

Briefing

Updated

UK fossil fuel tax breaks, 2012/13

This note is an update to research originally published in February 2013.

The original research calculated that in the nine months between April 2012 and January 2013, tax breaks ('field allowances') worth up to £864 million over five years had been given out by the Government to oil and gas companies.

In this note, we recalculate that amount to take in the full financial year – 1 April 2012 to 31 March 2013.

£1.952 billion, over five years, to the oil and gas industry.

Over that period, 28 oil and gas fields qualified for Government tax breaks.

For full context, please refer to the original paper ('Fossil fuel tax breaks in the UK', February 2013), which can be found at http://www.foe.co.uk/resource/briefings/tax_breaks_2013.pdf

Field allowances

In theory, oil and gas production in the UK is subject to a high rate of taxation:

- 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%.

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 cent¹.

But tax breaks called 'field allowances' are being increasingly awarded. Field allowances allow a certain amount of profit from particular fields to not have to pay the 32% supplementary charge, thus reducing their overall tax bill (see Table 1).

Assuming that they are all taken up in full, the tax breaks given out in financial year 2012/13 are worth up to £1.952 billion in total, over five years, to the oil and gas industry (see Table 2).

Fossil fuel tax breaks in the UK, 2012/13

Field allowances were introduced by Alistair Darling in Budget 2009 and have since been expanded by George Osborne. They are deliberately designed to encourage production from “small or technically challenging new fields”, or fields where production is diminishing.

Table 1: Field allowances for different types of UK oil and gas field

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 ²
Small field (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 – particularly viscous oil (2009)	£800 million	£256 million
Ultra high pressure / high temperature field (2009, extended in 2010)	£800 million	£256 million
Remote deep-water gas fields (2010)	£800 million	£256 million
Large deep-water oil fields , intended for use west of Shetland (Budget 2012)	£3 billion	£960 million
Large shallow-water gas fields (July 2012) ³	£500 million	£160 million
Brown-field allowance for some projects in already producing fields (September 2012) ⁴	Increases to a maximum cap of £250 million, or £500 million for projects in fields paying Petroleum Revenue Tax (PRT)	Maximum of £80 million / £160 million (PRT)

Table 2: total value of the Government’s tax breaks awarded in 2012/13⁵

	Small Field Allowance	Brown Field Allowance	Shallow-Water Gas Field	Ultra Heavy Oil Field	TOTAL
Number of field allowances taken up	17	9	1	1	28
Total value over five years, if taken up in full	£816m	£720m	£160m	£256m	£1,952m

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¹ DECC, ‘Oil and Gas taxation’, retrieved January 2013, <https://www.gov.uk/oil-and-gas-taxation>

² 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)

³ HM Treasury, ‘New tax support for gas in the North Sea’, 25 July 2012, http://www.hm-treasury.gov.uk/press_66_12.htm

⁴ 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

⁵ Calculation by Friends of the Earth based on DECC data on field allowances

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181030/Full_List_of_Approvals_April_2013_xls. Figures are undiscounted. Assumes all allowances claimed to their full value.