cost amount, by taking the estimate of the decommissioning costs of the TTH oil field from a relevant decommissioning security agreement (a DSA).
10. Sub-paragraphs 6 (3), (4) and (5) explain which estimate of the decommissioning costs of the field to use when there is more than one such estimate in the relevant period of 12 months prior to the TTH election being made.
11. Paragraph 7 provides that the 'seller's proportion' of the net cost amount established under paragraph 6 is the amount that the seller is responsible for under the decommissioning security agreement used to establish the net cost amount.
12. Paragraph 8 defines the 'relevant proportion' of the seller's proportion of the net cost amount for the purposes of calculating the 'uplifted decommissioning costs estimate' under paragraph 5. The relevant proportion is the proportion that the TTH asset bears to all other interests in the same field held by the company. This ensures that the maximum amount of TTH that can be transferred is calculated by reference to the field interest that is being transferred.
13. Paragraph 9 allows HMRC to specify certain assumptions that must be made, or ignored, in calculating the uplifted decommissioning costs estimate, to ensure that, prior to doubling, the figure is a reasonable estimate of the likely costs of decommissioning the asset.
14. Paragraph 10 provides a definition of a decommissioning security agreement for the purposes of this schedule.
15. Paragraph 11 states that the eligible ring fence profits (see paragraph 13 of the Schedule) of an accounting period of the seller may not be transferred under a TTH election unless all of the eligible ring fence profits of the immediately following accounting period have also been transferred.

16. Paragraph 12 requires that where a TTH election is made, all the eligible ring fence profits of an accounting period of the seller must be transferred. However, there is an exception for the earliest accounting period that is included in the election. For the earliest accounting period, the amount of profits that can be transferred need not be the full amount of the eligible ring fence profits.
17. Paragraph 13 defines 'eligible ring fence profits as being the profits of a ring fence trade of an accounting period, provided that the profits are subject to corporation tax at the main ring fence rate of 30%, no marginal rate relief has been given in respect of the profits, and the tax liability for those profits has been fully paid.
18. Sub-paragraph 13(d) prevents the same ring fence profits from being included within two different TTH elections.

### **Part 3: Effect of a TTH Election on the Seller**

19. Paragraph 15 states that Part 3 applies where a TTH election made by a seller and a purchaser has been approved by an officer of HMRC.
20. Paragraph 16 prevents a loss made by the seller company from being carried back and set against any profits transferred under a TTH election.
21. Paragraph 17 prevents relief being given to the seller in respect of any profits transferred under a TTH election, and stops any tax paid on those profits being repaid to the seller.
22. Paragraph 18 applies where, following a TTH election, the seller's ring fence profits of a period to which the election applies are revised downwards. If the revised profits of the period are less than the profits transferred, the seller is treated as having made a loss in its ring fence trade of an amount equal to that difference.
23. Sub-paragraph 18 (2)(b) ensures that paragraph 17 of the Schedule does not prevent that deemed loss from being relieved.
24. Sub-paragraphs 19(1) and (2) disregard the entitlement to a repayment of supplementary charge on the transferred adjusted ring fence profits by the seller for any provisions of the Corporation Tax Acts. This applies to accounting periods for which there is a transferred profits amount.
25. Sub-paragraphs 19(3) and (4) define the "transferred adjusted ring fence profits amount" for an accounting period as the seller's eligible adjusted ring fence profits for that period. However, where the accounting period is the earliest period, the "transferred adjusted ring fence profits amount" is the seller's adjusted ring fence profits for that period in proportion to how much of the transferred profits amount bears to the seller's ring fence profits amount for that period.
26. Sub-paragraph 19(5) provides that the adjusted ring fence profits for a period are 'eligible' if the seller has paid in full the tax liability on profits calculated for the purpose of section 3301(1) of CTA 2010 at the effective date of the election.
27. Sub-paragraph 19(6) states that the definition of the "earliest period" can be found in

sub-paragraph 12(4).

## Part 4: Effect of a TTH Election on the Purchaser

28. Paragraph 20 states that Part 4 of the Schedule applies where a joint TTH election made by the seller and the purchaser has been approved, production at the oil field that was the subject of the TTH election has permanently ceased and the conditions in sub-paragraph 20(d) are met.
29. Sub-paragraph 20(d) provides further conditions that must be met for Part 4 of the Schedule to apply. It requires that the purchaser makes a decommissioning loss in a ring fence trade, it claims to carry that loss back against profits of previous accounting periods, and that the purchaser holds an amount of activated TTH for the loss making period in accordance with paragraphs 5 and 6 of the schedule.
30. Paragraph 21 defines a decommissioning loss for the purposes of sub-paragraph 20(d)(ii) of the schedule as a loss which is subject to the extended loss carry back periods contained in s39, s40 and s42 of CTA 2010. Losses are subject to these provisions if they have been incurred in the final 12 months prior to the cessation of the trade, or as a result of certain allowances for decommissioning having been made to the company in the loss making accounting period.
31. Paragraph 22 states that where the conditions in paragraph 20 are met, the profits of an accounting period to which a loss is carried back under s37 or s42 are to be treated as including any activated TTH allocated to that accounting period in accordance with Part 6 of the Schedule. However, this only applies where the loss carried back to the period in question exceeds the amount of the company's own profits for that period.
32. Sub-paragraphs 23(1) and (2) allow for there to be a repayment of supplementary charge on the seller's transferred adjusted ring fence profits for the pre-acquisition accounting period referred to in sub-paragraphs 22(2)(b) or (3)(b) as if the amount of supplementary charge was charged on and paid by the purchaser. The repayment is in accordance with that applied by paragraph 47. Paragraph 23 only applies where an activated transferred profits amount is applied in accordance with sub-paragraph 22(2)(b) or (3)(b) in respect of a loss period.
33. Sub-paragraph 23(3) states that the reference to the "seller's supplementary charge" in sub-paragraph 23(2) is the amount that is charged on the transferred adjusted ring fence profits amount for that period under section 330(1) of CTA 2010.
34. Sub-paragraph 24(1) describes the references to the transferred adjusted ring fence profits amount for a pre-acquisition accounting period of the purchaser as
  - the seller's transferred adjusted ring fence profits amount (see sub-paragraph 19(3)) for an accounting period which coincides with the purchaser's pre-acquisition period, or
  - the overlapping proportion of the transferred adjusted ring fence profits

amount for each of the seller's accounting period that overlaps with the purchaser's pre-acquisition accounting period in cases where there is no coinciding accounting period of the seller.

35. Sub-paragraph 24(2) states that the overlapping proportion referred to in sub-paragraph 24(1)(b) is the proportion of the purchaser's accounting period that overlaps with an accounting period of the seller bears to the purchaser's accounting period as a whole.
36. Paragraph 25 treats corporation tax paid by the seller on activated transferred profits as having been paid by the purchaser, so that where a loss of the purchaser is set against those profits, the corporation tax paid by the seller may be repaid to the purchaser.
37. Paragraph 26 provides that an enquiry into a claim to carry back a loss may include enquiring into the amount of TTH that has been activated, the decommissioning expenditure attributable to the TTH asset for any accounting period, and the tracked profits attributable to the TTH asset in any accounting period.

## Part 5: TTH activation

38. Sub-paragraph 27(1) states that TTH activation occurs if two conditions are met: the winning of oil from the field has permanently ceased, and at the end of an accounting period the total decommissioning expenditure amount exceeds the total net profits amount.
39. Sub-paragraph 27(2) states that the total decommissioning expenditure amount is the proportion of the sum of the decommissioning expenditure amounts as defined in paragraph 28 that is attributable to the TTH asset for each period from the initial transfer of the TTH asset up to the end of the accounting period in question.
40. Sub-paragraph 27(3) defines the total net profits amount as the sum of the tracked profits or losses attributable to the TTH asset for each period from the initial transfer of the TTH asset to the end of the accounting period in question.
41. Paragraph 28 defines the decommissioning expenditure amount attributable to an oil field for an accounting period as the sum of the special allowance amount, the post-cessation expenditure amount and the restoration expenditure amount.
42. Paragraph 29 defines the special allowance amount as the amount of any allowances made to the purchaser under s164 of the Capital Allowances Act 2001 where the expenditure giving rise to the allowance is incurred on decommissioning plant or machinery that was used in direct connection with the TTH oil field.
43. Paragraph 30 defines the post-cessation expenditure amount as the amount of any allowances made to the purchaser under s165 of the Capital Allowances Act 2001 where the expenditure giving rise to the allowance is incurred on decommissioning plant or machinery that was used in direct connection with the TTH oil field.
44. Paragraph 31 defines the restoration expenditure amount as the amount of any

allowances made to the purchaser under s416ZA of the Capital Allowances Act 2001 where the expenditure giving rise to the allowance is incurred on the restoration of a site used in relation to the TTH oil field.

45. Paragraph 32 requires any apportionment of amount under paragraph 29, 30 or 31 between the TTH oil field and any other oil field or part thereof must be made on a basis which is just and reasonable.

## Part 6: Allocation of Activated TTH amount

46. Paragraph 33 states that Part 6 applies where an activation event has occurred in accordance with Part 5 of the Schedule in relation to the TTH asset.
47. Paragraph 34 defines the first activation period as the first accounting period of the purchaser where an activation event under Part 5 of the Schedule occurs, and defines a post-activation period as any subsequent accounting period of the purchaser.
48. Paragraph 35 defines the total activated TTH amount for the first activation period, as the lower of the amount of TTH activated in accordance with Part 5 of the Schedule, and the total TTH amount transferred to the purchaser.
49. Paragraph 36 defines the total activated TTH amount for any post-activation period as the lower of the adjusted activated TTH amount (as defined in paragraphs 37-39), and the closing balance of the total TTH amount at the end of the preceding accounting period(as defined in paragraph 46).
50. Paragraph 37 provides that where further TTH is activated in a post-activation accounting period, as a result of further decommissioning costs being incurred in relation to the TTH asset in that period, which exceed any further profits or losses attributable to the TTH asset for that period, the adjusted activated TTH amount for that post-activation period is the closing balance of activated TTH for the previous accounting period plus the additional TTH activated in that period.
51. Paragraph 38 provides that where, in a post activation period, the tracked profit or loss amount attributable to the TTH asset is greater than any further decommissioning expenditure amounts attributable to the TTH asset, the adjusted activated TTH amount is the closing balance of activated TTH for the accounting period immediately beforehand, less the excess of tracked profits over decommission expenditure for the post-activation period.
52. Paragraph 39 provides that where no further decommissioning costs are incurred in relation to the TTH asset, and no further tracked profits or losses made, the total activated TTH amount is the closing balance of the total TTH amount for the previous accounting period.
53. Paragraph 40 introduces paragraph 41, stating that it applies for the purposes of a loss carry back claim made by the purchaser in accordance with Part 4 of the Schedule.

54. Paragraph 41 sets out how amounts of activated TTH are applied to accounting periods falling prior to the date of the initial transfer of the TTH asset. Amounts are applied to the most recent accounting period first for which there is an unused transferred profits amount, up to the value of the unused transferred profits amount or the available activated TTH, whichever is lower. Where the total activated TTH amount is greater than the unused transferred profits amount for an accounting period, the excess activated TTH amount is then applied to the next preceding accounting period for which there is an unused transferred profits amount, and so on.
55. Paragraph 42 defines the transferred profits amount for an accounting period of the purchaser as the profits of the coinciding accounting period of the seller that were transferred to the purchaser under the TTT election, or, if there is no such directly coinciding accounting period of the seller, then a proportion of the profits of any accounting period of the seller that overlap with the accounting period of the purchaser, calculated on a time apportionment basis.
56. Paragraph 43 defines the unused transferred profits amount of an accounting period as the transferred profits amount, less any activated transferred profits amount allocated to that period previously.
57. Paragraph 44 defines the available activated TTH amount as the total activated TTH amount for that period, less any amounts previously allocated to a subsequent accounting period in accordance with paragraph 41 of the Schedule.
58. Paragraph 45 defines the closing balance of activated TTH as being the total activated TTH held by the purchaser for an accounting period, less any amounts against which losses have already been set in accordance with paragraph 22 of the Schedule.
59. Paragraph 46 defines the closing balance of the total TTH amount as the total TTH amount less any TTH against which losses have already been set in accordance with paragraph 22 of the Schedule.

