North Sea decomm tax breaks unveiled

The UK Chancellor of the Exchequer has promised transferable tax breaks for North Sea oil and gas operators

UK Chancellor of the Exchequer Philip Hammond brought some solace to hard-pressed North Sea oil and gas operators in the Autumn Budget, promising transferable tax breaks for companies taking over aged North Sea assets and faced with significant decommissioning costs, writes *Brian Davis.*

Commenting on the upstream tax breaks, Mairi Massey, Director in PwC's Oil and Gas Tax Team. said: 'The Office for Budget Responsibility (OBR) forecasts tax receipts from the oil and gas sector will total £900mn in the 2017/2018 financial year – down from £12.4bn in 2009 – so all help to the sector is welcome. At present, owners can claim tax relief for the cost of shutting down wells and clean up, but the tax relief cannot be passed on to a new owner. The much-anticipated Budget announcement, that legislation will be enacted to allow transfers from 1 November 2018, will be warmly welcomed by industry.'

'Industry trade body Oil & Gas UK estimates the change in the tax rules to allow these tax credits to pass from owner-to-owner could stimulate as much as £40bn in new investment and save the Treasury an average of £10mn per asset in deferred tax relief. This will be a much-needed boost to a maturing basin and will ensure that the UK Continental Shelf continues to be an attractive investment proposition as a result of its infrastructure, potential 20bn barrels of oil for extraction and a much more stable tax regime,' continued Maissey.

Meanwhile, Michael Burn, Oil and Gas Partner of law firm Ashurst, remarked: 'Decommissioning is one of the most significant challenges in agreeing valuations on M&A deals that bring new investment into the sector. To implement the concept of a transferable tax history will provide a useful additional tool in the armoury to help bridge valuation divides.'

'Today's innovative oil and gas tax announcements are likely to boost the market for North Sea oil and gas assets, particularly for mature fields,' said Roman Webber, UK Oil & Gas Tax Leader at Deloitte. 'North Sea tax rates are already globally competitive and the implementation of the Autumn Budget's changes will remove the key tax barriers to mergers and acquisitions allowing the right assets to pass to the right hands. While the OBR estimates that the policies will increase the tax take by £70mn over the next five years, it is over the longer term that the real benefits will be felt, through increased economic activity and deferral of decommissioning of UKCS fields.'

Chris Bates, Senior Tax Consultant at global law firm Norton Rose Fulbright, commented: 'The Chancellor has made good on his pledge in the Spring Budget 2017 to prolong and maximise productivity in the North Sea by confirming the transfer of tax history from a seller to a buyer of late life assets... This should alleviate the current bottleneck around the transfer of mature fields in the North Sea to late-life specialists.'

No silver bullet

Meanwhile, David Blumenthal, Legal Director at Clyde & Co, warned that while a tax break for transfer of North Sea oil and gas fields 'should provide a welcome stimulus for investment' it is 'not quite the silver bullet.... more government support is needed to reverse the decline in oil and gas production in the North Sea than we have seen in the last few years.'

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