

# Corporation tax: high pressure high temperature cluster area allowance

#### Who is likely to be affected?

Companies involved in exploration, appraisal and development of oil and gas in high pressure high temperature cluster areas.

#### General description of the measure

The measure will introduce a new high pressure high temperature (HPHT) cluster area allowance to reduce the amount of adjusted ring fence profits subject to the Supplementary Charge. The portion of profits reduced by the allowance will be dependent on a company's capital spend on cluster area oil and gas projects, and will be generated at 62.5 per cent of that spend.

#### Policy objective

This measure is designed to support the development of HPHT oil and gas projects, which are economic but not commercially viable at the 62 per cent tax rate, and encourage exploration and appraisal within the surrounding area (or "cluster"). HPHT oil and gas could help increase our energy security as resources in the North Sea basin decline. They also have the potential to support thousands of jobs, and generate substantial business investment.

#### Background to the measure

This measure was announced in Budget 2014.

A consultation entitled *Maximising economic recovery: consultation on a cluster allowance* was launched on 24 July 2014 and closed on 30 September 2014.

The Government's response to this consultation will be published on 10 December 2014.

# **Detailed proposal**

#### **Operative date**

The measure will have effect from 3 December 2014 in respect of capital expenditure incurred on or after 3 December 2014 in relation to an HPHT cluster area.

#### Current law

Corporation Tax Act (CTA) 2010 Chapter 6 section 330 imposes a supplementary charge on a company's adjusted ring fence profits. Chapters 7 and 8 set out existing oil field and onshore allowances which reduce a company's adjusted ring fence profits subject to the supplementary charge.

### **Proposed revisions**

Legislation will be introduced in Finance Bill 2015 to amend CTA 2010 to introduce a new cluster area allowance. The allowance will remove an amount equal to 62.5 per cent of capital expenditure incurred by a company in relation to a cluster area from its adjusted ring fence profits which are subject to the supplementary charge. The allowance will not be available to fields already in receipt of a field allowance. Transitional arrangements will be put in place for companies currently developing projects, and no change will be made to the existing ultra HPHT allowance. The future of that allowance will be considered as part of the wider work on allowances being taken forward through the Review of the Fiscal Regime. The changes will apply to the qualifying capital expenditure a company incurs in relation a cluster area on or after 3 December 2014, and will be activated by production income from the cluster area.

Exchequer impact (£m)	2014-152015-162016-172017-182018-192019-20nil-5-15-15-10-95These figures are set out in Table 2.1 of Autumn Statement 2014 as partof Oil and gas: support for investment, and have been certified by theOffice for Budget Responsibility.More details can be found in the policycostings document published alongside Autumn Statement 2014.
Economic Impact	The allowance is expected to increase investment in high pressure, high temperature projects and on exploration in cluster areas. This investment could lead to benefits to the UK supply chain, increased domestic production of hydrocarbons and create jobs.
Impact on individuals, households and families.	There is no impact on individuals or households because this is a change that affects oil and gas companies only. This measure is not expected to have an impact on family formation, stability or breakdown.
Equalities impacts	The allowance is considered to have no differential impact on any equality groups.
Impact on business, including civil society organisations	The proposal is designed to support businesses involved in the development of technically challenging HPHT projects and exploration in the surrounding areas. This measure is expected to have a negligible administrative impact on these businesses, as it is based on the existing allowance regime structure.
	This measure will have no impact on civil society organisations.
Operational impact (£m)	The additional costs for HM Revenue & Customs and the Department of Energy & Climate Change (who will be responsible for determining a cluster area) is expected to be negligible.
Other impacts	Sustainable development, wider environment and health: 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.
	Small and micro business assessment: this measure is expected to have no impact on small and micro businesses. The change applies only to oil and gas companies operating in the UK.
	Other impacts have been considered and none have been identified.

## Summary of impacts

#### 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 Nicola Garrod on 03000 589251 (email: nicola.garrod@hmrc.gsi.gov.uk).

#### Declaration

Priti Patel MP, Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.