Finance Act 2006

2006 CHAPTER 25

PART 5

OIL

New basis for determining market value

146 New basis for determining the market value of oil

(1) In OTA 1975, in Schedule 3 (petroleum revenue tax: miscellaneous provisions) before paragraph 2 (definition of market value of oil) insert—

"Determination of market value: the notional delivery day for a quantity of oil

1A (1) This paragraph has effect for determining, for the purposes of this Schedule, the day which is the "notional delivery day" in the case of any particular quantity of oil of any particular kind whose market value falls to be determined in accordance with the provisions of this Schedule in the case of any chargeable period.

(2) The notional delivery day need not be a day in the chargeable period.

(3) In the case of a quantity of oil which, at the end of the chargeable period,—

(a) has neither been disposed of nor relevantly appropriated in the period, or

(b) has been disposed of but not delivered in the period,

the notional delivery day is the last business day of the chargeable period.

(4) In the case of—

(a) a quantity of oil won and disposed of which is delivered on a day in the chargeable period, or

(b) a quantity of oil—

(i) relevantly appropriated on a day in the chargeable period, but

(ii) not disposed of in the chargeable period,

the notional delivery day is to be determined in accordance with sub-paragraphs (5) to (7) below.

(5) If that oil is—

(a) oil transported by ship from the place of extraction to a place in the United Kingdom or elsewhere, or

(b) oil transported by pipeline to a place in the United Kingdom and loaded on to a ship there,

and there is a loading slot for it (see sub-paragraph (8)), the notional delivery day is the middle day of the loading slot.

(6) If sub-paragraph (5) above does not apply to that oil, then—

(a) if it is oil delivered on a day in the chargeable period, the notional delivery day is the date of the delivery, or

(b) if it is oil relevantly appropriated on a day in the chargeable period, the notional delivery day is the date of the appropriation.

(7) The Treasury may by regulations make provision for or in connection with substituting as the notional delivery day in such circumstances as may be prescribed—

(a) in the case of oil transported by ship from the place of extraction to a place in the United Kingdom or elsewhere, the date of completion of load, or

(b) in the case of oil transported by pipeline to a place in the United Kingdom and loaded on to a ship there, the date of the bill of lading.

(8) The "loading slot" for any oil is the period of three days within which the loading of the oil on to the ship is or was to take place—

(a) as duly published by the operator of the facility at which that loading is or was to take place (unless paragraph (b) below applies), or

(b) as subsequently finally duly varied to give effect to any modifications duly notified to that operator by the participator concerned.

(9) In sub-paragraph (8) above, "duly" means in accordance with the arrangements for the time being governing the time and manner of—

(a) publication, or variation, of the final loading schedule for the calendar month in which loading is or was to take place, or

(b) notification of modifications to that schedule,

and, in any case, before the end of the calendar month immediately preceding that in which loading is to take place.

(10) If the Treasury consider that, for the purpose of defining "loading slot", any period of days for the time being specified by or under this Act as the period of days within which loading of oil on to a ship is to take place is, or is to be, no longer appropriate, they may by regulations make provision for, or in connection with,—

(a) varying the number of days in the period,

(b) determining the day that is to be the notional delivery day if the number, as varied, is an even number.

The power conferred by this sub-paragraph includes power to make amendments to, or modifications of, this Schedule.".

(2) Paragraph 2 of that Schedule (definition of market value of oil) is amended as follows.

(3) In sub-paragraph (1) (market value of oil in any calendar month to be determined in accordance with the paragraph) for "any oil in any calendar month" substitute "any particular quantity of oil of any kind on any day".

(4) After sub-paragraph (1) insert—

"(1A) This paragraph makes different provision according to whether the oil is—

(a) Category 1 oil of any kind, or

(b) Category 2 oil of any kind.

(1B) For the purposes of this Act—

(a) Category 1 oil is oil of any of one or more kinds specified as such in regulations made for the purpose by the Board;

(b) Category 2 oil is oil of any other kind.

(1C) The Board may specify oil of any particular kind as Category 1 oil only if they are satisfied that reports of prices for sales of oil of that kind are published and widely available (whether or not on payment of a fee).".

