HMRC - OT00190 - The Taxation Of The UK Oil Industry: An Overview: Other Developments To The Fiscal Regime 1975 To 2014

There have been various incremental changes in the oil tax regime since 1975.

Developments to Petroleum Revenue Tax

There have been three major changes to the PRT system, in addition to a range of smaller adjustments.

The Oil Taxation Act 1983 brought tariffs paid for the use of infrastructure linked to a field into the PRT regime. This reflected the increased sharing of assets between fields. Finance Act 2004 exempted from PRT tariff receipts for new fields and certain new assets from 9 April 2003.

FA1993 abolished PRT for fields granted development consent on or after 16 March 1993. It also reduced the rate of PRT for existing fields from 75% to 50% with effect from 1 July 1993. The aim of these changes was to encourage greater investment in the North Sea by increasing companies’ potential rates of return. In addition and, subject to transitional rules, the costs of finding new fields ceased to be eligible for PRT relief.

FA2006 provided a new basis for determining the market value of oil for PRT purposes. It replaced the 1987 method of working out a value for each for type of crude for delivery on any day in a particular month with a method that produces a market value for the delivery date. For types of crude for which there is readily available published data, the FA2006 method uses an arithmetic mean of published prices for delivery on the specified date and 2 days either side. For other types of crude and products other than light gases, a method based on actual arm’s length disposals is used.

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Developments to Ring Fence Corporation Tax and the Supplementary Charge

There have been a number of incremental adjustments to the RFCT regime since 1975, but the substance of the ring fence remains unchanged. Most significantly, capital gains arising on the disposal of field interests or field assets were brought within the ring fence in 1984, and the special ring fence rules for advance corporation tax (ACT) were repealed in 1998 with the abolition of ACT. The ring fence (excluding the special rules for valuing oil) was also brought into the revised transfer pricing provisions in ICTA88\Sch28AA.

A 10% supplementary charge on ring fence profits excluding finance costs was introduced from 17 April 2002. FA2006\S152(1) increased the supplementary charge to 20% for APs beginning on or after 1 January 2006, while FA2011\S7(1) increased the supplementary charge to 32% from 24 March 2011.

100% first-year allowance was introduced for expenditure incurred on or after 17 April 2002 on machinery and plant and mineral extraction relating to ring fence activities. At the same time a 24% allowance for long-life assets was introduced. This long-life asset rate of 24% was removed for expenditure incurred on or after 12 March 2008 (see OT21200 onwards).

An exploration expenditure supplement (EES) was introduced in 2004 (see OT26080). The EES was introduced to encourage new entrants in the North Sea who may not have any profits against which to set their capital allowances on exploration and appraisal expenditure. The EES adds 6% to unused allowances from one period to the next, to increase their economic value.

The Ring Fence Expenditure Supplement (RFES) was introduced by FA2006\S154. RFES extended and replaced EES and applies to claims for all unrelieved expenditure for APs beginning on or after 1 January 2006 (see OT26105 onwards). The rate of RFES was increased to 10% for accounting periods beginning on or after 1 January 2012.

From August 2005, oil companies that would otherwise have paid their ring fence corporation tax and supplementary charge in quarterly instalments make their payments in three instalments (see OT21300).

In FA2008, abandonment expenditure was renamed general decommissioning expenditure. The scope of the relief was extended by removing the requirement that expenditure be incurred in connection with a programme of abandonment and so can apply to mid-life decommissioning. This amendment is effective for expenditure incurred on or after 12 March 2008 (see OT28020).

The period for which expenses incurred after the cessation of a ring fence trade qualify for the relief was extended from 3 years to a period based on time limits and requirements imposed by the Secretary of State in connection with field abandonment. This applies to ring fence trades that ceased on or after 12 March 2008 (see OT28200).

FA2008 also introduced additional carry back for ring fence CT losses attributable to general decommissioning expenditure (see OT21065).

FA2009 introduced the field allowance for new qualifying fields which removes an amount of profits from the scope of the supplementary charge. This amount depends on the type of qualifying field. The scope of the field allowance was extended in 2010 and 2012.

FA2009 also introduced an exemption from tax for chargeable gains arising on ring fence assets where the disposal proceeds are reinvested in other ring fence assets.

The taxation provisions for the UK Oil Industry were consolidated in the Corporation Tax Acts of 2009 & 2010 alongside general corporation tax provisions (see OT00500).

FA2012 included provision for the legislation’s extension to existing fields as additionally developed oil fields. The amendments to provide this extension came into force on 1 April 2013.

FA2014 widened the chargeable gains tax exemption in FA2009 to include chargeable gains arising on exploration and appraisal (E&A) assets where the disposal proceeds are reinvested in either E&A expenditure or ring fence assets.

FA2014 widened the substantial shareholdings exemption so that a company is treated as having held a substantial shareholding in a subsidiary being disposed of for the 12 month period before the disposal where the subsidiary has been using assets for oil and gas exploration and appraisal activity. For guidance on the exemption (see CG53000).

FA2014 also introduced a ring fence cap for certain lease payments as protection for a measure. This ring fence cap applies to oil contractors.

You can obtain copies of these acts on the Government Legislation website along with full tables of destinations and origins this can be found at .

The legislation affecting Petroleum Revenue Tax was not changed by the consolidation acts.

The legislation affecting Capital Allowances and Capital Gains was not included in the consoldation acts.

You can find a table showing manual page numbers, the new consolidated legislation reference and the old legislative reference at OT00500.

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