

Transferable Tax History Guidance

OT60000 Transferable Tax History: Contents

OT60010 Transferable Tax History: Introduction

The Transferable Tax History (TTH) mechanism allows companies selling an interest in an oil and gas licence on the UK Continental Shelf (UKCS) to transfer some of their tax payment history to the purchaser of those fields. The purchasers will then be able to set the costs of decommissioning the fields against the TTH. This will level the playing field between purchasers and sellers of oil and gas fields, providing new investors in the UK Continental Shelf with certainty on the tax relief available for the decommissioning costs.

The legislation introducing Transferable Tax History [\[link\]](#) applies for transfers of licence interests approved by the Oil & Gas Authority (OGA) on or after 1 November 2018 and this guidance provides an overview and examples of how TTH works.

OT60020 Transferable Tax History: Transactions that can use the TTH mechanism

Any sale of an interest in a UK oil licence that is approved by the OGA on or after 1 November 2018 can apply the TTH mechanism.

A UK oil licence means a licence granted under either:

- Part 1 of the Petroleum Act of 1998 or,
- The Petroleum (Production) Act (Northern Ireland) 1964

The date of completion of the sale of an interest in a UK oil licence is the effective date of any TTH election regardless of the date the election was made.

OT60025 Transferable Tax History: Restrictions on who can enter into transactions which can use the TTH mechanism

To access the TTH mechanism the seller and purchaser must make an election (see OT60050), but there are restrictions on who can make an election.

Companies that are associated with one another (section 271 CTA 2010) are only eligible to make a TTH election where either the hive down condition or the corporate restructuring condition is met.

The **hive down condition** is met where, within a period of 90 days starting with the effective date of the TTH election the purchaser ceases to be associated with the seller or any company associated with the seller. An election that meets the hive down condition is called a “hive down election”.

For example if A and B are associated and make a TTH election on transfer of an asset to B that is effective from 1 December 2019 then B must leave the group A is a member of in the period 1 December 2019 to 28 February 2020.

The **corporate restructuring condition** is met where the purchaser and seller are associated and make an election to transfer TTH and there is either:

- Another TTH election with a non-associated third party (a third party election) that is made either:

- In a period of 90 days ending with the effective date of the election between associated companies or
- In a period of 90 days starting with the effective date of the election between associated companies

For example if A and B are associated and make a TTH election that is effective from 1 December 2019 then the same TTH asset must be subject to a further TTH election with a non-associated third party either:

- in the period from 2 September 2019 to 1 December 2019 or
- in the period 1 December 2019 to 28 February 2020

Or:

- A hive down election was made in respect of the TTH asset now being transferred with TTH in a period within 180 days from the effective date of the hive down election.

For example within Group Z Company A moves an asset to Company B and they make a TTH election on transfer of that asset that is effective from 1 December 2019.

Company B is then sold to Group Y on 1 February 2020 meeting the hive down condition. The original election is a hive down election.

Group Y can now move the asset from Company B in period 1 February 2020 to 28 May 2020 (180 days from the date of the hive down election covers the period 1 December 2019 to 28 May 2020).

OT60030 Transferable Tax History: The start date

Any sale of an interest in a UK oil licence that is approved by the OGA on or after 1 November 2018 can apply the TTH mechanism.

OT60040 Transferable tax History: Details of what can be included as TTH

The tax history that can be transferred from the seller is the ring fence CT (RFCT) profits (and the tax paid on those profits) and as a consequence the associated final taxable adjusted ring fence profits (ARFP) for Supplementary Charge (and the tax paid on those profits).

The initial step is to identify the “reference accounting period” of the seller.

Reference accounting period - this is, at the effective date of the election (the date of the completion of the sale), the seller’s most recent “qualifying accounting period” in respect of which the amendment period (a period of 12 months beginning with the filing date for the accounting period) has ended.

Qualifying accounting period – this is an accounting period (AP) that has “eligible” ring fence profits.