(5) For sub-paragraph (2) substitute—

"(2) The market value of any particular quantity of Category 1 oil of any kind is the price for which that quantity of oil of that kind might reasonably have been expected to be sold under a contract of sale that meets the following conditions—

(a) the contract is for the sale of the oil at arm's length to a willing buyer;

(b) the contract is for delivery of a single standard cargo of the oil;

(c) the contract specifies a period of three days within which loading of the oil is to take place and that period includes the notional delivery day for the actual oil;

(d) the contract requires the oil to have been subjected to appropriate initial treatment before delivery;

(e) the contract requires the oil to be delivered—

(i) in the case of oil extracted in the United Kingdom, at the place of extraction; or

(ii) in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom or another country at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction.

The terms as to payment which are to be implied in the contract are those which are customarily contained in contracts for the sale at arm's length of oil of the kind in question.

(2AA) The market value of any particular quantity of Category 2 oil of any kind is the price for which that quantity of oil of that kind might reasonably have been expected to be sold under a contract of sale that meets the following conditions—

(a) the contract is for the sale of the oil at arm's length to a willing buyer;

(b) the contract provides for delivery of the oil on the notional delivery day for the actual oil or within such period that includes that day as is normal under a contract at arm's length for the sale of oil of that kind (or, if there is more than one such period, the shortest of them);

(c) the contract is made on a date such that the period between that date and the notional delivery day for the actual oil is the normal period between contract and delivery in the case of a contract at arm's length for the sale of oil of that kind (or, if there is more than one such period, the shortest of them);

(d) the contract requires the oil to have been subjected to appropriate initial treatment before delivery;

(e) the contract requires the oil to be delivered—

(i) in the case of oil extracted in the United Kingdom, at the place of extraction; or

(ii) in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom or another country at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction.

The terms as to payment which are to be implied in the contract are those which are customarily contained in contracts for the sale at arm's length of oil of the kind in question.".

(6) For sub-paragraphs (2A) to (2D) substitute—

"(2E) For the purposes of sub-paragraph (2) or (2AA) above, the price of any quantity of Category 1 or Category 2 oil of any kind shall be determined in such manner, on the basis of such information, and by reference to such factors, as may be prescribed for oil of that Category and kind in regulations made by the Board.

(2F) The provision that may be made by regulations under subsection (2E) above includes provision for or in connection with any or all of the following—

(a) determining the price by reference to prices, or an average of prices, for sales of oil (whether or not oil of the Category or kind in question, and whether the prices are prices under actual contracts, prices that are published and widely available (whether on payment

of a fee or otherwise) or prices ascertained or determined in some other way);

(b) the prices to be taken into account;

(c) the descriptions of contracts to be taken into account;

(d) the method to be used for determining an average of prices;

(e) the day or days, or period or periods, by reference to which prices, or any average of prices, is to be determined;

(f) the application of a prescribed price differential, in cases where the price of oil of one kind falls to be determined in whole or in part by reference to prices for oil of some other kind.

(2G) Sub-paragraph (2I) below has effect if, or in so far as, the Board are satisfied that it is impracticable or inappropriate to determine for the purposes of sub-paragraph (2) or (2AA) above the price of any oil in accordance with the provisions of regulations for the time being in force under sub-paragraph (2E) above.

(2H) For that purpose it is immaterial whether the impracticability or inappropriateness is by virtue of—

(a) an insufficiency of contracts or published prices that satisfy the conditions,

(b) an insufficiency of information relating to such contracts or published prices, or

(c) the nature of the market for oil of the kind in question,

or for any other reason.

(2I) Where this sub-paragraph has effect, the price is to be determined—

(a) so far as it is practicable and appropriate to do so by reference to other contracts or published prices (whether or not relating to oil of the same kind) and in accordance with the principles set out in the regulations for determining an average of prices; and

(b) so far as it is not practicable or appropriate to determine it as mentioned in paragraph (a) above, in such other manner as appears to the Board to be appropriate in the circumstances.”.

(7) Omit sub-paragraph (3) (which relates to the market value of disposals in a calendar month).

(8) In sub-paragraph (3A) (oil that has been subjected to initial treatment)—

(a) for “sub-paragraphs (1) and (2) above” substitute “sub-paragraph (1) and sub-paragraph (2) or (2AA) above”, and

(b) for “sub-paragraph (2)(a) above” substitute “sub-paragraph (2)(d) or (2AA)(d) above”.