## **Part 7: Supplementary Charge: Recalculation of Adjusted Ring Fence Profits**

60. Sub-paragraph 47(1) provides that paragraph 47 applies for the purposes of recalculating the transferred adjusted ring fence profits amount for the pre-acquisition accounting period as referred to in sub-paragraph 23(1).
61. Sub-paragraphs 47(2) and (3) state that the recalculated transferred adjusted ring fence profits for the relevant pre-acquisition accounting period mentioned in sub-paragraph 47(1) is the total of (a) the reduced profits amount, and (b) the adjusted finance cost amount for the loss period. Where this produces a negative amount, the recalculated transferred adjusted ring fence profits amount is nil.
62. Paragraph 48 states that the “reduced profits amount” is calculated by reducing the transferred adjusted ring fence profits amount for that period (but not below nil) by

the lower of (subject to paragraph 49)

- The amount applied in accordance with sub-paragraph 22(2)(b) or (3)(b) for the period, and
  - The activated ARFP amount
63. Paragraph 49 applies instead of paragraph 48 where the supplementary charge rate under section 330(1) of CTA 2010 was greater than 20% for the pre-acquisition period referred to in sub-paragraph 23(1). This paragraph instead determines the “reduced profits amount” as
- the total of the activated ARFP profits amount and the ARFP uplift amount for the period
  - and then reducing that total by the amount applied in accordance with sub-paragraph 22(2)(b) or (3)(b) for the period.
64. Paragraph 50 provides the rules for calculating the “Activated ARFP amount”.
65. Paragraph 51 provides the rules for calculating the “ARFP uplift amount”.
66. Paragraph 52 provides the rules for calculating the “Adjusted finance cost amount”.

## Part 8: TTH Elections: Conditions and Procedure

67. Sub-paragraph 53(1)(a) provides that in order to make a TTH election the seller and the purchaser must not be associated with each other.
68. Sub-paragraphs 53(1)(b) and (c), 53(2) and 53(3) set out exceptions to this rule, where the transfer of TTH is part of a hive-down, or a corporate restructuring.
69. Sub-paragraph 53(4) defines associated companies for the purposes of sub-paragraph 51(1)(a).
70. Paragraph 54 provides that a seller may not make a joint election if it is party to a decommissioning relief deed (DRD), unless the DRD disregards the total TTH amount when calculating any reference amount.
71. Paragraph 55 requires that a TTH election must be made by the later of 31 March 2019 or 90 days after the date of the transfer of the oil licence to the purchaser.
72. Paragraph 56 allows HMRC to specify the form and content of a TTH election.
73. Paragraph 57 amends the time limits for HMRC to enquire into a TTH election where the hive down condition or the corporate restructuring condition is met.



## Part 9: TTH Elections: Approval

74. Paragraph 58 provides that a TTH election may be approved by an officer of HMRC giving notice of approval to the seller and the purchaser.
75. Paragraph 59 provides that an election may be refused by an officer of HMRC.
76. Paragraph 60 provides that if an election is neither approved nor refused, and no enquiry is opened into the election, the election shall be deemed to be approved.
77. Paragraph 61 requires the purchaser to comply with the profit tracking requirement and to keep such records as may be required by HMRC, as a condition of approval.
78. Paragraph 62 sets out the profit tracking requirement and requires a statement of the tracked profit or loss to be submitted to HMRC each year alongside the purchaser's corporation tax return.
79. Paragraph 63 requires the tracked profit or loss amount to be calculated on a basis that is just and reasonable.
80. Paragraph 64 requires the purchaser in each period after the transfer to notify HMRC the name of its 'senior tracking officer' (STO), who must ensure the purchaser complies with the profit tracking requirement and certify to HMRC that it has done so.
81. Paragraph 65 sets out who may be the STO of a purchaser company.
82. Sub-paragraphs 66(1), (2) and (4) provide that penalty may be charged on the STO if he or she fails to comply with the requirements in paragraph 64 of the Schedule.
83. Sub-paragraph 66(3) provides that a penalty may be charged on the purchaser if it fails to notify HMRC who its STO is for an accounting period.
84. Paragraph 67 makes provision for how a penalty under paragraph 66 may be assessed.
85. Paragraph 68 makes provision for how penalties charged under paragraph 66 must be paid, and how they can be enforced.

