Summary: Intervention & Options

Department /Agency: **HM Treasury and HM Revenue and Customs**	**Title:** **Impact Assessment of the extension of Corporation Tax (CT) post cessation period**	
Stage: Implementation	**Version:** 1	**Date:** Budget 2008
Related Publications: : Securing a Sustainable Future: A Consultation on the North Sea Fiscal Regime		

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_liveindex.cfm

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

Following the cessation of the ring-fence trade current legislation allows a three-year period, during which decommissioning expenditure can be allocated to the final period of trading. It has been argued that this time limit is insufficient to give companies full tax relief for the cost of decommissioning and will be likely to impact on companies' approaches to decommissioning, with either premature decommissioning or unnecessarily costly decommissioning programmes occurring as a result. Such situations could potentially lead to oil and gas reserves being left in the ground.

What are the policy objectives and the intended effects?

The objective of this proposal is to further support the Government's aim to maximise the economic recovery of oil and gas from the North Sea through encouraging renewed investment and facilitating asset trade. More specifically, this proposal aims to reduce the impact of the fiscal regime on decisions as to the timing of decommissioning and help ensure decommissioning is undertaken at the point at which fields become uneconomic, and in the most efficient and effective manner.

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

1) Do nothing.

2) Extend the post cessation period from from 3 to 7 years.

3) Tie the post cessation period to the completion of decommissioning requirements set out in the Petroleum Act. Following consultaton with industry this option has been preferred as the most effective means to ensure that the period during which decommissioning expenditure can be allocated to the final period of trading will match the period over which decommissioning is undertaken.

4) Extend the post cessation period indefinitely.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the proposed policy measures is likely to be included in any review of the measures implemented following the HM Treasury December 2007 Consultation on North Sea Taxation.

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:

Angela Eagle Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	
£ -		
Average Annual Cost (excluding one-off)		
£ -		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' May be small information costs associated with the retention of records concerning CT liabilities falling after the current 3 year period until such time as field decommissioning is completed. Scale of computations may also become more complex

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ -		
Average Annual Benefit (excluding one-off)		
£ -		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' Measure will provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses.

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK Continental Shelf	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
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?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ negligible Decrease of £ negligible **Net Impact** £ negligible

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

Evidence Base (for summary sheets)

Rationale for intervention

The UK Government remains committed to promoting a healthy and prosperous UK oil and gas industry and has a stated objective to maximise the economic recovery of the UK's oil and gas reserves. Whilst the underlying geology and future oil and gas prices are the dominant drivers of investment, and hence ultimate recovery, Government has a crucial role to play in ensuring that the fiscal regime helps deliver the best possible future for oil and gas production from the UK Continental Shelf (UKCS). A careful balance must be struck between promoting investment and production, whilst ensuring a fair return for the UK taxpayer from our national resources.

Following the 2005 Pre-Budget report the Government has engaged with the oil and gas industry and other interested stakeholders to discuss wider structural concerns over areas of the North Sea fiscal regime which were viewed as running counter to the above policy objectives. Following those discussions Government is undertaking a package of reforms to the North Sea fiscal regime to help encourage investment, reduce the impact of the fiscal regime on investment decisions, help facilitate asset trade, increase certainty and stability, remove anomalies and simplify the fiscal regime and reduce the administrative burden it imposes. This measure forms part of that package.

Policy Objective

Oil fields have an unusual profits pattern - following heavy initial investment, large profits are made in the early days of production but tail off as the field ends its productive life. Under the current arrangements companies may not be able to obtain full tax relief for all of their decommissioning costs if they run fields to the point where production ceases to be economic.

Evidence submitted by industry during the consultation supports the assertion that under the current legislation companies may be unable to decommission within the 3 year period due to availability of decommissioning resources, or may be forced to incur a higher cost, with knock on effects for UK taxpayers, than would be required if the post cessation period was tied to the completion of decommissioning.

