

# Oil and Gas Taxation: Ring Fence Expenditure Supplement

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## Who is likely to be affected?

Oil and gas companies within the UKCS fiscal regime that do not have sufficient current taxable income against which to off-set their expenditure.

## General description of the measure

Increase to the annual rate of Ring Fence Expenditure Supplement (RFES) [i.e. the amount by which companies can uprate losses] from 6% to 10%.

## Policy objective

In the course of discussions with industry following Budget 2011, the Government identified that the ability of a company to benefit fully from the field allowance is dependent on whether a company has sufficient current taxable income against which to off-set expenditure. This issue is addressed to some extent by the Ring Fence Expenditure Supplement.

The increase of the RFES rate to 10% will help ensure existing field allowances work more effectively and equitably to support investment in marginal fields. It also brings RFES in line with the discount rate typically used by the sector.

## Background to the measure

In Budget 2011, as part of a package of measures to help motorists cope with high petrol prices, the Government announced a Fair Fuel Stabiliser that would be funded by higher taxation of the profits of oil and gas companies when oil prices are high.

At the same time, the Government committed to consider with the oil and gas industry the case for a new category of field that would qualify for field allowance to support investment in marginal fields.

This change to the RFES rate will support the ongoing considerations on new categories of field qualifying for field allowance.

## Detailed proposal

### Operative date

The increase in RFES will be effective for accounting periods beginning on or after 1 January 2012.

### Current law

Corporation Tax Act 2010; Section 307 - Section 329

The aim of RFES is to help companies involved in exploring for oil or gas, or in the development phase in the UK or on the UK Continental Shelf that do not yet have sufficient taxable income against which to set their costs and capital allowances.

RFES currently adds a 6% per annum supplement to the amount of losses carried forward from one period to another for up to six accounting periods (not necessarily consecutively), to maintain the time value of exploration, appraisal and development costs.

### Proposed revisions

The Government will lay an Order before the House of Commons increasing the rate of the Ring Fence Expenditure Supplement.

The change will increase from 6% to 10% the rate of supplement applied per annum to the amount of losses carried forward from one period to another.

### Summary of impacts

<b>Exchequer impact (£m)</b>	2012-13	2013-14	2014-15	2015-16	2016-17
	[0]	[-5]	[-5]	[-50]	[-10]
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement				
<b>Economic impact</b>	An increase in the RFES rate will help support investment in marginal fields in the North Sea, by ensuring that the existing system of field allowances works more effectively and equitably.				
<b>Impact on individuals and households</b>	<p>There is no impact on households or individuals.</p> <p>As oil and gas are internationally-traded commodities, increased investment in marginal fields will not affect pump/domestic gas prices. Dividends from oil companies contribute to pension fund income. The impact on pension fund income is not expected to be material because the proportion of that income generated from UK upstream activities is small.</p>				
<b>Equalities impacts</b>	This measure applies only to companies involved in the oil and gas industry in the UK or UKCS, and is considered to have no differential impact on any equality groups.				
<b>Impact on business including civil society organisations</b>	<p>The increase in the RFES rate will affect companies operating in the UKCS if they currently have insufficient taxable income against which to offset their expenditure. The change will increase the post-tax profits that such companies make from investing in UKCS projects.</p> <p>Companies operating in the UKCS that already have sufficient taxable income against which to offset their expenditure will not be affected.</p> <p>This measure is expected to have a negligible impact on businesses' administrative burdens.</p>				
<b>Operational impact (£m)</b>	The RFES rate change will have a minimal operational impact for HM Revenue & Customs (HMRC).				

<b>(HMRC or other)</b>	
<b>Other impacts</b>	<p>Carbon: Oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU Emissions Trading System.</p> <p>Sustainable development, wider environment and health: The changes proposed may increase oil and gas production activity in some marginal fields in the UKCS. However, the industry is heavily regulated to seek to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to seek to ensure the health and wellbeing of its workers.</p> <p>Small Firms Impact Test: Small firms with insufficient taxable income against which to offset their expenditure will benefit from the RFES change. Small firms will not be subject to any additional administrative burden as a result of the change.</p>

### Monitoring and evaluation

The policy will be kept under review through regular communication with the business sector affected by the measure.

### Further advice

If you have any questions about this change, please contact Hugh Hedges on 0207 438 6576 (email: [hugh.hedges@hmrc.gsi.gov.uk](mailto:hugh.hedges@hmrc.gsi.gov.uk)) or Paul Philip on 0207 438 6993 (email: [paul.philip@hmrc.gsi.gov.uk](mailto:paul.philip@hmrc.gsi.gov.uk))

### Declaration

Chloe Smith MP, Economic Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.