

1 Abolition of PRT for fields recommissioned after earlier decommissioning
[j0310c1]

- (1) Section 185 of FA 1993 (abolition of PRT for oil fields with development consents on or after 16th March 1993) is amended as follows.
- (2) In subsection (1) (meaning of “non-taxable field” and “taxable field”), after paragraph (b) insert “or an oil field which does not meet the conditions in paragraphs (a) and (b) above but which does meet the conditions in subsection (1A) below”.
- (3) After that subsection insert –

“(1A) An oil field meets the conditions in this subsection if –

 - (a) the Secretary of State has at any time approved an abandonment programme under Part 4 of the Petroleum Act 1998 (or Part 1 of the Petroleum Act 1987) in relation to all offshore installations and submarine pipelines in the field;
 - (b) that programme has been carried out to the satisfaction of the Secretary of State; and
 - (c) a development decision is made in relation to the field on or after 16th March 1993.

(1B) For the purposes of subsection (1A)(c) above, a development decision is made in relation to an oil field when –

 - (a) consent for development is granted to a licensee by the Secretary of State in respect of the whole or part of the field; or
 - (b) a programme of development is served on a licensee or approved by the Secretary of State for the whole or part of the field.”
 - (4) In subsection (7) (meaning of “development” etc), for “subsections (1) and (2)” substitute “this section”.
 - (5) An oil field which meets the conditions in subsection (1A) of section 185 of FA 1993 (as inserted by subsection (3) above) becomes a non-taxable field for the purposes of any enactment relating to petroleum revenue tax –
 - (a) in any case where the development decision is made before 1st July 2007, on that date, and
 - (b) in any other case, on the date on which the development decision is made.

2 Allowance of unrelievable loss from abandoned field [j0310c2]

- (1) In section 6 of the Oil Taxation Act 1975 (c. 22) (allowance of unrelievable loss from abandoned field), after subsection (4) insert—
 - “(4A) For the purposes of this section and Schedule 8 to this Act, the winning of oil from an oil field shall not be regarded as having permanently ceased until—
 - (a) the Secretary of State has approved an abandonment programme under Part 4 of the Petroleum Act 1998 in relation to all offshore installations and submarine pipelines in the field; and
 - (b) that programme has begun to be carried out.”
- (2) The amendment made by this section is deemed to have come into force on 1st July 2007.

RESTRICTED BUDGET

(1)

1. Petroleum revenue tax

That provision may be made amending any enactment relating to petroleum revenue tax.

EXPLANATORY NOTE

MEASURE 310: PETROLEUM REVENUE TAX: ABOLITION FOR FIELDS RECOMMISSIONED AFTER EARLIER DECOMMISSIONING

SUMMARY

1. Clause 1 provides for the charge to Petroleum Revenue Tax (PRT) to be removed from oil or gas fields where decommissioning has taken place and the field is subsequently redeveloped.
2. The change will have effect from 1 July 2007. All fields already meeting the new qualifying criteria will cease to be chargeable to PRT from that date. Following this date, fields will be removed from the charge to PRT on the date that consent is given for redevelopment by the Secretary of State for the Department of Trade and Industry (DTI).
3. Clause 2 clarifies that the winning of oil from an oil field is regarded as permanently ceased only when decommissioning has commenced. This amendment removes doubt as to how the current references to “permanently ceasing” and the “permanent cessation” of the winning of oil should be interpreted. This amendment also comes into effect from 1 July 2007.

DETAILS OF THE CLAUSE

4. Clause 1 paragraph (1) amends section 185 of Finance Act 1993 which defines a non taxable field as being one given development consent on or after 16 March 1993.
5. Paragraph (2) inserts into section 185 subsection 1 the alternative of a field not qualifying under the original criteria but meeting the new criteria to be inserted by paragraph (3) below.
6. Paragraph (3) inserts into section 185 after subsection 1, new subsections 1A and 1B that list the new qualifying criteria. These are that a field must have been decommissioned in accordance with a DTI approved abandonment programme, it must have been agreed by the DTI that the programme has been satisfactorily completed and consent for redevelopment must have been given.
7. Paragraph (4) ensures that the meaning of “development” found in section 185 subsection 7 also applies to the new criteria.

8. Paragraph (5) brings the change into effect for fields already meeting the new criteria as of 1 July 2007 and, if later, from the day redevelopment consent is given.
9. Clause 2 Paragraph (1) amends section 6 of the Oil Taxation Act 1975 which deals with the allowance of unrelievable losses from abandoned fields. It inserts new subsection 4A which provides that the winning of oil will not be accepted as permanently ceased until the DTI have approved an abandonment programme for the field and the programme has commenced.
10. Paragraph (2) brings the amendment into effect from 1 July 2007.

BACKGROUND NOTE

11. Petroleum Revenue Tax was introduced by the Oil Taxation Act 1975 and repealed for all fields awarded development consent on or after 16 March 1993 in Finance Act 1993. PRT is a field based tax. Fields liable to PRT are currently charged at 50% of their net income from extracting oil or gas in the UK or a designated area (the UK continental shelf). There are a number of reliefs and allowances that protect smaller and more marginal fields from paying tax.
12. The boundary of each field is determined by the Secretary of State for the DTI. It is usual for each field to have more than one participator each with a share of interest in the licences covering the field area.
13. Major reforms in FA 1993 ended the charge to PRT for any fields receiving development consent from the DTI on or after 16 March 1993. Such fields are known as “non taxable” fields and cannot generate any reliefs or surrender reliefs or losses to those fields remaining within the charge to PRT. The policy rationale for such changes was that the PRT regime was less appropriate for the smaller and more difficult to develop fields discovered in the 1990s and the Government felt repealing PRT was the best way to encourage investment in these fields.
14. PRT is a field based tax. This means that a field remains subject to PRT for the whole of its life. A field is defined by the field determination made by the DTI and supported by the production licences for the area of the North Sea in which the field lies. As long as the licences remain, then the field continues to exist. This means that even if a field has been totally decommissioned back to a bare sea bed, it remains within the charge to PRT should any further oil or gas production activities take place.
15. Where a previously decommissioned field is redeveloped then most if not all of the reliefs and allowances introduced to offset PRT will already have been used. This means that PRT is due on any profits as soon as development costs have been offset. This produces an economic

distortion compared with new fields that are not liable to PRT and means that some redevelopment of old PRT fields may not go ahead. This measure aims to remove that distortion by treating such fields as new fields and therefore outside the scope to PRT.

16. Before decommissioning can take place, the DTI must agree that a field has permanently ceased. Because of developments in new technology and the fact that high oil prices mean that production that was considered uneconomic some years ago is now worthwhile, it is becoming increasingly difficult to say with any degree of certainty that production has permanently ceased within the meaning of the tax legislation. The second part of this measure aims to provide that certainty.