HMRC internal manual

Oil Taxation Manual

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Corporation tax general: payments under Licences

Responsibility for the issue of licences rests with the Department of Energy and Climate Change (DECC - formerly DTI). The terms under which licences have been issued in the various rounds vary substantially but essentially there have been payments under three headings. The CT consequences of the three kinds of payments are outlined as follows:

Initial Fees

These are incurred on the application for and grant of a licence and are normally small in amount, possibly only a few £thousands. However, certain licences have been issued under a system of competitive bidding where the payments were substantial. Initial fees are capital and eligible for MEA at a 10% rate of writing down allowance.

Annual Rental Fees

These are not large in amount and are revenue.

Royalties

These were charged at a set annual percentage of the value of production (either in cash or in kind) and were treated as revenue expenditure for fields which received development consent before 1 April 1982. The requirement to pay royalties was removed with effect from 1 January 2003.

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