Policy proposals

The specific proposal here is to:

- Change the definition of "post cessation period" (S165 (2) CAA 2001), during which abandonment expenditure can be allocated to the appropriate pool for the chargeable period in which the former trade ceased to carry on the ring fence trade, from one defined by a time limit to one that is deemed to last until BERR has approved the statutorily required close out report that companies are required to submit following decommissioning completion.

This proposal has been developed following a period of extensive consultation with the oil and gas industry between January 2006 and January 2008, aimed at addressing a range of issues. Although these proposals are aimed specifically at reducing the uncertainty over the treatment of decommissioning liabilities, they will also act to encourage renewed investment, facilitate asset trade and reduce the impact of the fiscal regime on investment decisions.

The proposals allow companies to allocate the decommissioning costs incurred after the trade ceases to the final period of trading and then fully relieved, either in that period, or in earlier periods under the corporation tax (CT) carry-back rules. This will allow companies to secure tax relief on their decommissioning costs at a rate comparable with the rate at which their North Sea profits have been taxed. Also, it should be possible to implement these changes for relatively low HMRC system costs and should ensure that the proposal is compliant with State aid rules.

The extension of the post cessation period from 3 to 7 years or indefinitely was considered but, due to the reasons above, and following the consultation with industry it was concluded that an extension of the post cessation period in line with the decommissioning requirements under the Petroleum Act, was likely to be the best option.

Costs and Benefits

The Government expects this measure to provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses. There may be small information costs associated with the retention of records concerning CT liabilities falling after the current three years until such time as field decommissioning is completed. The scale of computations may also become more involved once decommissioning starts and slots have to be found for losses carried back.

The net impact of these measures on the admin burden on business is expected to be negligible.

Consultation

In the 2005 Pre-Budget report the then Chancellor announced that the Government would open discussions with the oil and gas industry to examine wider structural concerns over areas of the North Sea fiscal regime. These discussions would cover any areas of the fiscal regime which either Government or industry felt could potentially undermine ongoing stability, and impact on the Government's objective to maximise the economic recovery of the UK's oil and gas reserves.

The initial round of discussions lasted from January 2006 though to September 2006 and provided a forum within which UKCS stakeholders could discuss any aspect of the fiscal regime with officials from HM Treasury, HM Revenue and Customs and BERR. A large number of stakeholders took advantage of this opportunity and meetings were held with a wide range of delegates from oil and gas companies, representative bodies, academics, the supply chain and other stakeholders.

At Budget 2007 Government published "The North Sea Fiscal Regime: a discussion paper". This discussion paper summarised the discussions that had occurred up to September 2006, and set out the conclusions that had been drawn from those. It also announced that discussions would continue, with the paper forming the basis for further, more focussed discussions through to the end of September 2007.

The issue outlined above was raised during the two rounds of discussions. The Government's proposal to remedy it were then set out in "Securing a sustainable future: a consultation on the North Sea Fiscal Regime" that was released in December 2007. Draft legislation for this measure was published alongside the consultation document to allow interested parties to comment on the exact detail of the proposed measures. The consultation period lasted through to the end of January 2008.

In the consultation document it was originally proposed to extend the three-year post cessation period to seven years. However following consultation with industry and the presentation of further evidence these proposals were modified to those set out above.

Competition Assessment

This change will potentially apply to all companies operating within the North Sea ring fence.

More generous treatment than is afforded to other businesses subject to corporation tax is appropriate since North Sea oil and gas extraction is a non-continuing business and once the reserves are depleted there is no further means of trading and for carrying losses forward. So providing a more generous mechanism for companies to obtain tax relief on their end-of-field-life decommissioning costs, in the same way that they can get relief for start-up costs, removes a potential anomaly and is a concession proportionate with the higher rates of corporation tax applied to North Sea profits since April 2002.

Small Firms' Impact Test

The extension of the post cessation period will afford benefits to all companies involved in North Sea oil and gas extraction ranging from large integrated operations operating across a range of oil and gas fields on the UKCS through to small and medium-sized businesses with interests in only one field or in onshore developments.

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	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No