



GOVERNMENT SERVICES

Administrative  
Burdens – HMRC  
Measurement  
Project

Report by Tax Area  
Part 20: Petroleum Revenue Tax

20 March 2006  
Restricted – Commercial

TAX



**HMRC**

**Administrative Burdens -  
HMRC Measurement Project  
Report by Tax Area  
Part 20: Petroleum Revenue Tax**

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KPMG LLP  
20 March 2006

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# 1 **How to use this report**

This report should be read in conjunction with the main report on the Administrative Burdens - HMRC Measurement project. Both reports seek to give an overview of the model that has been built to measure the tax administrative burden for UK business. The reports give examples of some early analysis of areas of high burden, outline how the model was built and the size and format of the resulting data framework.

Like the UK tax system the model is large and complex. Thus the reports can only give a flavour of the model's full potential. The detailed analysis looking at specific pieces of tax regulation, the setting of the baseline and targets, how to link the administrative burden to the full range of impact assessments and wider policy initiatives will be done by HMRC as it takes the model forward, using the data framework.

For ease of reference, the main report is hereafter referred to as Volume 1 and this report, by tax area, is hereafter referred to as Volume 2.

## 1.1 **Volume 1**

Volume 1 is a good starting point for an overview of the model and the dynamics of the tax administration burden for UK business. The main body of Volume 1 provides a brief description of the background to the model, how the model was built, some examples of early analysis at a total level and a summary of the overall themes arising from business interviews. This report uses, from time to time, technical terms set out in the Standard Cost Model. The Glossary to Volume 1 seeks to give a practical explanation of each term.

There are a series of Annexes to Volume 1:

- **Annex A** is a detailed description of the methodology and how the model was applied in practice
- **Annex B** provides an example of the guide used to interview businesses
- **Annex C** provides a summary of the overall themes arising from interviews with businesses. The focus is on issues that do not relate to one specific tax but were raised in the context of interviews on many different subjects
- **Annex D** addresses demarcation issues: what regulation is included in the model and what is not

## 1.2 **Volume 2**

Volume 2 should be read in conjunction with Volume 1 for details of key terms used in the model and early analysis.

Volume 2 is in 28 Parts, one for each of the tax areas, described in further detail below. It gives an overview of the administrative burden, early analysis and business feedback for

each tax area. Volume 2 can only give a flavour of the model's potential. It is already clear that the early analysis may prompt further questions. The further detailed analysis looking at specific pieces of tax regulation will be done by HMRC as it takes the model forward, using the data framework.

The tax areas are:

Part 1	Aggregates Levy	Part 15	Inheritance Tax
Part 2	Air Passenger Duty	Part 16	Insurance Premium Tax
Part 3	Capital Allowances	Part 17	Intrastat
Part 4	Capital Gains Tax	Part 18	Landfill Tax
Part 5	Climate Change Levy	Part 19	Pensions
Part 6	Construction Industry Scheme	Part 20	Petroleum Revenue Tax
Part 7	Corporation Tax	Part 21	Stamp Duty
Part 8	Customs	Part 22	Stamp Duty Land Tax
Part 9	Double Tax Treaties	Part 23	Stamp Duty Reserve Tax
Part 10	EC Sales List	Part 24	Tax Credits
Part 11	Employer Taxes	Part 25	Tax Management Provisions
Part 12	Excise Duties	Part 26	Tonnage Tax
Part 13	Gaming Duties	Part 27	Value Added Tax
Part 14	Income Tax for Businesses	Part 28	Withholding Tax

### 1.3 **Table conventions**

The early analysis in the reports is based on tables of monetary amounts and percentages derived from the data framework. These tables look at the administrative burden in a number of ways, at different levels of detail and for different areas of tax (some large, some small), to give examples of how the model can be used. This means that different measurement units are used for the monetary amounts and percentages, depending on which aspect of the model is being looked at. For example, some tables show monetary amounts to the nearest £ million and percentages in whole numbers. Other tables use different conventions. The overarching aim is that a monetary amount or percentage is shown and that the tables are as helpful as possible.