(9) In sub-paragraph (4) (application of sub-paragraphs (2) and (3) in relation to paragraph 2(2) of Schedule 2) for “sub-paragraphs (2) and (3)” substitute “sub-paragraphs (2) and (2AA)”.

(10) After paragraph (4) insert—

“(5) In this paragraph “prescribed” means specified in, or determined in accordance with, regulations.”.

(11) Schedule 18 (which makes minor and consequential amendments) has effect.

Status: *This is the original version (as it was originally enacted).*

147 Section 146: commencement and transitional provisions

(1) The amendments made by section 146 and Schedule 18 have effect in relation to oil delivered or appropriated on or after 1st July 2006 (disregarding section 12A of that Act).

(2) Those amendments also have effect for the purpose of determining for any chargeable period ending on or after 31st December 2006—

- (a) the value to be brought into account under section 2(4)(b) of OTA 1975 by reference to a previous chargeable period ending on or after 30th June 2006, and
- (b) the value to be brought into account under section 2(5)(d) of that Act.

(3) Subsections (1) and (2) are subject to any express provision in Schedule 18 as to the commencement or application of any provision of that Schedule.

(4) In the following provisions of this section—

- (a) "the last old period" means the chargeable period that ends on 30th June 2006, and
- (b) "the first new period" means the chargeable period that ends on 31st December 2006.

(5) Subsection (6) applies in relation to oil which was won from an oil field before 1st July 2006 and which—

- (a) was loaded on to a ship before 1st July 2006 and transported from the place of extraction to a place in the United Kingdom or elsewhere, or
- (b) was transported by pipeline from the place of extraction to a place in the United Kingdom and there loaded on to a ship before that date.

(6) If the oil is or was disposed of crude by a participator in sales otherwise than at arm's length, but the market value of the oil—

- (a) does not fall to be brought into account for the purposes of section 2(5)(b) of OTA 1975 for the last old period by reason only that the oil was not delivered in that period, and
- (b) would not (apart from this subsection) fall to be brought into account for the purposes of that provision in the first new period by reason only that the date on which the oil is to be regarded by virtue of section 12A of that Act as delivered falls in the last old period,

the date on which the oil is to be taken for the purposes of section 2(5)(b) of that Act to have been delivered is instead to be the first business day of the first new period.

(7) Any power to make regulations that is conferred under or by virtue of any of the amendments made by section 146 or Schedule 18 includes power to make regulations having effect for, or in relation to,—

- (a) the first new period, or
- (b) for the purpose mentioned in subsection (2), the last old period,

notwithstanding that the period in question has begun or ended before the making of the regulations.

(8) Any regulations made by virtue of subsection (7) must be made before 31st December 2006.

Attribution of blended crude oil

148 Crude oil: power to make regulations

(1) In section 2(5) of OTA 1975 (profits from oil field) for "subsection (5A)" substitute "subsections (5A) and (5B)".

(2) After section 2(5A) of that Act insert—

"(5B) The Board may by regulations make provision for the purposes of subsection (5)(a) to (c) for determining to which fields and in what proportions blended oil to which subsection (5C) applies is attributable.

(5C) This subsection applies to blended oil within the meaning of section 63(1A) of the Finance Act 1987 (other than light gases) which—

(a) is not gaseous at a temperature of 15 degrees Centigrade and a pressure of one atmosphere, and

(b) is not normally disposed of crude by deliveries in quantities of 25,000 metric tonnes or less.

(5D) Regulations under subsection (5B)—

(a) may apply generally or only to specified cases or circumstances,

(b) may make different provision for different cases or circumstances,

(c) may make incidental, consequential, or transitional provision,

(d) shall be made by statutory instrument, and

(e) may not be made unless a draft has been laid before and approved by resolution of the House of Commons."

(3) Regulations under section 2(5B) of OTA 1975 (inserted by subsection (2) above) may have effect for the purpose of calculating profits in relation to a chargeable period ending at any time on or after 1st July 2006.

Nomination scheme

149 Nomination scheme

(1) Section 61 of FA 1987 (oil taxation: nominations) shall be amended as follows.

(2) In subsection (1) omit ", supplies and appropriations".

(3) For subsections (3) and (4) substitute—

"(3) If the market value of a relevant delivery ascertained in accordance with Schedule 3 to the principal Act exceeds a participator's delivery proceeds of a relevant delivery (within the meaning given by Schedule 10), the excess shall be brought into account by him in accordance with section 2(5)(e) of the principal Act.

