EXPLANATORY MEMORANDUM TO

THE QUALIFYING OIL FIELDS ORDER 2010

2010 No. 1899

1. 1. 1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ('HMRC') and is laid before the House of Commons by Command of Her Majesty.

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

2. Purpose of the instrument

2.1 This instrument extends the definition of an ultra high pressure/high temperature oil field and sets the amount of the total field allowance that is available for such fields. Its purpose is to encourage the development of a greater number of technically challenging oil and gas fields.

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

None.

4. Legislative Context

4.1 The UK tax code effectively puts a ring fence around profits from oil and gas production to ensure they are not reduced by non-ring fence activity. Ring fenced profits are subject to corporation tax and to a supplementary charge. The supplementary charge was increased in 2006 from 10% to its current rate of 20%.

4.2 If the relevant criteria are met, the field allowance reduces the adjusted ring fence profits to which the supplementary charge applies. It is mandatory and no claim is required. The field allowance was introduced in Schedule 44 to the Finance Act 2009 (chapter 10) and is now found in Chapter 7 of Part 8 of the Corporation Tax Act 2010 (chapter 4).

4.3 The field allowance as enacted is available for companies that are licensees in qualifying oil fields that receive development authorisation on or after 22 April 2009 and applies to accounting periods ending on or after that date. The category of qualifying oil fields was extended by the Field Allowance for New Oil Fields Order 2010 (S.I.2010/610) which came into force on 5 March 2010.

4.4 A qualifying oil field is an oil field that on the authorisation day is a small oil field, an ultra heavy oil field, an ultra high pressure/high temperature oil field (see section 352 of the Corporation Tax Act 2010), or a deep water gas field (see the Field Allowance for New Oil Fields Order 2010).

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom including the UK Continental Shelf.

6. European Convention on Human Rights

6.1 The Economic Secretary, Justine Greening, has made the following statement regarding Human Rights:

> In my view the provisions of the Qualifying Oil Fields Order 2010 are compatible with the Convention rights.

7. Policy background

7.1 The policy aim of the field allowance is to provide an incentive to increase the economic production of oil and gas by encouraging the development of technically challenging oil and gas fields.

7.2 In discussions on the effectiveness of the field allowance, interested parties suggested that the definition of an ultra high pressure/high temperature oil field was drawn too tightly. This Order furthers the policy aim of the field allowance by extending the definition so that the allowance is available for a wider range of technically challenging oil and gas fields.

8. Consultation outcome

8.1 No consultation has been undertaken although officials have held meetings with interested parties.

9. Guidance

9.1 HMRC will publish guidance on this Order shortly.

10. Impact

10.1 No impact on business, charities or voluntary bodies is foreseen.

10.2 No impact on the public sector is foreseen.

10.3 An Impact Assessment has not been prepared for this instrument as no impact for business, charities, voluntary bodies or the public sector is foreseen.

11. Regulating small business

11.1 The legislation will not have an impact on small business.

12. Monitoring & review

12.1 This Order will not be subject to specific monitoring or review.

13. Contact

13.1 Hugh Hedges at HMRC Tel: 020 7438 6576 or email: hugh.hedges@hmrc.gsi.gov.uk can answer any queries regarding the instrument.