North Sea oil & gas tax breaks announced

In the Budget 2015 delivered on Wednesday 18 March 2015, the Chancellor of the Exchequer George Osborne set out several significant tax breaks for the UK oil and gas sector. Set against the background of a maturing UK basin, albeit one with significant resources as yet unexplored,[1] the Government states that these measures are "expected to lead to over £4 billion of additional investment and at least 120 million barrels of oil equivalent of additional production in the next 5 years."[2]

Background

By way of background, the UK's current oil and gas taxation regime consists of three charges:

(a) ring fence corporation tax at 30% ("**RFCT**"), applied to a company's "ring fence profits", i.e. profits derived from oil extraction and the exploitation of oil rights;

(b) the supplementary charge at 30% ("**SC**")[3], charged on "adjusted ring fence profits" – ring fence profits before deductions for financing costs are made[4]; and

(c) petroleum revenue tax at 50% ("**PRT**") on profits from oil produced under UK licence.[5]

All three taxes apply to fields that received development consent before 1993, but PRT does not apply to fields that have obtained consent more recently.[6] Where PRT is charged, it is deductible against profits for the purposes of calculating RFCT and the SC.[7]

Reduction in tax rates

The Government has now announced a reduction in the rate of the SC to 20%, with effect on and after 1 January 2015, and of the rate for PRT to 35% for chargeable periods ending after 31 December 2015.[8] In other words, once both changes take effect newer (non-PRT) fields should be taxed at top rates of 50%, and older (PRT) fields at 67.5%, as opposed to respective rates of 60% and 80%.

Investment allowance and other reliefs

Following a 2014 review by HM Treasury of the oil and gas fiscal regime,[9] the Government consulted on a proposed investment allowance for the sector.[10] As part of the Budget, it has now been announced that 62.5% of investment expenditure incurred on or after 1 April 2015 on a field is to be removed from the adjusted ring fence profits subject to the SC.[11] Further details of the allowance have been released today.[12]

The Finance Bill 2015, which will implement the recently announced developments, is to also provide for an extension to the "ring fence expenditure supplement"[13], a rule announced in Autumn Statement 2014 which compounds brought-forward losses, over ten, rather than six, years for offshore activities.

1 See UKCS maximising recovery review: final report.
2 Budget 2015, 1.130.
3 This rate follows an Autumn Statement 2014 announcement that the SC was to be reduced from 32% from 1 January 2015.
4 S 330 CTA 2010.
5 S 1 OTA 1975.
6 S 185 FA 1993.
7 S 299 CTA 2010.
8 Cf. Corporation tax: oil and gas companies: investment allowance and reduction in supplementary charge.
9 Driving investment: a plan to reform the oil and gas fiscal regime.
10 Fiscal reform of the UK Continental Shelf: consultation on an investment allowance.
11 Cf. Corporation tax: oil and gas companies: investment allowance and reduction in supplementary charge.
12 Cf. Fiscal reform of the UK Continental Shelf: response to the consultation on an investment allowance.
13 Cf. Ch 5 Pt 8 CTA 2010; cf. Corporation tax: extension of Ring Fence Expenditure Supplement.

NON-TAX ANNOUNCEMENTS

In addition to the significant tax breaks announced above, the Government will provide £20m of funding for a programme of seismic surveys designed to encourage off-shore exploration.[14] It also plans to give additional powers to the Oil & Gas Authority, a newly-established regulator of the sector,[15] including the power to scrutinise plans for decommissioning programmes.

If you have any questions or would like further information on measures outlined in this update, please contact:

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14 Budget 2015, 1.129.
15 See Call to Action: The Oil and Gas Authority Commission 2015, 3.1 and Autumn Statement 2014 2.212.

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