(4) If a relevant delivery is a delivery of blended oil within the meaning of section 63, regulations under section 2(5B) of the principal Act shall apply for the purposes of determining the proportion of the excess attributable to a field.

(4A) For each month in which a participator makes a relevant delivery, his monthly excess is the sum of his excesses (if any) calculated in accordance with subsection (3).

(4B) For each chargeable period of an oil field "the excess of nominated proceeds for the period" means, in relation to a participator in the oil field, that proportion of the sum of his monthly excesses for the chargeable period (if any) which is attributable to the field."

(4) Subsections (6) and (7) shall cease to have effect.

(5) In subsection (8) for "9th February 1987" substitute "1st July 2006".

(6) In subsection (9)—

(a) omit "subsection (7) or", and

(b) after "shall" insert "(unless otherwise expressly provided)".

(7) This section shall have effect in relation to chargeable periods ending on or after 1st July 2006.

150 Amendment of Schedule 10 to FA 1987

(1) Schedule 10 to FA 1987 (oil taxation: nominations) shall be amended as follows.

(2) In paragraph 1—

(a) in sub-paragraph (1)—

(i) omit ", "proposed supply" and "proposed appropriation"",

(ii) for "paragraph 3 below" substitute "paragraph 12A below", and

(iii) for "paragraphs (a) to (c)" substitute "paragraph (a)", and

(b) omit sub-paragraph (2).

(3) In paragraph 2 omit—

(a) sub-paragraph (1)(b), (c) and (d), and

(b) the words following sub-paragraph (1)(d).

(4) Omit paragraph 3.

(5) In paragraph 4—

(a) for sub-paragraph (1) substitute—

"(1) If a nomination is made during business hours it shall be effective only if—

(a) it is made within the period of two hours beginning with the transaction base time, and

(b) it satisfies the requirements of paragraph 5.

(1A) If a nomination is made outside business hours it shall be effective only if—

(a) it is made within the period of two hours beginning with the transaction base time, and

(b) it satisfies the requirements of paragraph 5 or 5A.

(1B) For the purposes of this paragraph—

(a) the transaction base time of a proposed transaction is such time on such date as the Board shall prescribe by regulations, and

(b) "business hours" means the period beginning with 09.00 and ending with 17.00 (UK time) on a business day (within the meaning of the Bills of Exchange Act 1882 (c. 61)).",

(b) omit sub-paragraphs (2) and (2A),

(c) in sub-paragraph (3)—

(i) for "transaction base date" substitute "transaction base time", and

(ii) for "date" in each place substitute "time", and

(d) omit sub-paragraph (4).

(6) In paragraph 5—

(a) in sub-paragraph (1) for "A nomination of a proposed transaction shall not be effective unless it specifies, in respect to that transaction" substitute "The requirements of this paragraph for a nomination in respect of a proposed transaction are",

(b) in sub-paragraph (1)(b) omit "in the case of a proposed sale",

(c) in sub-paragraph (1)(c) and (d) omit "or relevantly appropriated",

(d) in sub-paragraph (1)(d) for "supplied" substitute "delivered",

(e) for sub-paragraph (1)(g) substitute—

"(g) the transaction base time; and",

(f) in sub-paragraph (2) after "A nomination" insert "made under this paragraph", and

(g) in sub-paragraph (3) after "a nomination" insert "made under this paragraph".

(7) After paragraph 5 insert—

"5A (1) The requirements of this paragraph for a nomination in respect of a proposed transaction are—

(a) the name of the participator or of the group of which the participator is a member;

(b) the name of the person to whom the oil is to be sold, or the name of the group of which that person is a member;

(c) the blend or grade of oil to be delivered;

(d) the nominated price of the oil to be delivered;

(e) the nominal volume of the oil;

(f) the proposed delivery month;

(g) the transaction base time; and

(h) such other information as may be prescribed by the Board.

(2) In sub-paragraph (1) "group" has the meaning given by section 53 of the Companies Act 1989.

5B (1) A nomination of a transaction shall not be effective unless oil is delivered pursuant to a contract at arm's length the terms of which incorporate the information specified in the nomination in accordance with paragraph 5(1) or 5A(1).

