

## Summary: Intervention & Options

<b>Department /Agency:</b> HM Treasury and HM Revenue and Customs	<b>Title:</b> Changes to Petroleum Revenue Tax legislation	
<b>Stage:</b> Final Proposal/Implementation	<b>Version:</b> 2	<b>Date:</b> 22 April 2009
<b>Related Publications:</b> Supporting Investment: A consultation on the North Sea Fiscal Regime		

Available to view or download at:

<http://www.hm-treasury.gov.uk>

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**What is the problem under consideration? Why is government intervention necessary?**

Government is committed to simplifying the tax system wherever possible, in order to reduce administrative burdens on business. The proposed changes to the Petroleum Revenue Tax (PRT) legislation will reduce the administrative obligations attached to the PRT system.

In addition, under current legislation, a company may not have access to PRT relief on decommissioning expenditure once a field licence has expired. The proposed changes will ensure companies can gain access to PRT relief after the expiry of a field licence.

**What are the policy objectives and the intended effects?**

To reduce unnecessary information and administrative obligations placed on companies operating fields subject to PRT, and to remove outdated legislation.

To ensure that companies can access PRT decommissioning relief following the expiry of a field licence.

**What policy options have been considered? Please justify any preferred option.**

- 1.) Do nothing and persist with legislation of a greater complexity than is necessary and with the likelihood that, under the current fiscal regime, companies will not have access to relief for decommissioning costs in certain cases.
- 2.) Preferred Option: Act now to remove redundant legislation, reduce reporting obligations and bring forward a solution to the potential licencing issue.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** The effects of the policy will be monitored on an ongoing basis.

**Ministerial Sign-off** For Final Proposal/Implementation Stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.*

Signed by the responsible Minister:



Date: 3/4/09

## Summary: Analysis & Evidence

<b>Policy Option: 1</b>	<b>Description: Do Nothing</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' No change from current regime.	
	<b>One-off (Transition) Yrs</b>		
	<b>£ 0</b>		
	<b>Average Annual Cost (excluding one-off)</b>		
	<b>£ 0</b>	<b>Total Cost (PV)</b>	<b>£ 0</b>
Other <b>key non-monetised costs</b> by 'main affected groups' The complexity brought about by the parts of the PRT regime that we are proposing to simplify will continue to impose unnecessary administrative burdens on industry. The licensing issue will also continue to create uncertainty for industry, and may have a negative impact on some investment decisions.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' No change from current regime.	
	<b>One-off Yrs</b>		
	<b>£ 0</b>		
	<b>Average Annual Benefit (excluding one-off)</b>		
	<b>£ 0</b>	<b>Total Benefit (PV)</b>	<b>£ 0</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' No change from current regime.			

Key Assumptions/Sensitivities/Risks
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Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> <b>£ 0</b>	<b>NET BENEFIT (NPV Best estimate) 0</b>
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What is the geographic coverage of the policy/option?	UKCS
On what date will the policy be implemented?	N/A
Which organisation(s) will enforce the policy?	N/A
What is the total annual cost of enforcement for these organisations?	£ 0
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	No
What is the value of the proposed offsetting measure per year?	£ 0
What is the value of changes in greenhouse gas emissions?	£ 0
Will the proposal have a significant impact on competition?	No
Annual cost (£-£) per organisation (excluding one-off)	Micro      Small      Medium      Large
Are any of these organisations exempt?	N/A      N/A      N/A      N/A

<b>Impact on Admin Burdens Baseline (2005 Prices)</b>		(Increase - Decrease)
Increase of    £ 0	Decrease of    £ 0	<b>Net Impact    £ 0</b>

Key: Annual costs and benefits: Constant Prices      (Net) Present Value

## Summary: Analysis & Evidence

<b>Policy Option: 2</b>	<b>Description:</b> Simplification of the PRT regime and ensuring PRT relief for fields that are subject to a licence expiry
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups'		
	<b>One-off (Transition)</b> <b>Yrs</b>			
	£ Neg			
	<b>Average Annual Cost</b> (excluding one-off)			
	£ Neg	<b>Total Cost (PV)</b>	£ Neg	
Other <b>key non-monetised costs</b> by 'main affected groups'				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups'  Minor savings should accrue to companies through a reduction in the administrative burden of complying with the PRT regime.		
	<b>One-off</b> <b>Yrs</b>			
	£ Neg			
	<b>Average Annual Benefit</b> (excluding one-off)			
	£ Neg	<b>Total Benefit (PV)</b>	£ Neg	
Other <b>key non-monetised benefits</b> by 'main affected groups' Ensuring that companies can access PRT decommissioning relief after the expiry of a field licence will ensure they are not penalised by a potentially large unrelievable cost.				

Key Assumptions/Sensitivities/Risks
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Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> £ Neg	<b>NET BENEFIT (NPV Best estimate) Neg</b>
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What is the geographic coverage of the policy/option?	UKCS			
On what date will the policy be implemented?	1 July 2009			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

<b>Impact on Admin Burdens Baseline (2005 Prices)</b>			(Increase - Decrease)
Increase of    £ Neg	Decrease of    £ Neg	<b>Net Impact</b>	£ Neg

Key:      Annual costs and benefits: Constant Prices      (Net) Present Value

## Evidence Base (for summary sheets)

### Rationale for Intervention

Government is committed to reducing administrative burdens imposed on business including through the simplification of the tax code. As part of the process, HMRC has examined whether the PRT legislation can be improved or simplified and, with industry, has identified a number of potential areas where action can be taken.

