HM Revenue
& Customs

Corporation tax: oil and gas companies: investment allowance and reduction in supplementary charge

Petroleum revenue tax reduction

Who is likely to be affected?

Oil and gas companies that operate in the UK or on the UK Continental Shelf (UKCS).

General description of the measure

This package of measures will introduce a new investment 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 investment expenditure and will be generated at 62.5% of that spend.

Building on the 2% rate cut announced at Autumn Statement 2014 from 32% to 30%, the package further reduces the rate of supplementary charge payable in respect of profits from oil and gas production in the UK and UKCS from 30% to 20%. Additionally, it reduces the rate of Petroleum Revenue Tax (PRT) payable in respect of profits from oil and gas production from 50% to 35%.

Policy objective

This package of measures supports the government's objective of providing the right conditions for business investment to maximise the economic recovery of the UK's oil and gas resources, at a time when the North Sea industry is facing considerable challenges. These measures will encourage investment in the UK and UKCS, leading to increased production of oil and gas, helping to increase the UK's energy security, balance of payments and supporting jobs and supply chain opportunities. The investment allowance will simplify the existing regime of field allowances.

Background to the measure

At Autumn Statement 2014, the government published the conclusions of the HM Treasury review of the oil and gas fiscal regime in "Driving investment: a plan to reform the oil and gas fiscal regime. It announced a reduction in the rate in supplementary charge to 30%, and its intention to consult on a new basin wide investment allowance.

A consultation entitled "Fiscal reform of the UK Continental Shelf: consultation on an investment allowance" was launched on 22 January 2015 and closed on 23 February 2015.

The government's response to this consultation will be published shortly after Budget 2015.

This package of measures was announced at Budget 2015.

Detailed proposal

Operative date

The investment allowance will have effect in respect of investment expenditure incurred on or after 1 April 2015.

The joint reduction in the rate of supplementary charge will have effect on and after 1 January 2015. There are transitional rules for accounting periods beginning before the operative date.

The reduction in the rate of PRT will have effect for all chargeable periods ending after 31 December 2015.

Current law

Corporation Tax Act (CTA) 2010 Part 8 Chapter 6 section 330 imposes a supplementary charge on a company's adjusted ring fence profits at the rate of 32% (30% from 1 January 2015). 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.

Section 1 of Oil Taxation Act 1975 imposes a PRT charge on a participator's assessable profits in respect of a taxable field at the rate of 50%.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend CTA 2010 to introduce a new investment allowance. The allowance will remove an amount equal to 62.5% of investment expenditure incurred by a company in relation to a field from its adjusted ring fence profits which are subject to the supplementary charge. The existing field allowances at Chapter 7 will be abolished. Transitional arrangements will be put in place for fields already in receipt of a field allowance or close to authorisation. The changes will apply to the qualifying investment expenditure a company incurs in relation a field on or after 1 April 2015, and will be activated by production income from the field.

Legislation will also be introduced in Finance Bill 2015 to amend section 330 of CTA 2010 to reduce the rate of the supplementary charge to 20%, and to amend section 1 of the Oil Taxation Act 1975 to reduce the rate of PRT to 35%.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td>-230</td><td>-395</td><td>-305</td><td>-285</td><td>-85</td></tr>
<tr><td colspan="5">These figures represent the combined Exchequer impact of 'Oil and gas: investment allowance and 10% cut to supplementary charge', and 'Oil and gas: 15% cut to Petroleum Revenue Tax'. The figures for these measures are set out in Table 2.1 of Budget 2015 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2015.</td></tr>
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Economic impact	This package of measures will increase the post-tax profits for affected companies, making investment into oil and gas projects in the UK and UKCS more attractive and supporting jobs and supply chain opportunities. This investment is expected to increase oil production by around 15%, providing a 0.1% boost to GDP by 2019-20 and helping to increase the UK's energy security and balance of payments.
Impact on individuals, households and families	There is no impact on individuals or households because these changes affect oil and gas companies only. These measures are not expected to have an impact on family formation, stability or breakdown.
Equalities impacts	The allowance, and decrease in tax rates is considered to have no differential impact on any equality groups.
Impact on business including civil society organisations	There are around 200 companies currently operating on the UK Continental Shelf. The introduction of the investment allowance and the decrease in supplementary charge and PRT will have a positive impact on company post-tax profits within the UK and are designed to support businesses involved in the exploration and production of oil and gas. There will be a small on-going administrative cost to business of generating and activating the allowance. In addition, there are around 80 fields that are already claiming field allowances, and where companies will be expected to track expenditure. The overall administrative costs from this measure are therefore expected to be negligible. This measure will have no impact on civil society organisations.
Operational impact (£m) (HMRC or other)	HM Revenue & Customs will incur some additional costs for implementing the reduction in the rate of SC and PRT and these are estimated to be around £120,000 for IT changes. There may also be some small staffing costs but these are anticipated to be negligible.
Other impacts	<u>Sustainable development, wider environment and health</u>: 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. Investment in oil and gas production is needed even as the economy decarbonises; the government estimates that oil and gas will continue to meet 70% of the UK's energy needs out to 2030. <u>Small and micro business assessment</u>: 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.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups and the monitoring of tax receipts from and activity in the North Sea oil and gas sector.

Further advice

If you have any questions about these changes, please contact Tony Chanter on 03000 589073 (email: tony.chanter@hmrc.gsi.gov.uk), or Nicola Garrod on 03000 589251 (email: nicola.garrod@hmrc.gsi.gov.uk).