Opposition policy costing – Oil and Gas Levy – Labour Party

This policy costing was completed and signed off on 22nd January 2024. Since then further announcements have been made by the Labour Party, which would impact the costs of this policy.

Description of policy
Labour's proposed changes to the Oil and Gas Levy would: • Raise the rate to 78% from 75% • Backdate the tax to the start of 2022 • End investment allowances (Labour Press Release, Policy Mogul, 29 November 2022, link) **Rachel Reeves said Labour will extend the Windfall tax.** '*We will extend the windfall tax, closing the fossil fuel investment loophole, and taxing oil and gas profits at the same rate as Norway. By backdating this from the start of 2022 - when oil and gas giants were already making historically large profits - we can raise more than £13bn."* (Sky News, Sophie Morris, 21 January 2023, link)
Additional policy assumptions
Assumptions from Special Advisers • The above changes apply to the Energy Profits Levy (EPL) as opposed to the entire oil and gas regime. This applies until the EPL's sunset date of March 2028, unless the Energy Security Investment Mechanism (ESIM) triggers and disapplies the EPL prior to this date. Headline tax rate • Ring-Fence Corporation Tax (RFCT) will remain at 30%. Supplementary Charge (SC) will remain at 10%. Petroleum Revenue Tax (PRT) will remain zero-rated. • The EPL will be increased from 35% to 38%. This will increase the headline rate from 75% to 78%, in line with the Labour proposals. • After the EPL is removed, the headline rate will return to 40%. • The 38% rate of tax will be backdated to January 2022. Reliefs and allowances • The EPL's investment allowances (both the investment allowance and the decarbonisation allowance) will be removed and this change backdated to January 2022. • All other tax reliefs and allowances available in the North Sea tax regime will be maintained, including 100% first year allowances (FYAs). Behavioural assumptions

- These changes would affect the investment in the UK's energy sector. The expected fall in CAPEX levels (in comparison to the OBR CAPEX forecast from Autumn Statement 2023) invested by oil and gas companies in the UKCS has been provided by Special Advisors and modelled as follows:
  - 1/8 in 2027
  - 1/8 in 2028
  - 1/4 in 2029

Additional technical modelling assumptions or judgements required

Tax base

This costing is based on the Office for Budget Responsibility's (OBR) latest Autumn Statement 2023 North Sea taxes forecast.

In line with special advisers' behavioural assumptions, the forecast for investment is reduced, increasing the tax base as most investment expenditure would no longer be deductible for tax purposes.

Cost/Revenue to the Exchequer over five years

£ billion (National Accounts Basis)	Revenue							
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total	2.2	3.7	0.6	0.7	0.6	0.6	0.6	0.3

As the policy proposal includes backdating the changes to January 2022, receipts for previous years (i.e. in 2021-22 and 2022-23) have been included on an accruals basis. If the policy is not backdated, only the yield estimates for future years (i.e. from 2024-25 onwards) would materialise.

This scorecard takes into consideration the impact that a reduction in investment would have on total oil and gas receipts (receipts from the EPL and the permanent oil and gas taxes), but not wider economic and environmental impacts.

Comparison with current system (if applicable):

Other comments (including other Departments consulted):

The calculations in this costing were carried out by HMRC (Knowledge, Analysis & Intelligence directorate).

The nature of this costing is uncertain and is driven by assumptions provided by Special Advisers. The key sources of uncertainty in this costing are the path of future oil and gas prices, to which the forecast for future receipts is highly sensitive, and the behavioural response of industry, including impacts on investment and commercial decisions.

This costing does not consider indirect effects.

To be completed by Permanent Secretary's Office Date costing signed off:	22/01/2024

[If applicable] Date revised costing signed off:	