## Part 10: TTH Elections: Effective Date and Withdrawal

86. Paragraph 69 provides that a TTH election has effect from the date that the sale of the interest in the oil licence is completed, and the consequences of the election are permanent unless it is withdrawn.
87. Paragraph 70 makes provision for the circumstances in which a TTH election may be withdrawn by HMRC in respect of the purchaser.
88. Sub-paragraph 70(3) provides that withdrawal of an election does not affect any claim made previously under which a loss of the purchaser was set against activated TTH.

## Part 11: TTH Elections: Inaccuracies

89. Paragraph 71 provides that a penalty may be charged on the seller if an inaccurate TTH election is submitted.
90. Sub-paragraph 71(c) sets out how to determine the 'potential lost revenue' where a penalty is charged.
91. Paragraph 72 allows HMRC to amend a TTH election by giving notice to the purchaser if the election is discovered to be inaccurate.
92. Sub-paragraphs 72(3) and (4) set out certain restrictions on when an amendment under this paragraph can be made.
93. Paragraph 73 provides that an amendment under paragraph 72 will not interfere with claims already made by the purchaser under which losses are carried back against activated TTH.

## Part 12: Chargeable Gains

94. Paragraph 74 provides that the transfer of tax history is not the disposal of an asset for the purposes of the Taxation of Chargeable Gains Act 1992.
95. Paragraph 75 provides that any consideration attributed to the transfer of tax history under a joint election is to be treated as consideration for the disposal of the licence interest for chargeable gains and capital allowances purposes.
96. Paragraph 76 requires the value of the TTH to be included when calculating the market value of the licence interest for chargeable gains and capital allowances purposes.
97. Paragraph 77 provides that the transfer of tax history is to be treated as included in the any reference to the disposal of a licence interest where there is an oil licence swap.
98. Paragraph 78 defines "the transfer of tax history" for the purposes of this part.

## Part 13: Supplementary

99. Paragraph 79 allows the seller and the purchaser to make a single TTH election where interests in two or more oil licence are sold at the same time and as a result the purchaser acquires more than one interest in the same oil field.
100. Paragraph 80 makes provision for how to allocate activated TTH amounts held by a purchaser in a loss period where multiple elections have been made in respect of the same asset.
101. Paragraph 81 provides that paragraph 82 to 89 apply if the purchaser of a TTH asset subsequently sells on that TTH asset, or a part of it, to a new purchaser.
102. Paragraph 82 provides that any amount of tax history that was transferred under the original election from the seller to the first purchaser may be treated as being part of

the first purchaser's eligible ring fence profits, and so can be transferred to the second purchaser, on the onwards sale of the TTH asset. However, this only applies insofar as the transferred tax history has not already been activated and allocated to a pre-acquisition accounting period.

103. Sub-paragraphs 82(4)(b) and 82(5) provide that if only part of the original TTH asset is transferred on to the second purchaser, only a proportionate part of the original TTH can be transferred too.

104. Paragraph 83 provides that paragraphs 84 to 88 apply if an election is made in accordance with paragraph 82.

105. Paragraph 84 provides that TTH that is the subject of a subsequent election in accordance with paragraph 82 ceases to be available to be applied in the hands of the first purchaser.

106. Paragraph 85 alters the normal rules in paragraphs 11 and 12 of the Schedule so that amounts of transferred tax history from the first election that are treated as being part of the first purchaser's eligible ring fence profits are transferred to the second purchaser in priority to the first purchaser's own eligible ring fence profits.

107. Sub-paragraph 86(1) provides that for the purposes of the subsequent TTH election the adjusted eligible ring fence profits of the first purchaser are also to include amounts of transferred adjusted ring fence profits from the original TTH election.

108. Sub-paragraph 86(2) provides that if only part of the original TTH asset is transferred, only a corresponding part of the transferred adjusted ring fence profits from the first election are to be treated as the eligible adjusted ring fence profits of the first purchaser.

109. Paragraph 87 expands definitions within the Schedule so that for the purposes of the subsequent TTH election, references to the purchaser are taken to include references to the first purchaser.

110. Sub-paragraph 88 (a) provides that where there are further onward sales of the TTH asset, references in the legislation are to be read accordingly.

