HMRC - OT21001 - Introduction To The Ring Fence

Oil production companies are subject to normal corporation tax rules, but with a number of modifications. The reasons for these modifications are partly explained in the section of this manual setting out the history of the oil taxation regime. The corporation tax ring fence is an entirely different concept from the PRT ring fence, although the corporation tax ring fence was conceived at the same time and, again, exists in order to protect the exchequer (see OT00010).

For PRT each individual field is separately ring fenced on a field by field basis. The corporation tax ring fence is of greater circumference and embraces basically all the oil exploration and production activity carried on by the company.

The corporation tax ring fence is in effect an added layer of legislation over and above the normal corporation tax regime applicable to all trades and commercial etc activities. Although the corporation tax ring fence does not directly extend the scope of the tax charge it is

a mechanism for measuring profits from oil exploitation and

safeguarding the tax arising therefrom by separating the whole of a company’s exploration and production operations from its other activities.

A supplementary charge was introduced in Finance Act 2002 on companies producing oil and gas in the UK or on the UK continental shelf. The supplementary charge took effect from 17 April 2002. The charge was originally set at 10% but was increased on the 1 January 2006 to 20%. The supplementary charge is levied on the ring-fence profits without deduction for financing costs. Finance Act 2002 also introduced first-year allowances for certain ring fence plant and machinery and mineral extraction expenditure.

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