Eligible – Ring fence profits for an accounting period are eligible if:

- CT has been charged at the main ring fence profits rate (and they are not subject to marginal relief)
- At the date the election is made the tax due has been paid in full
- The profits are not included in any other TTH election

Example: A seller has an accounting date of 31 December and sells a TTH asset on 1 December 2018 (the effective date of the election). All APs are chargeable at the main ring fence profits rate and all tax has been paid. The reference accounting period is the year ended 31 December 2015.

The seller can include all, or a portion (either by choice or because the “cap” operates see OT62000), of the RFCT profits for the reference period. Where all the RFCT profits are transferred then all the associated final taxable ARFP subject to Supplementary Charge must also be transferred. The guidance below explains how to apportion the final taxable ARFP for Supplementary Charge where all the RFCT profits are not being transferred.

Other accounting periods

Where all the RFCT profits for the reference accounting period are included in the transfer the seller can include RFCT profits from the next most recent AP with eligible RFCT profits.

No accounting period can be included in a TTH election unless it includes all the eligible RFCT profits from the next following qualifying AP.

Example: Continuing the example above if all eligible RFCT profits for the AP ended 31 December 2015 are included in the TTH election then eligible RFCT profits from 31 December 2014 can also be included. If all eligible RFCT profits from the 2014 AP are included then the eligible RFCT profits from the AP ended 31 December 2013 can be included, and so on.

Where one of the accounting periods does not have eligible ring fence profits, for example because marginal rates apply, then it is possible to jump to the

next period that has eligible ring fence profits. So again, using this example, if there were no eligible ring fence profits for 31 December 2014 the seller can still include eligible RFCT profits from the AP ended 31 December 2013 in the TTH election.

Apportionment of adjusted ring fence profits for Supplementary Charge

In the earliest accounting period included in a TTH election, which may be the reference accounting period, it is possible for the seller to include a portion of the RFCT profits. This can be because the seller chooses to include less than the full amount or because the TTH “cap” has been reached. Where this happens it will be necessary to apportion the associated final taxable ARFP subject to Supplementary Charge. This apportionment should match the proportion of RFCT profits included.

Example: The seller is only transferring RFCT profits from the reference accounting period and is not transferring all of these.

1. APE 31 December 2015
RFCT profits £1,000,000
Final taxable ARFP £1,200,000

Only 50% of the RFCT profits are included (£500,000) in the TTH election so it follows that 50% (£600,000) of the final taxable ARFPs must be included.

2. APE 31 December 2015
RFCT profits £1,000,000
Final taxable ARFP £800,000

Only 50% of the RFCT profits are included in the election (£500,000) so it follows that 50% (£400,000) of the final taxable ARFPs must be included.

OT60050 Transferable Tax History: TTH elections and directions relating to information and declarations the election must contain

** Note that before the Finance Bill becomes law no elections can be made. Please see OT60060 below for guidance during this transitional period. **

TTH elections must contain the following information and details:

- The name and Unique Taxpayer Reference of the seller company
- The name and Unique Taxpayer Reference of the purchaser company
- The TTH asset licence interest and field
- The date of completion of the sale of the TTH asset
- The OGA approval of the transfer of the licence interest
- For each accounting period included in the TTH election the amounts of:
 - Ring fence CT profits, tax rates applied and tax paid

- Final taxable adjusted ring fence profits subject SC, tax rates applied and the tax paid
- A calculation of the TTH “cap”
- Extracts from the DSA that relate to the figures used in the calculation of the “cap”
- A copy of the seller’s Decommissioning Relief Deed, including Alternative Schedules

The election must also be signed by appropriately authorised officers of the companies concerned.

OT60055 Transferable Tax History: Making a TTH election and the time limit

A TTH election will only be valid if both parties submit the election to HMRC by the later of:

- 1 June 2019 or
- the end of a period of 90 days beginning with the day on which the purchaser acquires the TTH asset.

HMRC would prefer the notification to be sent to mailboxes as shown below but please see OT60070 concerning correspondence with HMRC by email before doing so.