(2) But—

(a) a contract need not refer to the transaction base time, and

(b) the nomination shall be effective whether or not delivery takes place in the proposed delivery month specified in the nomination and the contract."

(8) In paragraph 6—

(a) in sub-paragraph (1) omit "Subject to sub-paragraph (3) below,", and

(b) omit sub-paragraphs (2) and (3).

(9) Omit paragraph 7(2) and (5).

(10) After paragraph 7(5) insert—

"(6) The Board may by regulations prescribe that in specified circumstances the nominal volume in relation to a delivery shall be treated as greater or less than the nominal volume ascertained in accordance with the preceding provisions of this paragraph.

(7) Regulations under sub-paragraph (6)—

(a) shall be made by statutory instrument, and

(b) may not be made unless a draft has been laid before and approved by resolution of the House of Commons."

(11) Omit paragraphs 8 to 11.

(12) In paragraph 12(1) omit ", supply or appropriation".

(13) After paragraph 12 insert—

"Interpretation

12A For the purposes of section 61 and this Schedule—

(a) a reference to the proposed delivery month in relation to a proposed transaction is a reference to the month in which delivery is to take place,

(b) "relevant delivery" means a delivery of oil under a contract made at arm's length in respect of which there has been no effective nomination, and

(c) "delivery proceeds" means the price received for a relevant delivery."

(14) This section shall have effect in relation to a transaction whenever proposed, but shall not have effect in relation to a proposed transaction with a transaction base date (within the meaning given by regulations under paragraph 4 of Schedule 10 to FA 1987) on or before 30th June 2006.

(15) Regulations under paragraph 4(1B) of Schedule 10 to FA 1987 (inserted by subsection (5) above) may have retrospective effect.

151 Nomination excesses and corporation tax

(1) After section 493(1) of ICTA (valuation of oil disposed of or appropriated) insert—

"(1A) Where an excess of nominated proceeds in a chargeable period (within the meaning given by section 61 of the Finance Act 1987) is taken into account in computing a person's profits under section 2(5)(e) of the 1975 Act (or would

be taken into account if the person were chargeable to tax under that Act in respect of a field)—

(a) for the purposes of subsection (1) the amount of the excess shall be added to the consideration which the person is deemed to have received in respect of oil disposed of by him in the period, and

(b) for the purposes of corporation tax, that amount shall be available to the person as a deduction in computing the profits of any trade to which section 492(1) does not apply.”

(2) This section shall have effect in relation to deliveries of oil made on or after 1st July 2006.

Ring fence trades

152 Increase in rate of supplementary charge

(1) In section 501A of ICTA (supplementary charge in respect of ring fence trades), in subsection (1) (charge of 10 per cent on adjusted ring fence profits), for “10 per cent” substitute “20 per cent”.

(2) The amendment made by subsection (1) has effect in relation to any accounting period beginning on or after 1st January 2006 (but see also subsection (3)).

(3) For the purpose of calculating the amount of the supplementary charge on a company for an accounting period (a “straddling period”) beginning before 1st January 2006 and ending on or after that date—

(a) so much of the straddling period as falls before 1st January 2006, and so much of the straddling period as falls on or after that date, are treated as separate accounting periods, and

(b) the company’s adjusted ring fence profits for the straddling period are apportioned to the two separate accounting periods in proportion to the number of days in those periods.

(4) The amount of the supplementary charge on the company for the straddling period is the sum of the amounts of supplementary charge that would, in accordance with subsection (3), be chargeable on the company for those separate accounting periods.

(5) In the case of a company’s straddling period—

(a) the Instalment Payments Regulations apply as if the amendment made by subsection (1) had not been made, but

(b) those Regulations also apply separately, in accordance with the following subsection, in relation to the increase in the amount of any supplementary charge on the company for that period that arises as a result of that amendment.

(6) In that separate application of those Regulations as mentioned in subsection (5)(b), those Regulations have effect as if, for the purposes of those Regulations,—

(a) the straddling period were an accounting period beginning on 1st January 2006,

(b) supplementary charge were chargeable on the company for that period, and

(c) the amount of that charge were equal to the increase in the amount of the supplementary charge for the straddling period that arises as a result of the amendment made by subsection (1).