The underlying data held in the data framework is extremely detailed and has been rounded up to prepare the tables. Due to complex roundings not all the tables, as presented, will add up to the total shown on the table.

A dash '-' in the tables indicates a genuine zero value. By contrast, the figure '0' indicates a negligible number in the context of that table.

## 2 Executive summary

The administrative burden of Petroleum Revenue Tax ('PRT') is £8m, 0.16% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	1,428	17.04%
Acquisition costs	1	0.01%
External costs	6,951	82.95%
<b>Total burden</b>	<b>8,380</b>	<b>100.00%</b>

The obligations relating to PRT returns are predominantly carried out in house. However, the most burdensome obligation in this area is the appeal to the Special Commissioners against an assessment or determination made on a participator by HMRC, which is 79% of the total burden for PRT. External advice may be sought on particular technical aspects of the legislation, and in particular, on the approach to take with HMRC when making a claim or an appeal. This explains the high proportion of external costs.

PRT applies to oil companies and is charged on each participator's share of the profits of each individual oil field. The key burden identified is an appeal to the Special Commissioners, although this is really a factor of the high cost attributed to an appeal in the model and the relatively high population applied.

The regime has been in place for over 30 years and has not changed since 1993, when PRT was abolished for new fields. It is therefore a well-established tax, operated by a very small number of businesses. The work is mainly done in house. Although the returns may still take time to prepare, there are set processes for preparing the returns that have been in place for some time.

The only business feedback of significance related to the need for HMRC to understand commercial pressures when asking for changes to procedures.

## 3 Introduction

### 3.1 Background

See Volume 1 Section 3.1.

### 3.2 Overview of regulation affecting the private sector

#### 3.2.1 Description of the scope and objectives of tax area

Unlike Corporation Tax, which is charged on the aggregate profit arising from all oil fields in which a business is a participator, Petroleum Revenue Tax ('PRT') is charged on each participator's share of the profits of each individual oil field. (A participator is, broadly, a person who holds a production licence under the Petroleum Act). PRT profits and losses are calculated using the statutory procedure set out in the Oil Taxation Act 1975 and are not the profits shown in the statutory accounts. The scope of PRT was significantly amended by the Oil Taxation Act 1983 to reflect the more complex infrastructure arrangements that had been developed by that date. Tariff and disposal receipts arising from the use of field assets were brought directly into charge and the provisions for apportioning expenditure between fields were altered. PRT was abolished on 16 March 1993 for all fields given development consent on or after that date. The current rate of PRT is 50%.

There are many different forms which businesses are required to complete to comply with their PRT obligations. The main forms are as follows:

- **PRT 1** – each participator in an oil field is required to complete form PRT 1 for each chargeable period for submission to the HMRC Large Business Service (Oil and Gas Sector) within two months of the end of that period. There are two chargeable periods per year, therefore returns are required every six months. Broadly, this return reflects the participators' share of taxable income from the oil field less their share of allowable costs
- **PRT (D1)** – the statutory declaration required for every form PRT 1 submitted
- **PRT 1A** – each participator is required to deliver this additional form regarding certain sales of oil, called 'relevant sales', within the chargeable period. Although a business may be a participator in more than one field, only one form need be completed by each participator
- **PRT 2** – the responsible person (i.e. the participator appointed by the HMRC Large Business Service (Oil and Gas Sector) to have an overall responsibility for the submission of returns and expenditure claims for the field) is required to submit a form PRT 2 to the HMRC Large Business Service (Oil and Gas Sector) within one month of the end of the chargeable period. The return provides basic details about the oil 'won and saved' by way of the awarding of a licence for each field
- **PRT (D2)** – the statutory declaration required for every form PRT 2 submitted