LB cases – contactus.largebusinessscotlandandni@hmrc.gsi.gov.uk

Mid-size cases – wmbc.msbupstreamoilgas@hmrc.gsi.gov.uk

Where the seller or purchaser is a Large Business case please send a copy to your CCM.

Emails should be marked “Transferable Tax History Election”

Where an election is being sent by post it should be sent to the following addresses and should be marked “Transferable Tax History Election”.

LB cases Transferable Tax History
 Large Business Support Team
 HM Revenue and Customs
 S1192
 NEWCASTLE
 NE98 1ZZ

Mid-size cases Transferable Tax History
 MSB Oil & Gas
 Cotton House
 7 Cochrane Street
 Glasgow
 G1 1GY

OT60060 Transferable Tax History: Elections for transactions occurring before the TTH legislation is final

Although the TTH mechanism can apply to any sale of an interest in a UK oil licence that is approved by the OGA on or after 1 November 2018 the legislation will not become law until the end of the Parliamentary process. Whilst it will not be possible to make a formal election until the TTH legislation becomes law it would be helpful for HMRC to have the following details to ensure that we can deal appropriately with the tax records of the companies involved:

- The name and Unique Taxpayer Reference of the seller company
- The name and Unique Taxpayer Reference of the purchaser company
- The TTH asset licence interest and field
- The date of completion of the sale of the TTH asset
- For each accounting period included in the TTH election the amounts of:
 - Ring fence CT profits and tax paid that will be transferred
 - Final taxable adjusted ring fence profits subject SC and the tax paid that will be transferred.

HMRC would prefer the notification to be sent to mailboxes as shown below but please see OT60070 concerning correspondence with HMRC by email before doing so

LB cases – contactus.largebusinessscotlandandni@hmrc.gsi.gov.uk
Mid-size cases – wmbc.msbupstreamoilgas@hmrc.gsi.gov.uk

Where the seller or purchaser is a Large Business case please send a copy to your CCM.

Emails should be marked “Notification of Transferable Tax History transaction”

Where a notification is being sent by post it should be sent to the relevant address below and should be marked “Notification of Transferable Tax History transaction”.

| | |
|----------|--|
| LB cases | Notification of Transferable Tax History transaction |
| | Large Business Support Team |
| | HM Revenue and Customs |
| | S1192 |
| | NEWCASTLE |
| | NE98 1ZZ |

Mid-size cases Notification of Transferable Tax History transaction
MSB Oil & Gas
Cotton House
7 Cochrane Street
Glasgow
G1 1GY

Please note that this paragraph of the guidance will be withdrawn as soon as the TTH legislation becomes law and we will tell those companies who have notified us they have undertaken a TTH transaction that they can now make a formal election. If for any reason a formal election is not subsequently made, the notification will have no force and the tax history will not be transferred.

OT60070 Transferable Tax History: Corresponding with HMRC by email

When sending information to HMRC, the sender must ensure they not only send all of the information required for this process but they also take appropriate measures to protect their data.

Sending confidential or sensitive information by email carries a number of risks, which could include interception by third parties, transferring malware, unauthorised contact information and data manipulation in transit. HMRC take the security of your data very seriously, so when sending data via email, please make sure that:

- you only use the mailboxes or contacts provided by HMRC,
- the person sending the data is authorised to act on your behalf
- you are aware of the risks.

OT 60100 Transferable Tax History: Tracking profits of the asset

OT60110 Transferable Tax History: Tracking profits general overview

When a transfer of a TTH asset (a field or an interest in a field which includes TTH) is made the company acquiring the asset is required to track the profits of that asset and return the tracked profits annually to HMRC.

This part of the guidance covers the tracking mechanism as described in [sxxxx- sxxxxx Sch xxFA xx TTH legislation to be inserted](#).

This guidance sets out how the tracking mechanism works and how tracked profits should be calculated.

OT60120 Transferable Tax History: Calculation of tracked profits

Companies are required to track the taxable ring fenced profits or losses of a TTH asset by making just and reasonable apportionments to the receipts, expenses, assets and liabilities of the company.

