HM Revenue & Customs

Supplementary Charge: Investment and Cluster Area Allowances: extension of 'relevant income' to include tariff receipts

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

These regulations expand the scope of the Investment and Cluster Area Allowances to include tariff receipts as relevant income, for accounting periods beginning on or after 16 September 2016. This will enable companies to use tariff receipts to activate their allowances and reduce their profits subject to the Supplementary Charge.

The draft regulations are being published for consultation. Following consultation, and subject to parliamentary process, the regulations will be laid later this year.

Policy objective

The UK oil and gas industry continues to make important contributions to the UK economy. The sector supports over 300,000 jobs, contributes to the UK's energy security by providing around half of our primary energy needs, and has paid around £330 billion in production taxes to date. While the UKCS is a mature basin compared to other prospects, there is still an estimated 20 billion barrels of recoverable oil remaining.

In recent years, the government has taken significant steps to create the right environment for oil and gas producers to maximise economic recovery of the remaining hydrocarbons in the basin. Encouraging investment in key infrastructure is an important aspect of this objective as it can delay decommissioning and support further development in the UKCS.

Building on the introduction of the Investment and Cluster Area Allowances, and the extension of qualifying expenditure in 2017, this measure will encourage further investment in the UK and UKCS. This is in line with the government's commitment to develop fiscal policy in line with the principles set out in 'Driving Investment: a plan to reform the oil and gas fiscal regime'.

Background to the measure

Investment and Cluster Area Allowances were introduced from 1 April 2015 and 3 December 2014 respectively and reduce the amount of adjusted ring fence profits subject to the Supplementary Charge. The amount of the reduction is equal to 62.5% of the investment expenditure, and is activated by 'relevant income', which is currently defined as income from the production of oil and gas.

At Budget 2016 the government committed to extend the scope of the allowances to include tariff receipts (income received by infrastructure owners for third party use of those assets) as relevant income and Finance Act 2016 introduced a power to enable this expansion to be delivered through regulations.

Since then government has been consulting with industry on commercial arrangements and tax issues to ensure the expansion will work as intended.

Finance Act 2018 resolved an ambiguity over the definition of tariff receipts in the existing legislation, enabling the new regulations to be delivered.

The draft regulations are open for consultation over the summer, closing 31 August 2018.

Detailed proposal

Operative date

The measure will have effect for accounting periods beginning on or after 16 September 2016.

Current law

The primary legislation covering the Investment and Cluster Area Allowances can be found in Chapters 6A and 9 of Part 8 of the Corporation Tax Act 2010.

Proposed revisions

This measure extends the definition of relevant income for both the Investment and Cluster Area Allowances to include tariff receipts as defined in Corporation Tax Act 2010 s291 and s291A. Where tariff receipts are received in relation to more than one oil field or cluster area, it requires a just and reasonable attribution to those fields and areas.

A draft statutory instrument is being published alongside this note.

Summary of impacts

Exchequer impact (£m)

2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024

This measure was part of the package: ‘Oil and Gas: abolish Petroleum Revenue Tax and reduce Supplementary Charge to 10%’ which was published in Table 2.1 of Budget 2016. An updated costing of this measure was included as part of the Office for Budget Responsibility's Spring Statement 2018 tax forecast.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The measure has no impact on individuals or households as it only affects businesses. The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be any adverse impacts on groups sharing protected characteristics as this only affects companies.

Impact on business including civil society organisations

Of the approximately 200 oil and gas companies that operate in the UK or on the UK Continental Shelf, only those earning tariff receipts will be affected – around 60.

This measure will have a positive impact on the oil and gas industry by allowing companies to activate Investment and Cluster Area Allowances with tariff receipts. This is an allowance feature that industry requested specifically. This measure is expected to have a negligible impact on business' admin burdens. One off costs include familiarisation with the new legislation. On-going costs are including tariff receipts in the calculations for claiming the allowances. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

The measure is not expected to have an operational impact because it is an expansion of a pre-existing process.

Other impacts

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 any activity in the North Sea oil and gas sector.

Further advice

If you have any questions about this change, please contact Nicola Garrod on Telephone: 03000 589251 or email: Nicola.Garrod@hmrc.gsi.gov.uk.

Declaration

Robert Jenrick 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.