

Oil & Gas: “Radical” Reform of the UK Tax Regime

On 4 December 2014, the UK government published its initial conclusions of its review of the suitability of the UK oil & gas tax regime and set out a number of “radical” reforms to assist the industry.

Key findings

The key findings of the report are:

- UKCS operators are facing strong competition for scarce investment whilst the economics of the basin have fundamentally changed, with implications for the overall level of tax collected;
- the fundamentals of the tax regime remain sound, but now is the time for “radical” change within the existing regime to continue to attract investment; and
- there are opportunities to simplify the tax regime to provide greater certainty, a lower administrative burden, and fewer distortions.

Overriding principles in implementing reforms

Any reforms must support the government’s objective of maximising the economic recovery of hydrocarbon resources whilst ensuring a fair return on these resources for the nation. In particular, any reform is underpinned by the following:

- to be consistent with the objective of maximising economic recovery as new projects become more marginal, the overall tax burden must fall as the basin matures;
- when evaluating tax proposals, the government will consider the wider economic benefits of the industry in addition to revenues; and

- the government’s evaluation of what is a “fair return” will take into account the global competitiveness of commercial opportunities in the UK and UKCS, and take account of both commodity prices and costs.

In addition, the government expects any action taken by it in reforming the tax system to be matched by action from industry such as making significant improvements in production operations, improving cost-efficiency and commercial practices and greater industrial collaboration. This expectation flows from the government’s commitment to the tripartite approach recommended in the Wood Review.

The reforms

The “radical” reforms set out in the report are:

- a 2% reduction to the rate of the supplementary charge from 32% to 30% to demonstrate the government’s commitment to reduce the industry’s tax burden with effect from 1 January 2015 – the intention is to reduce the rate further in an affordable way;
- the introduction of a basin-wide “investment allowance” to reduce the effective tax rate further for those investing in the UKCS – a consultation how to implement this will be published in early 2015;
- an immediate extension of the ring-fence expenditure supplement from six to ten accounting periods to ensure companies already investing in the UKCS are given support to continue;
- financial support for seismic surveys in under-explored areas of the UKCS, working with industry for shared funding models – details are to be published at Budget 2015;

- the government is to have a discussion with industry on various options to support exploration through the tax system by way of tax credits of similar mechanisms – discussions will begin in 2015 following the establishment of the new Oil and Gas Authority and any mechanism will be carefully targeted and affordable; and
- development of options to improve access to decommissioning tax relief and work with the Oil and Gas Authority to consider options for reforming the tax

treatment of infrastructure – the consultation with industry is to begin in 2015.

The full text of the report can be obtained from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382785/PU1721_Driving_investment_-_a_plan_to_reform_the_oil_and_gas_fiscal_regime.pdf

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