In some circumstances other companies associated with the purchaser that have an interest in the TTH asset will also be required to track those profits or losses. For example if Company A owns a TTH asset and contracts company B, a connected party, to carry out operational activity on the asset at a mark-up, the profit company B makes from the asset will also be included in company A's tracked profits.

The tracked profits or losses of TTH assets are worked out using normal taxation principles. The legislation simply provides that 'just and reasonable apportionments are to be made of receipts, expenses, assets and liabilities'. Direct costs, such as those subject to a joint venture agreement must be apportioned in full to the TTH asset. Apportionment of indirect costs, such as finance and head office costs may in some cases be made from branch or management accounts.

Where there are no such accounts, apportionment should be made on any basis that produces a sensible result in the circumstances of the company concerned, for example this may in certain circumstances be apportionment by:

- throughput,
- use

See OT60125 for particular guidance on interest and financing costs.

OT60125 Transferable Tax History: Calculation of tracked profits – interest and financing costs

The legislation allows HMRC to specify how apportionments are to be made for financing costs. The guidance at OT22000+ and in particular the guidance at OT22002 must be followed to the extent that, for tracking profits and losses, the arm's length standard applies to the TTH asset as if it was a separate business.

Example – whole company stylised balance sheet

| Liabilities | | Assets | |
|---------------------------------|------|--------------|------|
| Borrowings to acquire TTH asset | 400 | TTH asset | 400 |
| Share capital | 600 | Other assets | 600 |
| | | | |
| | 1000 | | 1000 |

Considered as a whole the company is not thinly capitalised. However when the TTH asset is treated as a separate business it is clear that the asset is entirely financed by debt whilst the company (or the UK group as necessary) has, or should have, equity capital to finance part of the TTH asset or operations.

The application of an arm's length standard to the TTH asset would require it to be funded partly by equity. Accordingly, only the amount of interest that would have been allowable if arm's length terms had applied is allowable in calculating the tracked profits or losses of the TTH asset. In applying the arms-length principle in these circumstances the guidance on Thin Capitalisation at [INTM413000](#) should be followed. It should also be noted, for the reasons highlighted by the example above, that this approach needs to be applied to third party debt as well as related party debt.

OT60130 Transferable Tax History: Basic example of tracking

Company A sells its 100% holding in a field to company B and transfers its Tax history of £5,000 in the sale. From the date of transfer B then has to track the profits of the field and show this alongside their tax computation

| Year | Profit /loss for the year | Total Net Tracked Profits |
|------|---------------------------|---------------------------|
| 1 | 1,000 | 1,000 |
| 2 | 900 | 1,900 |
| 3 | -500 | 1,400 |
| 4 | 100 | 1,500 |
| 5 | 300 | 1,800 |

If the decommissioning expenditure in year 6 was £6,000 then the total TTH activated and available for use by the buyer would be £4,200 - calculated as £6,000 less £1,800.

Details of how this activated amount can be used is covered at **OT XXXXXX loss carry back guidance.**

Any losses of the TTH asset made in a year will be netted off when calculating Total Net Tracked Profits (TNTP). There are no loss rules equivalent to those for Corporation tax when calculating tracked profits.

An asset cannot make a tracked loss overall. Where the total net tracked profits would be negative, the total net tracked profits are treated as zero.

OT60135 Transferable Tax History: Tracking of multiple TTH assets

When a company buys multiple assets with TTH attached they will be required to track the profits for each asset separately. For example

Company A purchases 10% of Asset 1 with TTH attached in April 2019 and 20% of Asset 2 with TTH attached in September 2019, both from Company B.

Company A will be required to track the profits of the two assets separately. The maximum amount of TTH transferred for each asset is subject to the TTH cap (see OT62000). Both the TTH amount and tracking must be kept separate.

This is also the case where multiple assets are purchased in one transaction. For example, if Company A buys a cluster of fields from Company B including 5% of Asset 1 , 10% of Asset 2 and 20% of Asset 3.

