

**EXPLANATORY MEMORANDUM TO THE  
CORPORATION TAX (INSTALMENT PAYMENTS) (AMENDMENT)  
REGULATIONS 2005**

**2005 No. 889**

1. This explanatory memorandum has been prepared by HM Treasury and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Description**

- 2.1 This instrument amends the instalment payment rules for large companies paying corporation tax and supplementary charge on their profits from oil and gas extraction or oil rights within the United Kingdom (“UK”) or UK Continental Shelf (“UKCS”) (“ring fence profits”).
- 2.2 For accounting periods ending on or after 1 July 2005 large companies will be required to pay corporation tax and supplementary charge on ring fence profits in no more than 3 instalments.
- 2.3 It excludes corporation tax and supplementary charge on ring fence profits (*regulation 3*) from the calculation of “mainstream” corporation tax instalment payments due under regulation 5 of the Corporation Tax (Instalment Payments) Regulations 1998 (“the principal Regulations”). It also creates a free-standing set of rules in respect of corporation tax and supplementary charge on ring fence profits (*regulation 4*).

3. **Matters of special interest to the Select Committee on Statutory Instruments**

- 3.1 None.

4. **Legislative Background**

- 4.1 Corporation tax is due and payable nine months and one day after the end of a company’s accounting period. The principal Regulations introduced a system of quarterly instalment payments for large companies for accounting periods ending on or after 1 July 1999.
- 4.2 The system requires large companies to pay their corporation tax by four equal instalments, two of which fall within the relevant accounting period. For this purpose “large” companies are (broadly speaking) those with profits exceeding the upper relevant maximum amount in section 13 of the Income and Corporation Taxes Act 1988 — currently £1.5 million— and an annual CT liability in excess of £10,000.

## **5. Extent**

This instrument applies throughout the UK.

## **6. European Convention on Human Rights**

These Regulations are subject to annulment and do not amend primary legislation. Accordingly no statement of compatibility with the Convention rights is required.

## **7. Policy background**

7.1 The tax system relating to profits from oil and gas extraction or oil rights within the UK or UKCS has three tiers: petroleum revenue tax (“PRT”) which is field-based, ring fence corporation tax (“RFCT”) which is company-based and the supplementary charge (“SC”) which is calculated on the same basis as RFCT but with no allowance for financing costs. PRT was abolished in 1993 for all new oil and gas field developments.

7.2 RFCT and SC revenues are received later than PRT revenues, despite all three being cash-flow taxes. The abolition of PRT in 1993 for new fields has meant an increased proportion of Government revenue from UK and UKCS oil and gas extraction is from RFCT (and SC). This shift has meant the timing of payment of tax liabilities from oil and gas extraction is, on average, falling due later. And it has meant a delay in the Government’s share of the cash-flow benefits of North Sea oil.

7.3 The revision to the corporation tax payment rules for profits from UK or UKCS oil and gas extraction will bring forward the time at which the tax is paid on average from the end of November to the middle of October for calendar year accounting periods, with a transitional year to facilitate the change. The change does not affect the amount of RFCT or SC payable by companies.

## **8. Impact**

8.1 These Regulations impose minimal costs on individual businesses: a Regulatory Impact Assessment has been prepared for this instrument.

8.2 The impact on the public sector will be negligible. Changes are required to the Inland Revenue IT systems and the Corporation Tax Self Assessment (CTSA) return. The ongoing value to the Exchequer of the re-timing of tax receipts will be around £20m per annum in discounted terms.

## **9. Contact**

Jo Wakeman at HM Treasury, tel: 020 7270 6108 or e-mail: [jo.wakeman@hm-treasury.gsi.gov.uk](mailto:jo.wakeman@hm-treasury.gsi.gov.uk), can answer any queries regarding the instrument.