

Oil and gas (<https://www.gov.uk/topic/oil-and-gas>) – guidance

Oil and gas: taxation

From: Oil and Gas Authority (<https://www.gov.uk/government/organisations/oil-and-gas-authority>)
First published: 30 December 2012
Last updated: 9 October 2015, see all updates
Part of: Oil and gas finance and taxation (<https://www.gov.uk/topic/oil-and-gas/finance-and-taxation>)

Taxation of exploration for, and production of, oil and gas in the UK and on the UK Continental Shelf

Overview

The tax regime which applies to exploration for, and production of, oil and gas in the UK and on the UK Continental Shelf (UKCS) currently comprises the following three elements, described briefly in turn below:

- Ring Fence Corporation Tax
- Supplementary Charge
- Petroleum Revenue Tax

More detail than given below can be found in the relevant sections of the Oil Taxation Manual (<http://www.hmrc.gov.uk/manuals/otmanual/Index.htm>)

• Ring fence Corporation Tax

This is calculated in the same way as the standard corporation tax applicable to all companies but with the addition of a “ring fence” and the availability of 100% first year allowances for virtually all capital expenditure. The ring fence prevents taxable profits from oil and gas extraction in the UK and UKCS being reduced by losses from other activities or by excessive interest payments. The current main rate of tax on ring fence profits, which is set separately from the rate of mainstream corporation tax, is 30%

• Supplementary Charge

This is an additional 20% charge on a company’s ring fence profits (but with no deduction for finance costs). The charge to supplementary charge may be reduced to zero on a slice of production income by the investment allowance, cluster area allowance or onshore allowance

Petroleum Revenue Tax

This is a field-based tax charged on profits arising from oil and gas production from individual oil fields which were given development consent before 16 March 1993. The current rate of PRT is 35%. PRT is deductible as an expense in computing profits chargeable to ring fence corporation tax and supplementary charge

Marginal tax rate

The marginal tax rate is 67.5% on income from fields paying PRT and 50% for other fields.

Ring Fence Expenditure Supplement

The RFES (<http://www.hmrc.gov.uk/manuals/otmanual/OT26105.htm>) assists companies that do not yet have sufficient taxable income for ring fence corporation tax purposes against which fully to set their exploration, appraisal and development costs. The RFES currently increases the value of losses carried forward from one accounting period to the next by a compound 10% a year for a maximum of 10 years, not necessarily consecutively.

Former elements of the regime

Brief details of former elements of the regime are given in the footnotes to the table of Government Revenues from UK Oil and Gas Production at Government revenues from UK oil and gas production (<https://www.gov.uk/guidance/oil-tax-government-revenues>).

Further information on upstream taxation

This page, maintained by the Oil and Gas Authority (<https://www.gov.uk/government/organisations/oil-and-gas-authority>) (OGA), gives only a high level overview of the UK's upstream fiscal regime. More detailed information on the regime is available from HM Revenue & Customs (<https://www.gov.uk/government/organisations/hm-revenue-customs>).

The OGA contact for further information is:

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Government revenues from UK oil and gas production (<https://www.gov.uk/guidance/oil-tax-government-revenues>)

Investment Allowance (<https://www.gov.uk/guidance/oil-tax-investment-allowance>)

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(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466890/Redetermination_of_Oil_Field_Boundaries_on_Economic_Grounds_v4.pdf)
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