The amount of TTH transferred for each asset will be subject to individual caps. The TTH will then be allocated to each asset individually.

The profits for each asset also need to be tracked separately and cannot be pooled together, this means that the decommissioning costs of Asset 1 will be compared to the tracked profit of Asset 1 to determine how much TTH is activated. For example say Asset 1 has TTH of 8,000, Asset 2 has TTH of 4,000 and Asset 3 has TTH of 2,000

| Year | Tracked profit | | |
|------|----------------|---------|---------|
| | Asset 1 | Asset 2 | Asset 3 |
| 1 | 3,000 | 4,000 | 4,500 |
| 2 | 1,500 | 3,800 | 4,000 |
| 3 | 300 | 3,600 | 3,800 |
| 4 | Decom (10,000) | 3,400 | 3,500 |
| 5 | | 3,000 | 2,800 |

In year 4 Assets 2 and 3 are still producing however Asset 1 has ceased production and has decommissioning expenditure of 10,000. Total net tracked profits of Asset 1 were 4,800 meaning total activated TTH for Asset 1 in year 4 is 5,200.

This activated TTH of Asset 1 would be made available for the company to use as per the loss relief rules at [OT XXXXXX loss relief guidance](#).

OT60140 Transferable Tax History: Tracking of multiple holdings of the same asset containing TTH

TTH will relate to a specific TTH election for a specific TTH asset from a specific seller. Therefore, profit tracking for each interest of the same asset purchased separately, must be kept separate and cannot be pooled.

The example below shows how this works:

Company A holds 20% of field X
Company B holds 25% of field X,

Company C holds 15% of field X. The rest is held by four other participators each holding a 10% stake.

Company B purchases Company A's share of field X with TTH on 31 January 2019. From that date Company B must track the profits from the purchased 20% interest in field X.

On the 31 January 2020, Company B then purchases Company C's share of field X along with TTH. At this point it will be a requirement for Company B to track profits from both the acquired interests separately but it does not need to track profits from its original 25% interest because it will not have any associated TTH.

When it comes to activation of the TTH for Company B when decommissioning expenses occur in the same field they should be set off against tracked profits pro-rata based on the percentage holding.

In the example above 25/60ths of the decommissioning costs of the company representing the original holding is disregarded for TTH activation purposes.

20/60ths of the decommissioning costs go against the profits tracked for the 20% field interest purchased from Company A.

15/60ths goes against the 15% field interest purchased from Company C.

It is intended this will look as follows if the total decommissioning cost of the company is £10,000 :

| Portion of interest | TTH transferred | TNTP | Portion of decommissioning costs | TTH activated |
|---------------------|-----------------|-------|----------------------------------|----------------------------|
| 25% | Nil | N/A | $25/60 \times 10,000 =$ 4,167 | Nil |
| 20% from Co A | 2,500 | 1,200 | $20/60 \times 10,000 =$ 3,333 | $3,333 - 1,200 =$ 2,133 |
| 15% from Co C | 1,750 | 750 | $15/60 \times 10,000 =$ 2,500 | $2,500 - 750 =$ 1,750 |
| Total 60% | 4,250 | 1,950 | 10,000 | 3,883 |

OT60145 Transferable Tax History: Tracking following cessation of production

If a field is purchased with TTH, and there is tariff generating infrastructure associated with that asset which continues to be used after cessation of production from the field, the tariff income and expenses will be included in the calculation of the tracked profits.

Where the field is decommissioned at a time where the pipeline is still operational there will be a “moving activation point” with the profits/losses associated with the pipeline after cessation of production being added onto the tracked profits, and in effect year on year moving the activation point. This would be the same for any post cessation expenses. An example of this is shown below:

| Year | Profits | Tariff Income | Total Profits | TNTP | Decommissioning | Cumulative Decommissioning (CD) | CD-TNTP | Activated TTH |
|------|---------|---------------|---------------|-------|-----------------|---------------------------------|---------|---------------|
| 1 | 900 | 100 | 1,000 | 1,000 | 0 | 0 | -1,000 | |
| 2 | 900 | 100 | 1,000 | 2,000 | 0 | 0 | -2,000 | |
| 3 | 1,400 | 100 | 1,500 | 3,500 | 0 | 0 | -3,500 | |
| 4 | 1,400 | 100 | 1,500 | 5,000 | 0 | 0 | -5,000 | |
| 5 | 0 | 100 | 100 | 5,100 | 1,000 | 1,000 | -4,100 | |
| 6 | 0 | 100 | 100 | 5,200 | 3,000 | 4,000 | -1,200 | |
| 7 | 0 | 100 | 100 | 5,300 | 2,500 | 6,500 | 1,200 | 1,200 |
| 8 | 0 | 150 | 150 | 5,450 | 0 | 6,500 | 1,050 | 1,050 |
| 9 | 0 | 150 | 150 | 5,600 | 0 | 6,500 | 900 | 900 |
| 10 | 0 | 200 | 200 | 5,800 | 0 | 6,500 | 700 | 700 |
| 11 | 0 | 0 | 0 | 5,800 | 1,200 | 7,700 | 1,900 | 1,900 |

Where TTH has been activated but not claimed and further tracked profits are generated by the field the activated TTH should be reduced accordingly by “deactivating” the activated TTH by the amount of any additional profits.

OT60150 Transferable Tax History: Losses in year

When a field makes a loss in the year this will not be carried back or forward in the tracked profits as it is not subject to the formal CT loss rules, but any loss will be netted off against the total tracked profits of the field.

For example if Company A is tracking profits of a field, the tracked profits at the end of a 6 year period where both profits and losses have been made will show:

| Year | Profit (loss) from field | Total Net Tracked Profits |
|------|--------------------------|---------------------------|
| 1 | 1,000 | 1,000 |

| | | |
|---|---------|-------|
| 2 | 2,000 | 3,000 |
| 3 | (1,500) | 1,500 |
| 4 | 500 | 2,000 |
| 5 | (100) | 1,900 |

If the company then moves on to decommission it will have to work through 1900 of tracked profits before TTH can be activated.

OT60155 Transferable Tax History: Reporting tracked profits to HMRC

Where a company acquires a TTH asset it must submit calculations of tracked profits to HMRC alongside its tax return. The requirement to track is subject to the Senior Tracking Officer legislation as explained at [OT XXXXXX STO guidance](#). By submitting the joint election, the buyer becomes subject to this legislation.

The CT 600 (i) has been modified to include boxes to declare a company's net tracked profits for the year. Companies should also submit details of how the tracked profits were calculated in their tax computation at the time of submitting their return.

The entries on the CT600(i) and in computations that set out the tracked profits position do not form part of the return and cannot be enquired into. HMRC only have the power to enquire into the tracked profits as part of an enquiry into the TTH claim as a whole at the point of decommissioning. More details of HMRC's enquiry powers at [OT XXXXXX](#) and the record keeping requirements for TTH can be found at [OT XXXXXXXX](#).

OT60160 Transferable Tax History: Commencement of Tracking

The date that the purchasing company is required to commence tracking the profits of the asset is the date of completion of the sale.

OT60170 Transferable Tax History: Senior Tracking Officer Certificate

The Senior Tracking Officer must submit a certificate each year confirming that he or she has taken all reasonable steps to ensure that the company has suitable arrangements in place to calculate the profits attributable to the TTH asset on a just and reasonable basis.

HMRC would normally expect the certificate to be submitted alongside the record of tracked profits accompanying the company's corporation tax return. We would normally expect the company to provide HMRC with the name(s) of the STO(s) for the period at the same time.

There is no set format for the certificate. However, an appropriate adaptation of the form of words used in the senior accounting officer guidance at [SAOG15300](#) would likely be sufficient.

OT62000 Transferable Tax History: TTH Cap

The total amount of TTH that can be transferred is limited to the lower of;

- The seller company's total eligible ring fence profits (see OT60040) from 17 April 2002 to the end of the reference accounting period (see OT60040), and
- The 'Uplifted Decommissioning Costs Estimate' for the asset (see OT62100).