### Policy Proposals

#### Reducing Administrative Obligations

Government therefore proposes to undertake the following actions to simplify the PRT regime:

#### Provisional Expenditure Allowance:

- The repeal of this piece of legislation, but with a transition period to ensure that any relief given prior to repeal is recovered through the normal claw back mechanism.

#### Commingling Agreements:

- The removal of the requirement for companies to provide information whenever a new field comes on stream and is blended with other production or where there is a change in the allocation methodology. Instead production will be allocated on a “just and reasonable basis” in the same way as joint expenditure is allocated between fields.

HMRC has also identified a number of other items of legislation within the PRT regime that are no longer relevant. Having consulted stakeholders, and with no objections having been raised, the Government proposes to repeal the following items:

- Spreading of supplement - Legislation at paragraph 9 of Schedule 3 to OTA 1975 allows companies to elect to spread relief for qualifying “supplemented” expenditure for up to 20 chargeable periods. The legislation does not currently appear to serve any useful purpose.
- Pre-PRT expenditure - Legislation at paragraph 3 of Schedule 4 to OTA 1975 applies to certain expenditure incurred prior to 13 November 1974. The normal time limit for claiming expenditure for PRT is six years and HMRC is not aware of any outstanding claims under this legislation.
- Tariff Receipts Allowance – alternative calculation - Legislation at section 9 of OTA 1983 provides a volume based allowance against tariff receipts similar to that of Oil Allowance being relieved against sales of oil. Section 9(3) of OTA 1983 provides an alternative calculation for chargeable periods ending on or before 30 June 1987. The legislation is relatively complicated and is now no longer applicable.
- Transitional provisions for certain rules within OTA 1983 - Section 13 and Schedule 5 of this act provide transitional rules for periods ending before or straddling 1 July 1982 in respect of the application of these new rules. These transitional rules are no longer applicable and can be repealed.

### Ensuring Access to PRT Decommissioning Relief

The first round of North Sea licences will expire in 2010. As a result, companies may have to carry out decommissioning activities in a field that no longer has a licence. For PRT purposes, a company is a participator in a field while they hold the relevant licence interest, and for two chargeable periods after that licence has been held. As a result of the licence expiry, the company may have an obligation to decommission the field, but, having ceased to have a licence interest at the point where it ceased production, may be unable to claim PRT relief for some or all of that expenditure.

HMRC has been in consultation with DECC regarding the most appropriate method to ensure that companies have full access to decommissioning relief in the event of a licence expiry. The proposed change involves deeming companies to be participators in any field where they have previously been licence holders.

## Consultation Responses

Responses to the above proposals submitted during the consultation period have been positive and constructive, as industry have recognised the reduction in administration costs that these changes can deliver. The responses have resulted in no substantial changes to the Government's approach. The industry has committed to continuing to work with the Government on future opportunities to simplify the regime.

Stakeholders have warmly welcomed the proposal which gives certainty in relation to decommissioning relief in the case of a licence expiry.

## Costs and Benefits

Government expects there to be an ongoing reduction in administrative burdens for industry in the North Sea in respect of the simplification measures outlined above.

The proposed changes are designed to relieve companies operating in the North Sea from redundant PRT obligations, and to reduce others. Although there will be costs associated with familiarisation with the new legislation, these are not expected to be significant. Only a small numbers of companies are engaged in oil and gas exploration and extraction in the North Sea, a minority of which as PRT payers will find they are affected by the legislative changes being made. Consequently, it is considered fair to assume that the overall administrative impact on the sector will be negligible, both in terms of any transitional costs or recurring annual savings. Any temporary transitional costs, should they arise, need to be judged in the light of the elimination of unintended tax effects once a field licence has expired.

## Impacts

Results from the Specific Impact Tests can be found in the Annexes below.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	Yes	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

## Annexes

### Competition Assessment

These proposed changes will reduce the compliance cost disparity between North Sea oil and gas fields subject to PRT and those fields outside its scope.

The change does not directly or indirectly limit the range of suppliers, or limit the ability of suppliers to compete. It also does not limit suppliers incentives to compete vigorously.

### Small Firms Impact Test

There are no small businesses involved in North Sea oil and gas extraction that are affected by Petroleum Revenue Tax.

### Legal Aid

The proposed changes will have no implications for legal aid.

### Sustainable Development

The proposed changes will have no impact on sustainable development.

### Carbon Assessment

The Government remains committed to moving towards a low carbon economy, however, while low-carbon energy solutions are developed, oil and gas will continue to play a central role and the Government has a clearly stated objective to maximise the economic recovery of the UK's oil and gas resources.

The impact of the proposed changes on carbon emissions is likely to be very small, and impossible to measure.

### Other Environment

Waste management, air quality, habitat and wildlife will not be affected by the proposed changes. The effect of the proposed changes on the landscape and noise levels will be ameliorated by the fact that the oil and gas fields in question are some distance offshore. Climate change will not alter the impact of the proposal.

### Health Impact Assessment

The proposed changes will have no health impacts.

### Race Equality

The proposed changes have no implications for race equality.

### Disability Equality

The proposed changes have no implications for disability equality.

### Gender Equality

The proposed changes have no implications for gender equality.

### Human Rights

The proposed changes have no implications for human rights.

### Rural Proofing

The proposed changes have no implications for rural areas.