



Oil Taxation Act 1975

1975 CHAPTER 22

PART I

PETROLEUM REVENUE TAX

3 Allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure).

- (1) Subject to the provisions of this section and Schedules 4, 5 and 6 to this Act, the expenditure allowable under this section for any oil field is any expenditure (whether or not of a capital nature) which, not being expenditure to which section 4 of this Act applies, is incurred by a person at or before the time when he is a participator in the field to the extent [^{F1}subject to subsection (7) below] that it is incurred for one or more of the following purposes, namely—
- (a) searching for oil anywhere within the area of the field as subsequently determined under Schedule 1 to this Act or not more than 5,000 metres beyond the boundary of that area;
 - (b) making to the [^{F2}OGA] any payment under or for the purpose of obtaining a relevant licence, not being a payment by way of royalty or other periodic payment;
 - (c) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) the extent or characteristics of any oil-bearing area wholly or partly included in the field, or what the reserves of oil of any such oil-bearing area are;
 - (d) winning oil from the field;
 - (e) measuring the quantity of oil won or to be won from the field;
 - (f) in the case of oil won from the field that was so won from strata in the sea bed and subsoil of either the territorial sea of the United Kingdom or a designated area, transporting it
 - [^{F3}(i) to the place where it is first landed in the United Kingdom [^{F4}[^{F5}or
 - (ii) to the place in the United Kingdom or, in the case of oil first landed in another country, to the place in that or any other country (other than the United Kingdom)]

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at which the seller in a sale at arm's length could reasonably be expected to deliver it or, if there is more than one place at which he could reasonably be expected to deliver it, the one nearest to the place of extraction];

- (g) the initial treatment or initial storage of oil won from the field;
- (h) disposing of any oil won from the field which is disposed of crude in sales at arm's length;

[^{F6}(hh) obtaining an abandonment guarantee, as defined in section 104 of the Finance Act 1991]

[^{F7}(i) closing down, decommissioning, abandoning or wholly or partially dismantling or removing any qualifying asset;

- (j) carrying out qualifying restoration work consequential upon the closing down of the field or any part of it.]

[^{F8}(1A) In this section “qualifying asset” has the same meaning as in the Oil Taxation Act 1983; and, in the case of a qualifying asset which was leased or hired, the reference in subsection (1)(i) above to decommissioning includes a reference to carrying out any restoration or similar work which is required to be carried out to comply with the terms of the contract of lease or hire.

(1B) In subsection (1)(j) above “qualifying restoration work”, in relation to a participator in an oil field, means—

- (a) restoring (including landscaping) land on which a qualifying asset is or was situated; or
- (b) restoring the seabed (including the subsoil thereof) on which a qualifying asset is or was situated.]

[^{F9}(1C) In any case where—

- (a) any expenditure incurred by a participator in a taxable field would, apart from this subsection, be allowable for the field under subsection (1)(i) or (j) above, and
- (b) the qualifying asset that is relevant to the incurring of that expenditure has at some time been used otherwise than [^{F10}for a qualifying purpose],

only the relevant portion of the expenditure is allowable for the field under subsection (1)(i) or (j) above.

(1D) In subsection (1C) above “the relevant portion” of the expenditure is the portion of the expenditure that it is just and reasonable to apportion to use of the asset that is use [^{F11}for a qualifying purpose].

[In subsections (1C) and (1D) a reference to use for a qualifying purpose is a reference ^{F12}(1DA) to—

- (a) use in connection with the taxable field mentioned in subsection (1C), and
- (b) other use in—
 - (i) the United Kingdom,
 - (ii) the territorial sea of the United Kingdom, or
 - (iii) a designated area,

except use wholly or partly for an ineligible oil purpose.

(1DB) In subsection (1DA)(b) the reference to use for an ineligible oil purpose is a reference to—

- (a) use in connection with an oil field other than the taxable field mentioned in subsection (1C), and