(7) Any reference in the Instalment Payments Regulations to the total liability of a company is, accordingly, to be read—

(a) in their application as a result of subsection (5)(a), as a reference to the amount that would be the company's total liability for the straddling period if the amendment made by subsection (1) had not been made, and

(b) in their application as a result of subsection (5)(b), as a reference to the amount of the supplementary charge on the company for the deemed accounting period under subsection (6)(a).

(8) For the purposes of the Instalment Payments Regulations—

(a) a company is to be regarded as a large company as respects the deemed accounting period under subsection (6)(a) if (and only if) it is a large company for those purposes as respects the straddling period, and

(b) any question whether a company is a large company as respects the straddling period is to be determined as it would have been determined if the amendment made by subsection (1) had not been made.

(9) If the Instalment Payments Regulations—

(a) apply in relation to a company's liability to supplementary charge for the deemed accounting period under subsection (6)(a), and

(b) would (but for this subsection) treat any instalment payment in respect of that liability as being due and payable on a date falling on or before 22nd March 2006,

those Regulations have effect as if the payment were due and payable instead at the end of the period of 14 days beginning with that date.

(10) In this section—

"adjusted ring fence profits" has the meaning given by section 501A of ICTA,

"the Instalment Payments Regulations" means the Corporation Tax (Instalment Payments) Regulations 1998 (S.I. 1998/ 3175),

"supplementary charge" means any sum chargeable under section 501A(1) of ICTA as if it were an amount of corporation tax.

153 Election to defer capital allowances

(1) This section applies if—

(a) a company carries on a ring fence trade in an accounting period beginning on or after 1st January 2006,

(b) relevant expenditure is incurred for the purposes of or in relation to the ring fence trade (see subsections (4) to (7)), and

(c) the relevant expenditure would (but for this section) be treated as incurred for the purposes of CAA 2001 in the period of 12 months ending with 31st December 2005.

(2) The company may elect for the relevant expenditure to be treated instead as if it were incurred on the first day of the company's first accounting period beginning on or after 1st January 2006.

(3) The election—

(a) has effect for the purposes of CAA 2001 other than those of section 45G (expenditure not first-year qualifying expenditure under section 45F if plant or machinery used for less than 5 years in a ring fence trade), and
(b) must be made by notice given to an officer of Revenue and Customs on or before 31st December 2007.

(4) Expenditure is relevant expenditure if it falls within any of Cases A to C.

(5) Expenditure falls within Case A if—
(a) it is first-year qualifying expenditure on the provision of plant or machinery under section 45F of CAA 2001 (expenditure on plant and machinery for use wholly in a ring fence trade), and
(b) no disposal event (see subsection (8)) in relation to the plant or machinery occurs in the relevant period.

(6) Expenditure falls within Case B—
(a) if it is first-year qualifying expenditure under section 416B of CAA 2001 (mineral extraction allowances: expenditure incurred by a company for purposes of a ring fence trade),
(b) if no disposal event in relation to any asset representing the expenditure occurs in the relevant period,
(c) if (or so far as) it is expenditure to which no part of any capital sum received by the company in the relevant period is reasonably attributable under section 425(2) of CAA 2001, and
(d) if no entitlement to a balancing allowance for a chargeable period in respect of the expenditure arises under any of sections 426 to 431 of CAA 2001 as a result of an event that occurs in the relevant period (as well as in that chargeable period).

The reference in paragraph (b) to any asset representing the expenditure is to be read in accordance with section 416B(4) of CAA 2001.

(7) Expenditure falls within Case C if—
(a) it is qualifying expenditure on research and development under Part 6 of CAA 2001 where the ring fence trade is the trade by reference to which the expenditure is qualifying expenditure, and
(b) no disposal event in relation to any asset representing the expenditure occurs in the relevant period.

(8) In this section—

"disposal event"—
(a) in relation to first-year qualifying expenditure under section 45F of CAA 2001, means an event of a kind that requires a disposal value to be brought into account under Part 2 of that Act (whether under section 61(1) or otherwise),
(b) in relation to first-year qualifying expenditure under section 416B of CAA 2001, means an event of a kind that requires a disposal value to be brought into account under section 421 or 422 of that Act,
(c) in relation to qualifying expenditure on research and development under Part 6 of CAA 2001, means an event of a kind that requires a disposal value to be brought into account under section 443(1) of that Act,

"the relevant period", in relation to any expenditure for the purposes of or in relation to a company's ring fence trade, means the period—

(a) beginning with the day on which the expenditure would (but for this section) be treated as incurred for the purposes of CAA 2001, and

(b) ending with the first day of the company's first accounting period beginning on or after 1st January 2006,

"ring fence trade" means a ring fence trade in respect of which tax is chargeable under section 501A of ICTA (supplementary charge in respect of ring fence trades).