- **PRT 6** - a statement of tax payable on account required to be submitted within two months of the end of the accounting period
- **PRT 30** – a responsible person may make a claim for allowable expenditure on this form
- **PRT (D6)** – the statutory declaration for required for every form PRT 30 submitted
- **PRT 40** – a participator may make a claim for allowable expenditure on this form if it can satisfy the Board that a claim made by form PRT 30 would be inappropriate for reasons of ‘trade secrecy’
- **PRT (D4)** – the statutory declaration required for every form PRT 40 submitted

Although this part of the report is on PRT only, for completeness, it should be noted that in addition to PRT, the tax regime for oil and gas exploration and extraction from the UK and the UK Continental Shelf also includes:

- **Ring Fence Corporation Tax** – this is the standard Corporation Tax applicable to all companies, with the addition of a ‘ring fence’ so that taxable profits from oil and gas extraction in the UK and UK Continental Shelf are separated from other profits or losses of the company
- **Supplementary Charge** – this is charged at 10% on ring fence profits from the production of oil and gas in the UK and on the UK Continental Shelf

A further aspect of the fiscal regime affecting the oil and gas sector is Royalty. Since Royalty is not a tax and is operated by Department of Trade and Industry, it is outside the scope of this report.

### 3.2.2 **Summary statistics relating to the regulations included within the scope of the measurement exercise**

**Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area**

<b>Tax Area</b>	<b>Number of sources of regulations</b>	<b>Number of forms</b>	<b>Number of Information Obligations</b>	<b>Number of Data Requirements</b>
Petroleum Revenue Tax	10	12	63	75
<b>HMRC Total</b>		<b>279</b>	<b>2,692</b>	<b>6,614</b>

## 3.3 **Approach and methodology**

### 3.3.1 **Overall methodology**

See Volume 1 Section 3.2 and Annex A.



**3.3.2 Major methodological issues specific to tax area**

A normally efficient business in the context of PRT has the following particular characteristics:

- it prepares the PRT returns in house
- it uses software to produce the PRT returns, although the software used is the same as that used to prepare Corporation Tax returns.

## 4 Administrative burden on business

### 4.1 Overview

#### 4.1.1 Summary of the administrative burden results

**Table 2: Administrative burden – overview**

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Petroleum Revenue Tax	8	0%
<b>HMRC Total</b>	<b>5,100</b>	<b>100%</b>

The burden relating to Petroleum Revenue Tax is a very small percentage of the overall burden on business. It affects only oil businesses.

### 4.2 Administrative burden by type of Information Obligation

Table 3 shows the number of IOs analysed by type of IO and the administrative burden for each type of IO. As set out in Volume 1 Section 3.2.2, the model uses 13 IO types, each of which represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system.

Table 3 uses the terminology in the SCM; please refer to Volume 1 – Glossary for a practical explanation of each term.

**Table 3: Burden by Information Obligation type**

Information Obligation type	Admin burden £000	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Framing complaints and appeals	6,665	79.53%	15	23.81%
Applications for subsidies, grants, allowances or credits for ...	1,055	12.59%	19	30.16%
Returns and reports	566	6.75%	5	7.94%
Notification of activities/registration	91	1.09%	6	9.52%
Applications for permission for or exemption from	2	0.02%	6	9.52%
Cooperating with audits/inspections of ...	1	0.01%	6	9.52%
Application for Guidance	0	0.00%	1	1.59%
Providing statutory information for third parties	0	0.00%	3	4.76%
Applications for authorisation	0	0.00%	2	3.17%
Statutory labelling for third parties	-	-	-	-
Keeping commercial emergency plans and programmes updated, etc ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
<b>Total</b>	<b>8,380</b>	<b>100.00%</b>	<b>63</b>	<b>100.00%</b>

<b>HMRC total</b>	<b>5,100,094</b>		<b>2,692</b>	
<b>Share of HMRC total</b>	<b>0.16%</b>		<b>2.34%</b>	

The key IOs relate to making appeals against assessments issued by HMRC (80%), making claims (13%) and the filing of returns (7%). The reasons for the apparently high burden on making appeals are discussed in further detail at 4.5 below.