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- (b) use for any other purpose (apart from a purpose falling within section 3(1)(b)) of a separate trade consisting of activities falling within ^{F13}the definition of “oil-related activities” in section 274 of CTA 2010].
- (1DC) In subsections (1DA) and (1DB) a reference to use in connection with a taxable field or other oil field includes use giving rise to receipts which, for the purposes of the Oil Taxation Act 1983, are tariff receipts.]
- (1E) Subsections (1C) and (1D) above have effect subject to the transitional provisions in section 102(5) to (11) of the Finance Act 2001.]
- (2) Subject to the following provisions of this section and Schedules 4, 5 and 6 to this Act, where any amount is ^{F14}... ^{F15}under section 77 of the Income Tax (Trading and Other Income) Act 2005 (“ITTOIA 2005”)]^{F16}or section 77 of the Corporation Tax Act 2009] (statutory redundancy payments) allowable as a deduction in computing for any accounting period the profits or losses of the relevant trade carried on by a person who was in that period a participator in an oil field, or would be so allowable under ^{F17}... ^{F18}that section] if it were not otherwise so allowable, then that amount ^{F19}... shall be expenditure allowable under this section for that field.
- In this subsection “the relevant trade”, in relation to a participator in an oil field, means the separate trade which by virtue of ^{F20}section 16 of ITTOIA 2005 or section 279 of CTA 2010 consists of activities carried on by the participator that fall within the definition of “oil-related activities” in section 16(2) of ITTOIA 2005 or section 274 of CTA 2010 or which would have so consisted if those sections] had additionally had effect as regards all past chargeable periods ^{F21}(as defined by section 1119 of CTA 2010)].
- (3) Expenditure is not allowable under this section for any oil field if, or to the extent that, it has been allowed under Schedule 5 or 6 to this Act for any other oil field or has been allowed under Schedule 7 to this Act in connection with any oil field ^{F22}but where expenditure allowable under section 5A ^{F23}or section 5B] of this Act has been allowed on a claim under Schedule 7 to this Act, nothing in this subsection shall prevent a claim being made for an allowance under this section in respect of the same expenditure unless the person making the claim is the participator who made the claim under that Schedule].
- (4) The expenditure allowable under this section for any oil field does not include—
- (a) expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit; or
 - (b) the cost of acquiring any land or interest in land, other than the cost of making to the ^{F24}OGA] any payment falling within subsection (1)(b) above; or
 - (c) the cost of acquiring or erecting any building or structure on land, except—
 - (i) a structure to be subsequently placed on the sea bed ^{F24}. . . ; or
 - (ii) a building or structure used or to be used wholly in the process of winning oil from strata in or under land or of measuring the quantity of oil won or to be won from such strata; or
 - (iii) a building or structure used or to be used for initial treatment or initial storage of oil; or
- ^{F25}(iv) a building or structure used or to be used for transporting such oil as is mentioned in subsection (1)(f) above from the place where it is first landed ^{F26}to the place in the United Kingdom or, in the case of oil first landed in another country, to the place in that or any other

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country (other than the United Kingdom)] at which the seller in a sale at arm's length could reasonably be expected to deliver it or, if there is more than one place at which he could reasonably be expected to deliver it, the one nearest to the place of extraction; or]

- (d) any expenditure wholly or partly depending on or determined by reference to the quantity, value or proceeds of, or the profits from, oil won from the field; . . . ^{F27}
- (e) any payment made for the purpose of obtaining a direct or indirect interest in oil won or to be won from the field, other than a payment made to the [^{F2}OGA]; [^{F28}or
- (f) any payment made in pursuance of a notice under section 77C of the Taxes Management Act 1970 (notice requiring licence-holder to pay unpaid tax assessed on non-UK resident);]

but nothing in paragraph (e) above shall be taken to apply to a payment made by a participator in pursuance of a contract whereby expenditure incurred for any of the purposes mentioned in subsection (1) above is to be shared between that participator and any of the other participators in the field.

- (5) [^{F29}Subject to subsection (5A) below] expenditure allowable under this section for an oil field qualifies for supplement under section 2(9)(b)(ii) or (c)(ii) of this Act if and to the extent that it is incurred for one or more of the following purposes, namely—
 - (a) bringing about the commencement of the winning of oil from the field or the commencement of the transporting of oil won from it to the United Kingdom [^{F30}or another country];
 - (b) ascertaining (whether before or after the determination of the field under Schedule 1 to the Act) any of the matters mentioned in subsection (1)(c) above;
 - (c) carrying out works for, or acquiring an asset or an interest in an asset to be used for the purpose of, substantially improving the rate at which oil can be won or transported to the United Kingdom [^{F30}or another country] from the field, or preventing or substantially reducing a decline in that rate; or
 - (d) providing any installation for the initial treatment or initial storage of oil won from the field;

but expenditure incurred in hiring an asset shall not so qualify unless the asset is used in carrying out works for a purpose mentioned in paragraph (a), (b) or (c) above or works for the provision of any such installation as is mentioned in paragraph (d) above.