154 Ring fence expenditure supplement

(1) Chapter 5 of Part 12 of ICTA (petroleum extraction activities) is amended as follows.

(2) After section 496A (exploration expenditure supplement) insert—

"**496B Ring fence expenditure supplement**

Schedule 19C to this Act (ring fence expenditure supplement) shall have effect.".

(3) Schedule 19B (petroleum extraction activities: exploration expenditure supplement) is amended as follows.

(4) In paragraph 1 (about the Schedule)—

(a) in sub-paragraph (1) (entitlement of company to supplement), in the opening words, after "2004" insert "but before 1st January 2006",

(b) in sub-paragraph (2) (condition that expenditure incurred on or after 1st January 2004), after "2004" insert "but before 1st January 2006".

(5) In paragraph 3 (accounting periods)—

(a) in sub-paragraph (1), in the definition of "post-commencement period", after "2004" insert "but before 1st January 2006",

(b) in sub-paragraph (1), in the definition of "pre-commencement period", after "2004" insert "but before 1st January 2006",

(c) at the end insert—

"(3) In the case of an accounting period (a "straddling period") of any qualifying company beginning before 1st January 2006 and ending on or after that date—

(a) so much of the straddling period as falls before 1st January 2006, and

(b) so much of the straddling period as falls on or after that date,

are treated as separate accounting periods for the purposes of this Schedule.

(4) Special provision is made elsewhere in this Schedule in relation to straddling periods (see paragraphs 16, 18A and 22).".

(6) In paragraph 6 (qualifying E&A expenditure), in sub-paragraph (2) (condition that expenditure incurred on or after 1st January 2004), after "2004" insert "but before 1st January 2006".

(7) In paragraph 15 (supplement in respect of a post-commencement period), in sub-paragraph (2) (supplement to be treated as a loss for the purposes of Corporation Tax Acts), for "this Schedule)" substitute "this Schedule or Part 4 of Schedule 19C)".

(8) In paragraph 16 (amount of post-commencement supplement for a post-commencement period), after sub-paragraph (2) (proportionate reduction of supplement if post-commencement period less than 12 months) insert—

"(2A) But, if the post-commencement period is the deemed accounting period under paragraph 3(3) ending before 1st January 2006, sub-paragraph (2) has no effect in relation to the amount of the supplement for that period.".

(9) After paragraph 18 (ring fence losses and non-qualifying losses) insert—

"Special rule for straddling periods

18A (1) This paragraph applies in any case where the period of the loss in which a ring fence loss is incurred is the deemed accounting period under paragraph 3(3) ending before 1st January 2006.

(2) The following assumption shall be made for the purpose of calculating the amount of the qualifying E&A loss and the amount of the non-qualifying loss.

(3) The assumption is that the loss made in the trade is taken to be the loss incurred in the accounting period beginning before 1st January 2006 and ending on or after that date (disregarding paragraph 3(3)).

(4) The amount of the non-qualifying loss (found in accordance with that assumption) is then reduced (but not below nil) by the following amount.

(5) The amount is the amount of the ring fence loss in the deemed accounting period beginning on 1st January 2006 determined under paragraph 18 of Schedule 19C for the purposes of Part 4 of that Schedule.".

(10) In paragraph 22 (reductions in respect of utilised ring fence profits), at the end insert—

"(4) If the post-commencement period is the deemed accounting period under paragraph 3(3) ending before 1st January 2006 ("the deemed accounting period"), the amount of the profits of the deemed accounting period is determined as follows.

(5) The amount of the profits of the straddling period is apportioned to the deemed accounting period in proportion to the number of days in the deemed accounting period that fall in the straddling period.

(6) The apportioned amount is taken for the purposes of this paragraph to be the amount of the profits of the deemed accounting period.

(7) In this paragraph "the straddling period", in relation to a qualifying company, means an accounting period of the company beginning before 1st January 2006 and ending on or after that date (disregarding paragraph 3(3)).".

(11) After Schedule 19B insert the Schedule 19C set out in Schedule 19 to this Act.