THE UK UPSTREAM OIL AND GAS TAX REGIME

The tax regime which applies to exploration for, and production of, oil and gas in the UK and on the UK Continental Shelf (UKCS) currently[1] comprises three elements:

- **Ring Fence Corporation Tax**
  This is calculated in the same way as the standard corporation tax applicable to all companies but with the addition of a "ring fence" and the availability of 100% first year allowances for virtually all capital expenditure. The ring fence prevents taxable profits from oil and gas extraction in the UK and UKCS being reduced by losses from other activities or by excessive interest payments. The current main rate of tax on ring fence profits, which is set separately from the rate of mainstream corporation tax, is **30%**.

- **Supplementary Charge**
  This is an additional charge, currently at a rate of **32%**, on a company's ring fence profits (but with no deduction for finance costs). A "field allowance" removes from the charge to supplementary charge a slice of production income from qualifying small or technically challenging new fields.

- **Petroleum Revenue Tax (PRT)**
  This is a field-based tax charged on profits arising from oil and gas production from individual oil fields which were given development consent before 16 March 1993. The current rate of PRT is **50%**; PRT is deductible as an expense in computing profits chargeable to ring fence corporation tax and supplementary charge.

The **marginal tax rate** is 81% on income from fields paying PRT, 30% on production income from qualifying new fields if that income is wholly covered by field allowance and 62% otherwise.

A **Ring Fence Expenditure Supplement** (RFES) assists companies that do not yet have sufficient taxable income for ring fence corporation tax purposes against which fully to set their exploration, appraisal and development costs. The RFES increases the value of losses carried forward from one accounting period to the next by a compound 10% a year – 6% a year for accounting periods beginning before 1 January 2012 – for a maximum of 6 years, not necessarily consecutively.

Oil and gas decommissioning tax relief – Legislation was introduced in Finance Act 2012 to restrict tax relief for decommissioning expenses for Supplementary Charge purposes to 20%. There will be no restrictions to decommissioning relief beyond this level for the lifetime of this Parliament. The Government is currently consulting on proposals to give further, longer-term certainty on decommissioning.

More detailed information on the UKCS tax regime is available from the Oil and Gas sector of the Large Business Service at HM Revenue & Customs.

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1. The footnotes to the table of Government Revenues from UK Oil and Gas Production include brief details of former elements of the regime.