[^{F31}(5A) Where expenditure incurred in relation to an asset is incurred—

- (a) in part for one of the purposes specified in subsection (5) above (or for what would be one of those purposes if section 10(2) below were disregarded), and
- (b) in part for the purpose of enabling the asset to be used in a way giving rise to tariff receipts within the meaning of the Oil Taxation Act 1983,

then, to the extent that the expenditure is incurred for the purpose mentioned in paragraph (b) above, it shall be treated for the purposes of this Part of this Act as incurred for one of the purposes specified in subsection (5) above.]

[^{F32}(5B) Expenditure incurred by a participator in an oil field shall be taken to be incurred for the purpose mentioned in paragraph (hh) of subsection (1) above if, and only if,—

- (a) it consists of fees, commission or incidental costs incurred wholly and exclusively for the purposes of obtaining an abandonment guarantee; and

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- (b) the abandonment guarantee is obtained in order to comply with a term of a relevant agreement relating to that field under which the participator is required to provide security (whether or not specifically in the form of an abandonment guarantee) in respect of his liabilities to contribute to field abandonment costs;

and expressions used in this subsection shall be construed in accordance with section 104 of the Finance Act 1991.]

- (6) [^{F33}Without prejudice to any apportionment under [^{F34}subsections (1C) and (1D)] above] for the purposes of subsections (1) and (5) above [^{F33}other than paragraph (hh) of subsection (1)] expenditure incurred partly for one or more of the purposes there mentioned and partly not shall [^{F29}subject to subsection (7) below] be apportioned in such manner as is just and reasonable [^{F35}and where, in the case of oil won as mentioned in paragraph (f) of subsection (1) above, expenditure is incurred in transporting—

- (a) oil first landed in the United Kingdom to a place in the United Kingdom which is not the nearest place referred to in sub-paragraph (ii) of that paragraph, or
(b) oil first landed in another country to a place in that or any other country (other than the United Kingdom) which is not the nearest place so referred to, so much of that expenditure as does not exceed what would have been the expenditure incurred in transporting it to that nearest place shall be regarded as falling within the said paragraph (f).]

[^{F31}(7) In any case where—

- (a) expenditure which is incurred by any person as mentioned in subsection (6) above is so incurred in connection with a long-term asset, and
(b) the long-term asset gives rise to receipts which, for the purposes of the Oil Taxation Act 1983, are tariff receipts of that person attributable to the field for which any of that expenditure is so allowable,

then, so far as relates to that field, in making in accordance with subsection (6) above any apportionment for the purposes of either or both of subsections (1) and (5) above, the whole of the relevant expenditure shall be apportioned to one or more of the purposes mentioned in that subsection or, as the case may be, those subsections.

(8) In subsection (7) above—

- (a) “long-term asset” means an asset whose useful life continues after the end of the claim period for which a claim is first made for an allowance in respect of expenditure incurred in connection with the asset; and
(b) “relevant expenditure” means that portion of the expenditure in connection with the asset which is reasonably attributable to the use of the asset which gives rise to the receipts referred to in subsection (7)(b) above.]

Textual Amendments

- F1** Words inserted by [Oil Taxation Act 1983 \(c. 56\), s. 5\(1\)\(a\)](#) with respect to expenditure incurred after 30 June 1982
- F2** Word in s. 3 substituted (1.10.2016) by [The Petroleum \(Transfer of Functions\) Regulations 2016 \(S.I. 2016/898\), regs. 1\(2\), 4\(3\)](#)
- F3** Word in s. 3(1)(f) inserted (16.7.1992 but with effect in accordance with [s. 74\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 1992 \(c. 48\), s. 74, Sch. 15 para. 2\(1\)\(a\)](#)
- F4** Words inserted by [Finance \(No. 2\) Act 1979 \(c. 47\), s. 20\(1\)](#) in relation to expenditure claimed after 31 December 1978

