

Briefing

UK tax breaks to oil and gas companies in 2013/14

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This briefing summarises the scale of the tax breaks given by the Government to North Sea oil and gas companies in financial year 2013-14 (1 April 2013 to 31 March 2014).

- In financial year 2013/14, **32** new North Sea oil and gas fields, or projects in or existing fields, qualified for tax breaks called 'field allowances'. This is an increase on the 28 allowances awarded in the previous financial year (2012/13).
- There is a maximum theoretical ceiling for the total value of these allowances – if awarded to their maximum capped level and taken up in full – of **£2.69 billion**, over five years, to the industry.
- In practice, the Department of Energy and Climate Change (DECC) advises that the total value of allowances in 2013/14 was worth less: **£1.06 billion**, again over five years.
- The Government admits that field allowances are a “big tax incentive” to fossil fuels.

About field allowances

The oil and gas extraction industry says that production in the UK is subject to a high rate of tax²:

- a higher **corporation tax** rate of 30% on profits from oil and gas production
- an extra '**supplementary charge**' of another 32%, taking the tax rate to 62%

But in practice the industry pays nowhere near 62% because of 'field allowances'.

Field allowances are described by the Government as “big tax incentives to support extraction”³ of climate-changing fossil fuels. They were first introduced by Alistair Darling in Budget 2009 and have since been significantly expanded in scope by George Osborne.

For projects in qualifying fields the 32% supplementary charge is waived for a certain amount of production income (see Table 1).

32 field allowances were awarded in 2013/14. In theory, if all had been awarded up to their maximum size, and taken up in full, the total value to the industry would have been £2.688 billion.

In practice, actual estimates from DECC are lower, although still over £1 billion; DECC estimates the total value of the allowances awarded in 2013/14 was £1.062 billion (see Table 2), split over five years.

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Table 1: The different types of field allowance awarded in 2013/14

Field Allowance (year introduced)	Maximum total field allowance per field (how much profit can be exempted from 32% tax)	Reduces tax paid by up to ⁵
Small field (SFA) (2009, increased Budget 2012). Covers small fields – although the definition of 'small field' was also broadened in Budget 2012.	Set at £75 million in 2009. Increased to £150 million with effect from Budget 2012.	£48 million
Ultra heavy oil field (UHO) (2009)	£800 million	£256 million
Brown-field allowance (BFA) for some projects in already producing fields (September 2012) ⁶ . Allowance is given to existing fields dependent on the level of new capital expenditure needed to maintain production.	The maximum any BFA can reach is £250 million, or £500 million for fields licensed before 1993 (see footnote 2). In practice, in 2013/14 all projects attracted allowances below this cap, generally far below it ⁷ .	If taken up to the maximum £250m cap, the tax reduction would be £80 million (or £160 million for fields licensed before 1993).

Table 2: value of the Government's tax breaks awarded in 2013/14⁸

	SFA	BFA	UHO	TOTAL
Number of field allowances taken up	7	23	2	32
Total value over five years	£336m	£214m	£512m	£1,062m

Implications

All tools of Government should focus on making renewable energy even cheaper and energy saving more attractive – not propping up oil companies.

Only one-fifth of the world's reserves of fossil fuels can be burned if we are to have a good chance of keeping global temperature rise to below 2 degrees – the stated aim of UK and EU climate policy.

All economies must start choosing to leave oil and gas in the ground.

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¹ Friends of the Earth, 'UK fossil fuel tax breaks 2012/13', May 2013: http://www.foe.co.uk/sites/default/files/downloads/uk_fossil_fuel_tax_breaks.pdf

² In addition, profits from older fields (before 1993) must pay the old Petroleum Revenue Tax (PRT) of 50%, which can be deducted from their corporation tax base. In practice this means profits from around 30 such fields will pay a marginal tax rate of 81 per cent. See DECC, 'Oil and Gas taxation', retrieved January 2013, <https://www.gov.uk/oil-and-gas-taxation>

³ Prime Minister's Office, 'PM pledges action to maximise the North Sea oil and gas industry', February 2014: <https://www.gov.uk/government/news/pm-pledges-action-to-maximise-the-north-sea-oil-and-gas-industry>

⁴ For example, the largest single largest contributor to the £2.7 billion are Brown Field Allowances (£1,840 million). As each BFA is calculated by a formula dependent on the capital expenditure to maintain production and the tonnage of fossil fuel that results, DECC advises that in practice in 2013/14, most BFAs were awarded at far lower levels than the maximum potential £80m per field.

⁵ The maximum field allowance is a total figure, not an annual figure. With supplementary charge at 32%, the total tax reduction for a company benefitting from a full Small Field Allowance is £48 million (32% of £150 million)

⁶ HM Treasury, 'Chancellor announces further action to stimulate investment in North Sea', 7 September 2012, http://www.hm-treasury.gov.uk/press_78_12.htm

⁷ Correspondence from Department of Energy and Climate Change, June 2014.

⁸ Calculations by Friends of the Earth based on DECC data on field allowances https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/308382/Full_List_of_Offshore_Field_Approvals_May_2014_.xlsx, supplemented by correspondence from DECC. Figures are undiscounted and nominal.