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UK Government announces major tax cuts for the oil and gas industry

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UK Government announces major tax cuts for the oil and gas industry Earlier today, the UK government announced its budget for 2016. A copy is available by clicking ***here.*** See pages 54 in Chapter 1 and 109 in Chapter 2 in particular for details in relation to the oil and gas industry. The UK government has said that it wants to ensure that the tax regime supports the objective of maximising economic recovery of oil and gas while ensuring a fair return on those resources for the nation. The government has also announced its intention to help to support the industry through the challenging commercial conditions caused by the steep fall in oil price. The government has slashed oil and gas taxation by doing the following:

- **Petroleum Revenue Tax**: The government has effectively abolished Petroleum Revenue Tax ("PRT"�) by reducing it from 35% to 0% with effect from 1 January 2016. PRT 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.

- **Supplementary Charge**: Oil & gas companies pay this charge (SC) on top of ring fence corporation tax. The government has halved SC from 20% to 10%. Again, this change will take effect from 1 January 2016.

These are significant tax cuts for the oil and gas industry in the UK and should serve to encourage further investment and extend the life of the industry in the UK. Other announcements include:

- **Seismic surveying**: The government will provide a further £20 million of funding for seismic surveys in 2016-17 to encourage exploration in under-explored areas of the UK Continental Shelf.

- **Infrastructure investment**: The government will extend existing allowances to include tariff income, in order to encourage investment in key infrastructure such as pipelines maintained for the benefit of third parties. The Government intends to take representations from industry on this.

- **Decommissioning**: The government has confirmed that:
  - Companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale, to encourage new entrants for late-life assets and the development of late-life business models. The government will publish a technical note that clarifies the interpretation of existing legislation. There have been a number of examples in the UK of sellers retaining liability for decommissioning assets after they are sold to third parties. The government has for some time now shown a willingness to provide certainty as to the availability of decommissioning tax relief, including through the decommissioning relief deeds (essentially contracts for difference) that the government has already entered into with industry participants.

  - It will build on the new decommissioning powers of the industry regulator, the Oil and Gas Authority ("OGA"�), by undertaking further work with the OGA and industry to reduce overall decommissioning costs, to deliver significant savings for industry and the tax-payer.

  - If significant progress can be made, the government will explore whether decommissioning tax relief could better encourage transfers of late-life assets.

These announcements will be set out in the Finance Bill 2016 which will be published on 24th March 2016. Bracewell's London office is dedicated to the energy sector and regularly advises oil and gas companies and financial institutions investing in the oil and gas industry in the UK and internationally.