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- F5** S. 3(1)(f)(ii) and preceding word substituted (16.7.1992 but with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), s. 74, **Sch. 15 para. 2(1)(b)**
- F6** S. 3(1)(hh) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(2)**(with respect to expenditure incurred on or after 19.3.1991).
- F7** S. 3(1A)-(1D) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(4)(8)**.
- F8** S. 3(1)(i)(j) substituted for para. (i) by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(3)**(with respect to expenditure incurred after 30.6.1991).
- F9** S. 3(1C)-(1E) substituted (11.5.2001 with effect as mentioned in s. 102(4) of the amending Act) for s. 3(1C)(1D) by 2001 c. 9, **s. 102(1)**
- F10** Words in s. 3(1C)(b) substituted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 41 para. 1(2)**
- F11** Words in s. 3(1D) substituted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 41 para. 1(3)**
- F12** S. 3(1DA)-(1DC) inserted (with effect in accordance with Sch. 41 para. 4 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 41 para. 1(4)**
- F13** Words in s. 3(1DB)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 161(2)** (with Sch. 2)
- F14** Words in s. 3(2) repealed (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), Sch. 1 para. 314(a), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)
- F15** Words in s. 3(2) inserted (6.4.2005) by Income Tax (Trading and Other Income) Act 2005 (c. 5), s. 883(1), **Sch. 1 para. 392(a)(i)** (with Sch. 2)
- F16** Words in s. 3(2) inserted (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 314(b)** (with Sch. 2 Pts. 1, 2)
- F17** Words in s. 3(2) repealed (1.4.2009) (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), Sch. 1 para. 314(c), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)
- F18** Words in s. 3(2) inserted (6.4.2005) by Income Tax (Trading and Other Income) Act 2005 (c. 5), s. 883(1), **Sch. 1 para. 392(a)(ii)** (with Sch. 2)
- F19** Words in s. 3(2) repealed (6.4.2005) by Income Tax (Trading and Other Income) Act 2005 (c. 5), s. 883(1), Sch. 1 para. 392(a)(iii), **Sch. 3** (with Sch. 2)
- F20** Words in s. 3(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 161(3)(a)** (with Sch. 2)
- F21** Words in s. 3(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 161(3)(b)** (with Sch. 2)
- F22** Words inserted by Finance Act 1983 (c. 49), **s. 37(2)** and Sch. 8 Part II para. 2
- F23** Words inserted by Finance Act 1987 (c. 16), **s. 64(2)** and Sch. 13 Part II para. 2
- F24** Words in s. 3(4)(c)(i) repealed (16.7.1992 but with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), ss. 55(3), 74, 82, Sch. 15 para. 2(2)(a), **Sch. 18 Pt. VIII**
- F25** S. 3(4)(c)(iv) added by Finance Act 1981 (c. 35), **s. 119(1)** in relation to any expenditure claimed after 31 December 1978
- F26** Words in s. 3(4)(c)(iv) substituted (16.7.1992 with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), **s. 74**, Sch. 15 para. 2(2)(b)
- F27** Word repealed by Finance Act 1984 (c. 43), **ss. 124(7), 128(6)** and Sch. 23 Part XIV
- F28** S. 3(4)(f) and preceding word substituted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 7 para. 10** (with Sch. 9 paras. 1-9, 22)
- F29** Words inserted by Oil Taxation Act 1983 (c. 56), **s. 5** with respect to expenditure incurred after 30 June 1982
- F30** Words in s. 3(5)(a)(c) inserted (16.7.1992 with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), **s. 74**, Sch. 15 para. 2(3)
- F31** S. 3(5A)(7)(8) inserted by Oil Taxation Act 1983 (c. 56), **s. 5** with respect to expenditure incurred after 30 June 1982
- F32** S. 3(5B) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(5)(8)**.
- F33** Words in s. 3(6) inserted by Finance Act 1991 (c. 31, SIF 63:1), **s. 103(6)(8)**.

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- F34** Words in s. 3(6) substituted (11.5.2001 with effect as mentioned in s. 102(4) of the amending Act) by 2001 c. 9, s. 102(2)
- F35** Words and paragraphs in s. 3(6) added (16.7.1992 with effect in accordance with s. 74(5) of the amending Act) by Finance (No. 2) Act 1992 (c. 48), s. 74. Sch. 15 para. 2(4)

Modifications etc. (not altering text)

- C1** See Oil Taxation Act 1983 (c. 56), Sch. 1 para. 3 and Sch. 4 para. 10
- C2** See Income and Corporation Taxes Act 1988 (c. 1, SIF 63:1), s. 495
- C3** S. 3 explained by Finance Act 1991 (c. 31, SIF 63:1), s. 104(1)(2).
S. 3 modified (3.5.1994) by 1994 c. 9, ss. 231, 234, Sch. 22 Pt. II para. 12(2)
S. 3 restricted (27.7.1999 with application as mentioned) by 1999 c. 16, s. 95(2)(9)(10)
- C4** See Oil Taxation Act 1983 (c. 56), s. 3(6)
- C5** See Finance Act 1980 (c. 48), s. 106 and Sch. 17
- C6** See Finance Act 1980 (c. 48), s. 109 regarding fractionation expenditure incurred after 31 December 1979
- C7** S. 3(5)(c) excluded (3.5.1994) by 1994 c. 9, s. 232(4)(a)
- C8** S. 3(5)(d) excluded (3.5.1994) by 1994 c. 9, s. 232(4)(a)
- C9** S. 3(5B) explained by Finance Act 1991 (c. 31, SIF 63:1), s. 104(5)

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