HM Revenue & Customs

Corporation tax: extension of Ring Fence Expenditure Supplement

Who is likely to be affected?

Companies involved in the exploration, appraisal and development of oil and gas.

General description of the measure

The measure will extend Ring Fence Expenditure Supplement (RFES) to 10 accounting periods and remove Extended Ring Fence Expenditure Supplement (ERFES).

Policy Objective

The measure will improve help for oil companies without ring fence profits to preserve the value of their tax losses. It will achieve equal treatment of offshore and onshore expenditure and losses and simplify the existing legislation.

Background to the Measure

A call for evidence entitled *Review of the Oil and Gas Fiscal Regime* was launched on 14 July 2014 and closed on 3 October 2014. The initial findings of the review, including a summary of responses, were published on 4 December 2014.

Detailed Proposal

Operative Date

This measure will have effect for pre-trading expenditure and losses incurred in accounting periods ending on or after 5 December 2013.

Current Law

Under Chapter 5 (sections 307 to 329) of Corporation Tax Act (CTA) 2010, a company may claim RFES on accumulated qualifying expenditure and losses in up to six accounting periods. For claims made after 2012, the supplement is 10 per cent of the value of qualifying pre-trading expenditure, trading losses incurred after 2006 and supplement generated in previous accounting periods. The supplement may then be carried forward to offset future profits for corporation tax purposes.

Under Chapter 5A (sections 329A to 329T) of CTA 2010, a company may claim ERFES in an additional 4 accounting periods for onshore expenditure, losses and supplement. The supplement is 10 per cent of the value of onshore expenditure and losses incurred after 5 December 2013 and any supplement previously generated through onshore activities.

Proposed Revisions

Legislation will be introduced in Finance Bill 2015 to amend CTA 2010 to extend the number of claims available to companies involved in oil and gas related activities from 6 to 10 accounting periods. For claims in addition to their existing 6, companies will not be able to claim supplement on expenditure or losses incurred or supplement generated prior to 5 December 2013.

Sections 329A to 329T will be removed in their entirety.

Summary of Impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td>nil</td><td>-5</td><td>-15</td><td>-15</td><td>-10</td><td>-95</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of Autumn Statement 2014, as part of Oil and gas: support for investment, and have been certified by the Office for Budget Responsibility. The figures incorporate the yield from Corporation tax: extension of Ring Fence Expenditure Supplement. More details can be found in the policy costings document published alongside Autumn Statement 2014.</td></tr>
<tr><td>Economic impact</td><td colspan="6">This measure is expected to support companies involved in the exploration and appraisal of oil and gas projects and production companies making investments who are without ring fence profits.</td></tr>
<tr><td>Impact on individuals, households and families</td><td colspan="6">There is no expected impact on individuals, households or families because this is a change that affects offshore oil extraction only.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">There is no expected impact on equalities because this is a change that affects offshore oil extraction only.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure will affect up to 200 companies. The measure will allow companies without existing ring fence profits to maintain the time value of their losses and pre-trading expenditure over a 10 year payback period, hence increasing the commercial viability of oil and gas activity.

The removal of ERFES will ease the regulatory burden for companies with onshore oil related projects as they will no longer need to distinguish between onshore and offshore expenditure and losses.

This measure will have no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be no significant operational impact on HM Revenue & Customs.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Sustainable development, wider environment and health</u>: by providing additional supplement on costs and losses, this measure supports costs associated with positive environmental impacts such as clean up costs. Beyond this, the oil and gas industry is heavily regulated to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to ensure the health and wellbeing of its workers.

<u>Small and micro business assessment</u>: the impact of this measure on small businesses is not anticipated to differ from that on large businesses.

Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and Evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further Advice

If you have any questions about this change, please contact Lloyd Hopkin on 03000 532634 (email: lloyd.hopkin@hmrc.gsi.gov.uk).