CLIFFORD

CHANCE

Briefing note

March 2015

Oil & Gas Update: "Radical" Reform of the UK Tax Regime continues

The Government has announced that it will be making a number of changes to the UK oil and gas taxation regime, with some of the changes having immediate or retrospective effect. The changes, which are consistent with the "radical" reforms announced in December 2014 following the publication of the Wood Review, are designed to maximise the economic recovery of hydrocarbon resources whilst ensuring a fair return on these resources for the UK. The need for further changes has been driven to a large extent by the fall in world oil prices and the pressure that has put on the UK's North Sea oil industry.

Four new changes have been announced for inclusion in the Finance Act 2015:

- The Supplementary Charge ("SC") will be reduced from 30% to 20%. This is back dated to 1 January 2015 and comes on top of the 2% reduction from 32% to 30% announced last December.
- The Petroleum Revenue Tax ("PRT") rate is to be reduced from 50% to 35%. This will take effect for chargeable periods ending after 31 December 2015. PRT only applies in relation to older fields and the intention behind this reduction is to stimulate investment in these fields and extend their lifetimes.
- Following the Government's announcement in December 2014 that it would explore introducing a new basin-wide allowance to support continued investment on the UK Continental Shelf, the Government will be introducing a new "investment allowance" in relation to investment expenditure incurred from 1 April 2015. This new allowance will replace the existing offshore field allowances and simplify the existing regime. The way in which this works is that the allowance will exempt a portion of a company's profits from the SC. The amount of profit exempt from the SC will equal 62.5% of the investment expenditure.
- The "Enterprise Zone" at Tees Valley will be extended to include "oil and gas decommissioning".

In addition, the Government intends to introduce the following changes in the Finance Act 2015 following its previous announcement of these in December 2014:

- The Ring Fence Expenditure Supplement has been extended from six to ten years for all ring fence oil and gas losses and qualifying pre-commencement expenditure incurred on or after 5 December 2013.
- The Government intends to introduce a high pressure, high temperature cluster area allowance. This is being introduced to support the development of high pressure, high temperature projects and to encourage exploration and appraisal activity in the surrounding area or 'cluster'. The allowance will exempt a portion of a company's profits from the SC. The amount of profit exempt will equal 62.5% of the qualifying capital expenditure a company incurs in relation to a cluster from 3 December 2014 onwards.
- The Government will provide £20 million of funding in 2015/2016 for seismic and other geosciences surveys. This is to boost offshore exploration in under-explored areas of the UK Continental Shelf.

Authors

David Harkness
Partner

T: +44 20 7006 8949
E: david.harkness
@cliffordchance.com

Alex Tostevin
Senior Associate

T: +44 20 7006 2761
E: alex.tostevin
@cliffordchance.com