HMRC - OT00020 - The Taxation Of The UK Oil Industry: An Overview: The Current Fiscal Regime For Oil And Gas

The fiscal regime which currently applies to oil and gas exploration and extraction from the UK and the UK Continental Shelf consists of three elements.

Petroleum Revenue Tax (PRT). This is a special tax on oil and gas production from the UK and UK Continental Shelf. It is a field based tax charged on profits arising from individual oil fields: It is not charged on the aggregate profits from all oil fields owned by each company. The current rate of PRT is 50%. PRT was abolished in FA93 for all fields given development consent on or after 16 March 1993. (See OT03500).

Ring Fence Corporation Tax (RFCT) This is the standard corporation tax applicable to all companies (subject to some important modifications e.g. relating to capital allowances) with the addition of a ‘ring fence’. The ring fence prevents taxable profits from oil and gas extraction in the UK and UK Continental Shelf being reduced by losses from other activities (see OT21050) or by excessive interest payments (see OT22005). From the 1 April 2008 the main rate of corporation tax in the ring fence has been fixed at 30%.

Supplementary Charge (SC) This is an additional charge originally set at 10% on a company’s ring fence profits excluding finance costs. The supplementary charge was introduced from 17 April 2002 (see OT21200). The supplementary charge was increased to 20% for APs beginning on or after 1 January 2006 and 32% from 24 March 2011.

In addition, Royalty was charged up to 31 December 2002, when it was abolished. It was levied at 12½% of the gross value of oil and gas won in a particular licence area, less an allowance for the costs associated with the conveying, treating and initial storage of the oil and gas between the well head and the point of valuation, usually the terminal onshore. Royalty was payable on a licence basis in exchange for the right, granted under licence, to extract oil and gas belonging to the Crown. It applied to onshore licences from 1934 and was extended to offshore licences when they were first issued in 1964.

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