### 4.3 Administrative burden by origin of Information Obligation

All the legislation affecting PRT is domestic in origin.

#### 4.4 **Administrative burden by business size**

Table 4 shows the administrative burden broken down by business size.

**Table 4: Burden by business size**

Tax Area	Total administrative burden					
	Nano £m	Micro £m	Small £m	Medium £m	Large £m	Total £m
Petroleum Revenue Tax	-	-	-	2	7	8
<b>HMRC total</b>	<b>1,216</b>	<b>1,952</b>	<b>925</b>	<b>364</b>	<b>642</b>	<b>5,100</b>

*How the table is derived from the model*

As outlined in Volume 1 Section 3.2.3.2, the administrative burden is a function of price and quantity. Thus the burden shown in a particular size segment is driven by the number of business affected by the IOs in that size segment as much as by the price for that size segment.

As noted in Volume 1 Section 3.2.3.1, considerable efforts have been made to ensure the population numbers are not unreasonable at a total level. As outlined in Volume 1 Section 3.2.3.1 and Section 3.3, the allocation of total population to segment populations has been done using a generic model. This means that the segment population in the model may be out of line with the segment population in practice, and also means that Table 4, the analysis of the burden by size segment, needs to be interpreted with care.

*Interpreting the table*

The burden applies only to medium and large businesses since these have been identified by HMRC as the business types falling within the PRT regime.

## 4.5 Administrative burden by most burdensome Information Obligations

**Table 5: Top 5 obligations by total administrative burden**

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£000	£000	£000	£000
Appeal by participator against assessment	6,651	603	6,049	-
Claim made by participator in relation to allowance of expenditure (other than abortive exploration expenditure)	1,049	499	550	0
Participators to file return for each chargeable period	440	150	290	0
Returns by responsible person	122	60	62	0
Return of arm's length sales	60	60	-	0
<b>Total</b>	<b>8,323</b>	<b>1,372</b>	<b>6,951</b>	<b>0</b>
<b>Share of total for tax area</b>	<b>99.32%</b>	<b>96.04%</b>	<b>100.00%</b>	<b>65.13%</b>

<b>Total for tax area</b>	<b>8,380</b>	<b>1,428</b>	<b>6,951</b>	<b>1</b>
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The most burdensome IO is the appeal to the Special Commissioners against an assessment or determination made on a participator by HMRC, which is 79% of the total burden for PRT. This appears as the most burdensome of the PRT IOs for two reasons. First, HMRC has advised that there is a large number of this sort of appeal. Second, where appeals are made to the Special Commissioners, this can be a very burdensome process. The population number used in the model may need to be revisited by HMRC.

The second most burdensome IO is the claim for the allowance of expenditure made through form PRT 40 (13% of total). This is because this return does require reanalysis of accounting information to determine allowable expenditure.

The remaining IOs in this list are the various returns required.

Although PRT work is predominantly carried out in house, external advice may be sought on particularly technical aspects of the legislation, and in particular, on the approach to take with HMRC when making a claim or an appeal. This explains the relatively high level of external cost attached to the appeal IO.

## 4.6 Administrative burden by administrative activity and forms

Table 6 analyses the administrative burden into the three component price parts (internal costs, external costs and acquisition costs). It also analyses internal costs across the 16 administrative activities set out in the SCM. Table 6 uses the description of

administrative activities in the SCM. A practical interpretation of those activities is given in Volume 1 – Glossary.

The first part of the table analyses internal costs. The second part of the table analyses the total burden into the three component parts of price.

