

Budget 2009



BN10

22 April 2009

NORTH SEA FISCAL REGIME: INCENTIVISING PRODUCTION

Who is likely to be affected?

1. Oil and gas companies that operate in the UK or on the UK Continental Shelf (UKCS).

General description of the measure

2. Budget 2009 announced a package of measures which will provide support through the North Sea fiscal regime for investment in the UK and UKCS.
3. Legislation in Finance Bill 2009 will introduce a new 'Field Allowance' which will reduce the rate of tax paid in respect of certain challenging new developments. Specific types of new fields will receive a field allowance which, when the field is producing, can be offset against supplementary charge.

Operative date

4. The new Field Allowance will apply to fields given development consent on or after 22 April 2009.

Current law and proposed revisions

5. Companies that produce oil and gas from the UK and UKCS from new fields are subject to ring fence corporation tax (30 per cent) and supplementary charge (20 per cent).

Field Allowance

6. A new 'Field Allowance' is to be introduced which will provide certain categories of new field with a fixed allowance which can, over time be offset against the supplementary charge payable by the companies involved in the field. Once that allowance is exhausted the field will, in effect, pay the full North Sea rate of tax. The speed of exhaustion will depend on the profitability of the company – i.e. if oil prices rise then, all other things remaining equal, the allowance will be exhausted more quickly.

7. The field allowance applies to small fields, ultra heavy oil fields and ultra high temperature/high pressure fields:
- the field allowance for small fields is £75 million for fields with oil reserves (or gas equivalent) of 2.75 million tonnes or less, reducing on a straight line basis to nil for fields over 3.5 million tonnes. In any one year the maximum field allowance (for a field with total allowance of £75 million) is £15 million;
 - the field allowance for ultra heavy oil fields is £800 million for fields with an American Petroleum Institute gravity below 18 degrees and a viscosity of more than 50 centipoise at reservoir temperature and pressure. In any one year the maximum field allowance is £160 million; and
 - the field allowance for ultra high temperature/pressure fields is £800 million for fields with a temperature of more than 176.67 degrees Celsius and pressure of more than 1034 bar in the reservoir formation. In any one year the maximum field allowance is £160 million.

Further advice

8. If you have any questions about this change, please contact Mike Crabtree on 020 7438 6576 (email: mike.crabtree@hmrc.gsi.gov.uk) or Paul Philip on 020 7438 6993 (email: paul.philip@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk