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Policy paper

Energy (Oil and Gas) Profits Levy

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Who is likely to be affected

Oil and gas companies that operate in the UK or on the UK Continental Shelf (UKCS).

General description of the measure

The UK oil and gas fiscal regime taxes profits earned by companies from the production of oil and gas in the UK and on the UKCS. The regime is kept separate to other taxes on commercial profit by the operation of a “ring fence” which prevents losses from other activities being imported into the regime.

The Energy (Oil and Gas) Profits Levy was announced on 26 May 2022 and legislated for in July 2022. This was a new, temporary 25% levy on ring fence profits of oil and gas companies. This was in addition to Ring Fence Corporation Tax which is charged at 30% and the Supplementary Charge which is charged at 10%. The levy included a new 80% investment allowance and was due to expire by 31 December 2025.

This measure increases the rate of the levy to 35% and extends the time that the levy applies to 31 March 2028. This measure also reduces the investment allowance from 80% to 29%. However, the investment allowance will remain at 80% for investment expenditure on upstream decarbonisation. This change in relation to the treatment of upstream decarbonisation investment expenditure will be legislated for in due course.

The government also confirms that it will no longer consider phasing out the levy before the end date.

Policy objective

The government introduced the Energy (Oil and Gas) Profits Levy in May 2022 to respond to exceptionally high prices that mean oil and gas companies are benefiting from extraordinary profits.

European and UK wholesale gas prices reached record highs this year and are expected to remain significantly elevated for the foreseeable future. This is driven by global circumstances, including resurgent demand for energy post COVID-19 and the invasion of Ukraine by Russia.

Oil and gas producers in the UK are making extraordinary profits and this is expected to continue. In response, the government is raising the rate of the levy from 25% to 35%, bringing the headline tax rate for the sector to 75%, and extending the duration of the levy. This ensures oil and gas companies that will benefit from the prolonged period of increased prices continue to pay their fair share of tax.

The reduction in the rate of the investment allowance to 29% will maintain the overall cumulative value of investment relief following the rate increase, reflecting that these reliefs will have more value against a higher levy rate.

To support the sector's target to reduce carbon emissions by 25% in 2027 and 50% by 2030, key commitments in the North Sea Transition Deal in the transition to Net Zero, investment in the decarbonisation of oil and gas production will continue to benefit from the allowance at a rate of 80%.

Background to the measure

On 26 May 2022, government announced a package of targeted measures to help support households with the rising cost of living. To help fund this package, and in light of extraordinary profits in the oil and gas sector, the government also announced the introduction of an Energy (Oil and Gas) Profits Levy. The levy was legislated for in the Energy (Oil and Gas) Profits Levy Act 2022 in July 2022 following a short period of technical consultation.

As oil and gas prices remain high with oil and gas companies continuing to make extraordinary profits, the government announced changes to the levy at the Autumn Statement on 17 November 2022. These changes will be legislated for in Autumn Finance Bill 2022. The changes to the investment allowance for expenditure on upstream decarbonisation will be legislated for separately in due course.

Detailed proposal

Operative date

The increase in the rate of the levy, and the reduction in the rate of the investment allowance for expenditure other than decarbonisation expenditure takes effect from 1 January 2023.

The extension to the sunset clause for the levy will have effect on and after the date of Royal Assent to Autumn Finance Bill 2022.

Current law

The levy was introduced by The Energy (Oil and Gas) Profits Levy Act 2022 with effect from 26 May 2022.

Proposed revisions

The Energy (Oil and Gas) Profits Levy Act 2022 will be amended via Autumn Finance Bill 2022.

The Act includes a sunset clause at section 1(3) which means that the levy will expire on 31 December 2025. The levy will be extended so that it expires on 31 March 2028.

Section 1(1) of the Act will be amended to increase the rate of the levy from 25% to 35%. It will have effect for accounting periods beginning on or after 1 January 2023. Transitional rules will apply where a company has an accounting period that straddles that date.

In section 2(3) of the Act the rate of investment allowance will be amended so that the reduction in the rate from 80% to 29% will have effect for expenditure incurred on or after 1 January 2023.

Summary of impacts

Exchequer impact (£m)

2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026	2026 to 2027	2027 to 2028
+1130	+3445	+2465	+2750	+5510	+4135

These figures are set out in table 5.1 of Autumn Statement 2022 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2022.

Economic impact

These changes to the Energy Profits Levy are not expected to have a significant macroeconomic impact on the level of business investment.

Impact on individuals, households and families

There are not expected to be impacts on individuals as this measure only affects businesses. Energy prices are set globally and the UK producers are price-takers therefore their impact on global prices is minimal. This means that the measure is unlikely to affect domestic energy prices.

Equalities impacts

It is not anticipated that there will be impacts for those in groups sharing protected characteristics.

Impact on business including civil society organisations

This measure will have an impact on up to around 200 companies operating in the UK or on the UK Continental Shelf. Impacted companies may pay more tax but may also receive tax relief through the Energy Profit Levy's investment allowance.

The measure is expected to have a negligible administrative impact for those affected companies. The measure only amends certain features of the existing levy which is an extension of Corporation Tax and therefore reported and paid in the same way as Corporation Tax. One-off costs will include familiarisation with these changes, including the new rules on upstream decarbonisation investment expenditure.

Customer experience is expected to remain broadly the same following these changes to the levy.

This measure is not expected to impact on civil society organisations.

Operational impact (£m) (HMRC or other)

There are no operational impacts for the extension, rate increase and decrease of the investment allowance. The operational changes in respect of the allowance for decarbonisation are expected to be minimal.

Other impacts

Environmental impacts have been considered. The larger fiscal incentive for investment in upstream decarbonisation is designed to encourage companies to invest in decarbonisation of upstream production.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected from companies' tax payments and returns.

Further advice

If you have any questions about this change, please contact: matthew.weightman@hmrc.gov.uk or nicola.garrod@hmrc.gov.uk

Declaration

Victoria Atkins MP, Financial Secretary to the Treasury, has read this tax information and impact note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.

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