**Table 6: Summary of burden by standard activity type**

Activity	Form-filling related		Non form-filling related		Total	
	£000	%	£000	%	£000	%
Familiarisation with the Information Obligation	15	1.02%	5	0.32%	<b>19</b>	1.34%
Information retrieval	214	14.97%	96	6.74%	<b>310</b>	21.71%
Assessment	70	4.89%	90	6.33%	<b>160</b>	11.22%
Calculation	69	4.83%	88	6.19%	<b>157</b>	11.03%
Presentation of figures	31	2.15%	39	2.75%	<b>70</b>	4.89%
Checking	93	6.50%	90	6.32%	<b>183</b>	12.82%
Correction	19	1.30%	37	2.61%	<b>56</b>	3.91%
Description	0	0.03%	100	7.00%	<b>100</b>	7.04%
Settlement/payment	-	-	0	0.03%	<b>0</b>	0.03%
Internal meetings	74	5.19%	44	3.09%	<b>118</b>	8.28%
External meetings	130	9.11%	37	2.60%	<b>167</b>	11.71%
Inspection by public authorities	-	-	-	-	-	-
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	17	1.16%	17	1.19%	<b>33</b>	2.34%
Reporting/submitting information	44	3.07%	9	0.62%	<b>53</b>	3.68%
<b>Internal total</b>	<b>774</b>	<b>54.21%</b>	<b>654</b>	<b>45.79%</b>	<b>1,428</b>	<b>100.00%</b>

		Share of total burden %		Share of total burden %		Share of total burden %
<b>Internal total</b>	<b>774</b>	<b>9.24%</b>	<b>654</b>	<b>7.80%</b>	<b>1,428</b>	<b>17.04%</b>
<b>Acquisition costs</b>	<b>1</b>	<b>0.01%</b>	<b>0</b>	<b>0.00%</b>	<b>1</b>	<b>0.01%</b>
<b>External costs</b>	<b>902</b>	<b>10.76%</b>	<b>6,049</b>	<b>72.18%</b>	<b>6,951</b>	<b>82.95%</b>
<b>Total burden</b>	<b>1,677</b>	<b>20.01%</b>	<b>6,703</b>	<b>79.99%</b>	<b>8,380</b>	<b>100.00%</b>

Due to the fact that the appeal to the Special Commissioners is the most burdensome IO within this tax area, the administrative activities shown below are dominated by the activities involved in this IO, namely, information retrieval (22%), assessment of what

information is required to construct the appeal (11%), and both internal and external meetings (20% in total).

The activity of checking also features as a relatively high proportion, at 13%. This is a combination of the fact that the most burdensome IO is an appeal, which may involve quite technical work, and the fact that the PRT regime is one requiring returns to be submitted on a six monthly basis which may involve some significant figures. Internal controls will generally require each return to be checked by a senior person prior to submission.

#### 4.7 **Administrative burden by Information Obligations to third parties**

**Table 7: Breakdown of administrative burden of obligations to third parties**

Tax Area	Total administrative burden			
	Obligations to third parties	Share of HMRC total	All other obligations	Share of HMRC total
	£m		£m	
Petroleum Revenue Tax	0	0%	8	0%
<b>HMRC Total</b>	<b>892</b>	<b>17%</b>	<b>4,208</b>	<b>83%</b>

The obligations to third parties in the context of PRT are negligible.

## **5 Other findings**

This section summarises the feedback recorded from businesses interviewed as part of the project work. It therefore represents those businesses' views rather than the views of HMRC or KPMG.

### **5.1 Irritations**

One business felt that HMRC appeared insensitive to business constraints. An example was given of the insistence by HMRC for PRT/Corporation Tax reconciliations where there is no statutory obligation to do so, and withholding decisions on expenditure claims if these reconciliations are not carried out. This business felt that insufficient time had been allowed by HMRC for businesses to set up a process to make this part of their annual reporting cycle.

Some smaller oil and gas businesses falling outside the remit of the Large Business Service now have their affairs dealt with in Glasgow. One business felt that as a consequence they were now receiving "irrelevant and immaterial enquiries".

### **5.2 Simplifications**

None identified.

### **5.3 Examples of best practice**

HMRC has a dedicated office dealing with the oil and gas industry. This allows the oil businesses to talk to HMRC specialists and agree an approach where there are uncertainties.

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