111. Sub-paragraph 88(b) provides that amounts of transferred TTH that are to be treated as eligible ring fence profits of the second purchaser in accordance with paragraph 82 of the Schedule must be applied so that the transferred profits in relation to an earlier election are treated as eligible ring fence profits of the second purchaser before amounts of transferred profits that relate to subsequent elections are to be treated as eligible ring fence profits of the second purchaser.

112. Paragraph 89 provides that where, following an onward sale, the first purchaser continues to be liable for some or all of the decommissioning costs of the original TTH asset, for the purposes of the activation calculation, the total net profits amount must include the second purchaser's tracked profits amount for each accounting period that are attributable to the TTH asset.

113. Paragraph 90 makes provisions for appeals to be made under this schedule against

decisions to refuse approval for a TTH election, amend a TTH election, withdraw a TTH election, or charge a penalty in accordance with the STO provisions.

114. Sub-paragraph 90(4) provides that any such appeal may be overturned on appeal to the tribunal.
115. Sub-paragraph 90(5) provides that where a decision to withdraw a TTH election is overturned, the election is treated as having had continual effect throughout.
116. Sub-paragraph 91(1) allows an officer of HMRC to amend an election or disallow a claim if certain arrangements have been entered into so that the provisions of the Schedule have effect as if the arrangements had not been entered into.
117. Sub-paragraph 91(2) provides that arrangements are within sub-paragraph 91(1) if they are designed to secure an entitlement to repayment of tax or an earlier repayment of tax than would otherwise have been the case, or otherwise circumvents the intended limits of the legislation.
118. Paragraph 92 provides that relief may not be given to two different people in respect of the same amount of transferred profits.

## Part 14: Interpretation

119. Paragraph 93 introduces Part 14 which provide definitions for the Schedule.
120. Paragraph 94 provides that terms defined for the purposes of Part 8 of CTA 2010 that are used in this Schedule have the same meaning as in Part 8 of that Act.
121. Paragraph 95 defines a UK oil licence in accordance with the Petroleum Act 1998 or the Petroleum (Production) Act (Northern Ireland) 1964.
122. Paragraph 96 defines licensed area and transferred oil field.
123. Paragraph 97 defines the seller's reference accounting period.
124. Paragraph 98 defines the purchaser's reference accounting period.
125. Paragraph 99 defines the seller's pre-transfer accounting periods.
126. Paragraph 100 defines the purchaser's pre-acquisition accounting periods and post-acquisition accounting periods.
127. Paragraph 101 makes provision for the purchaser to be treated as having 12 month accounting periods ending on the date of its incorporation and successive 12 month periods prior to that, where the purchaser is incorporated after the seller's reference accounting period.
128. Paragraph 102 defines transferred profits amount and activated transferred profits amount.
129. Paragraph 103 defines trade loss relief provisions.

## Background Note

130. This clause and Schedule introduce a mechanism by which a company carrying on a ring fence trade can elect to transfer part of its historic profits, together with the tax paid on those profits, to another company, when it sells an interest in a UK oil licence. That tax history will then be available to the new owner of the oil licence so that when it comes to decommission the oil field it can, in certain circumstances, set losses against those profits, and get a refund of the tax paid by the seller company.
131. When an oil field ceases production, the licensees are obliged to decommission the field. This includes plugging the oil wells and removing infrastructure, such as platforms and pipelines. Companies are able to claim certain allowances for this expenditure, and if as a result of this expenditure, a company makes a loss in a ring fence trade, under the current rules, it can claim to set that loss against its own profits back to 2002, and get a refund of the tax paid on those profits.
132. Because currently companies can only set decommissioning losses against their own historic profits, there is a disincentive for new companies to enter the market and acquire oil fields, as they will have to meet the costs of decommissioning without having certainty that they will be able to get tax relief on those costs.
133. The introduction of this legislation will allow new companies to acquire the record of historic profits earned, and taxes paid, by the previous owner of the field. This will allow the buyer to have certainty that it will get tax relief for its decommissioning costs, levelling the playing field between new entrants and existing operators, and supporting new investment in the UK and the UK continental shelf, in line with the government's policy to maximize the economic recovery of the UK's oil resources.
134. If you have any questions or comments on this legislation, please contact the oil and gas team on [tax.oilgas@hmrc.gsi.gov.uk](mailto:tax.oilgas@hmrc.gsi.gov.uk).

FINANCE BILL

CLAUSE 11

SCHEDULE 7