OT62100 Transferable Tax History: Uplifted Decommissioning Costs Estimate

The Uplifted Decommissioning Costs Estimate (UDCE) is calculated by doubling the estimated decommissioning costs (the 'net cost amount') associated with the TTH asset, after making any such adjustments as may be required in accordance with paragraph X of Sch X to FA19.

The 'net cost amount'

The net cost amount is the estimate of the decommissioning costs of the field at the time of the election, based on the estimate in a relevant decommissioning security agreement (DSA). There are a number of different types of DSA, including ones between some or all of the licensees in a particular field, and bilateral DSAs between a current and former licence holder agreed at the time of the licence sale. Broadly, any commercially agreed DSA which provides an estimate of decommissioning costs and provides for security to be posted in respect of the parties' obligations to decommission the field can be a qualifying DSA.

For a DSA to be a "qualifying" DSA for TTH the seller must be a party to the agreement and at least one of the other parties must not be associated with the seller and the underlying estimates of decommissioning costs must be reasonable.

Where there is only one DSA for the TTH asset, and provided this DSA was prepared within the 12 months prior to the transfer, the most recent approved estimate of decommissioning costs in that DSA should be used.

Where there are multiple DSAs, then the lowest estimate of decommissioning costs in any of those DSAs prepared within the 12 months prior to the transfer should be used.

If a field does not have a DSA, or no estimate of decommissioning costs has been made in the 12 months prior to the transfer, the parties to the transfer may agree to make one at the time of the transfer, allowing them to use this figure as the net cost amount. If they do not agree a DSA, or an estimate of the decommissioning costs within the 12 months prior to the transfer, the net

cost amount is nil. Therefore, the DSA cap will be nil, and so no TTH can be transferred.

OT62200 Transferable Tax History: Adjustments to the Net Cost Amount

The net cost amount must be adjusted before it is doubled to arrive at the UDCE, which caps the amount of TTH that can be transferred.

These adjustments are there to ensure that the cap is applied consistently which reduces the scope for manipulation.

The following adjustments must be made:

- Any adjustment for discounting should be removed.
- Any risk factor or other assumptions about possible risk of cost increases should be removed.
- Any adjustment for inflation should be removed, and replaced with a 'standardised inflation adjustment' in line with HMRC guidance at OT62300.

These adjustments ensure that all companies are working from the same basic position, which is a reasonable estimate of the costs of decommissioning. The doubling of the adjusted net cost amount to arrive at the UDCE is intended to allow for the risk that costs are uncertain and could increase. This provides a generous cap which at the same time puts companies on an even footing.

OT62300 Transferable Tax History: Standardised Inflation Adjustment

Predicting future inflation is inherently uncertain. To avoid the risk of manipulation, which could allow a company to gain an advantage over other companies, a standardised adjustment for inflation should be allowed

The standardised inflation adjustment is calculated as follows:

1. Take the annual percentage increase in the Producer's Price Index (PPI), as published by the UK Office of National Statistics for each of the most recent three years ending 31 March, including the current year if a figure is available.
2. Take the sum of the annual percentage increases over those three years and divide by three.
3. Assume that this figure will be the rate of inflation for each year after the transaction, and apply to the net cost amount (after all other adjustments required as a consequence of para X have been applied)

on a cumulative basis for each year until the expected date of the expenditure.

OT62400 Transferable Tax History: DSA estimate must be reasonable

DSAs are third party agreements. We would therefore expect them to be prepared on a commercial basis and therefore to provide a reasonable estimate of the present day costs of decommissioning, subject to the adjustments described at OT62200.

However, if you believe that the estimates used in the DSA are not reasonable you should seek advice from the Oil and Gas Tax policy and technical team in BAI.

In considering whether the estimates used in the DSA are a reasonable estimate of the costs of decommissioning the asset, you can refer to available regulatory and commercial data from third party sources about the likely costs of decommissioning the asset in question.