HM Treasury

Fiscal reform of the UK Continental Shelf:

consultation on an investment allowance

January 2015

HM Treasury

Fiscal reform of the UK Continental Shelf:

consultation on an investment allowance

January 2015

© Crown copyright 2015

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk

ISBN 978-1-910337-63-9
PU1746

Preface

Subject of this consultation:	Introducing a new basin-wide investment allowance.
Scope of this consultation:	This consultation seeks views on the government's proposal for a new **basin-wide investment allowance**, to support investment in oil and gas projects on the UK Continental Shelf (UKCS).
Who should read this:	The government would like to hear from a wide range of stakeholders including individuals, companies and representative and professional bodies. In particular, the government invites comments from companies involved in exploration for, and production of, oil and gas in the UK and on the UK Continental Shelf, including those involved in the provision of financial and legal services.
Duration:	The consultation opens on 22 January 2015 and closes on 23 February 2015 at 9am.
Lead official:	Simon Lee, Environment and Transport Taxes Team, HM Treasury
How to respond or enquire about this consultation:	Responses to this consultation can be sent by email to: investmentallowance@hmtreasury.gsi.gov.uk Alternatively, responses can be sent by post to: Simon Lee Environment and Transport Taxes Team HM Treasury 1 Horse Guards Road London, SW1A 2HQ
Additional ways to be involved:	As part of the consultation process, we would like to convene a meeting(s) of commercial, exploration, production, tax and finance experts to discuss issues raised by the consultation. If you would like to attend this meeting(s) then please send a nomination, with your current position and organisation, using the correspondence details above.
After the consultation:	The government will publish a summary of responses to this consultation later in the year. Legislation will be brought forward in an appropriate Finance Bill.
Getting to this stage:	This consultation follows an announcement at Autumn Statement 2014 that the government would introduce a new allowance to support UKCS investment.
Previous engagement:	The government has held discussions with industry since Budget 2014, which has helped to inform development of the proposal set out in this consultation document.

Contents

		Page
Foreword		3
Chapter 1	Introduction	5
Chapter 2	Context	7
Chapter 3	The government's objectives	11
Chapter 4	Investment allowance	13
Annex A	Summary of impacts	17
Annex B	Consultation process	19

Foreword

The UK oil and gas sector has been one of the country's greatest industrial success stories. It remains the largest industrial investor, provides just over half of the UK's primary energy needs and supports hundreds of thousands of jobs.

The fall in the price of oil through the second half of 2014, and thus far in 2015, is clearly a major issue for the 375,000 people across the UK who work in or are supported by the oil and gas industry. We can assure you that government have listened to these concerns and is continuing to work very closely with industry. The industry – and its workers – have ridden many storms, and with the continued support of the government and the Oil and Gas Authority we are confident that it will emerge from this one with renewed vigour. There are still many companies who see a strong future for themselves in oil and gas production in the UK.

The UK is fortunate to have access to significant oil and gas reserves. Sir Ian Wood's definitive report on maximising economic recovery set out the size of the prize, with around a quarter of the UK's offshore oil and gas still to be exploited. That is why, over the course of 2014, a review of the UK's oil and gas fiscal regime was carried out, to ensure it is consistent with the principles of Sir Ian's report and to enable the UK Continental Shelf (UKCS) to compete in the global race for investment.

The radical reforms to how the government approaches the oil industry announced at Autumn Statement 2014 were welcomed by industry, with particular support for the proposed basin-wide investment allowance. Since Autumn Statement we have worked hard on the design of this and present our proposition in this document.

We would be grateful for your views on the investment allowance, a capital expenditure-linked, basin-wide measure which will encourage a greater range of investments than those within the scope of the existing field allowances framework. It will simplify the system and provide certainty of the applicability of this new allowance far earlier in the investment lifecycle than existing allowances. Not only will it support current producers but, by encompassing successful exploration, appraisal, infrastructure and development spend it will secure a pipeline of projects, helping to enhance the UK supply chain's global capabilities and sustainability.

Irrespective of declining commodity prices we expect this measure to encourage significant additional investment in the industry: long-term, sustainable investment to protect the companies and workers who add so much value to the wider UK economy. In the context of declining oil prices we are confident that rapid implementation of the measure would help to dampen the scale of any drop offs in investment which may be being contemplated.

Independent of the fiscal regime, there are many challenges for industry to address and the government will expect them to make significant improvements in production operations, cost-efficiency and commercial practices in line with the objective of maximising economic recovery.

Oil prices are inherently volatile, that is why it is important that we take a long term view on the issue: supporting the industry through encouraging investment and protecting the UK's public finances through a sustainable tax regime, while ensuring that jobs and livelihoods across the North Sea are protected for many years to come.

Consulting on the introduction of a basin-wide investment allowance demonstrates government's commitment to the industry, will help ensure a successful UK oil and gas sector and send a clear

signal that the UK is open for business. We look forward to continuing the dialogue with interested stakeholders as we seek to implement an efficient, effective investment allowance.

Rt Hon Danny Alexander MP
Chief Secretary to the Treasury

Priti Patel MP
Exchequer Secretary to the Treasury

1 Introduction

1.1 At Autumn Statement 2014, the government announced that it would introduce a new basin-wide investment allowance (investment allowance) to support investment in the oil and gas sector on the UK Continental Shelf (UKCS).

Structure of the document

1.2 The remainder of the document is set out as follows:

- Chapter 2 explains the background to this proposal
- Chapter 3 sets out the government's objectives for the new allowance
- Chapter 4 outlines the government's proposed approach to the new allowance
- Chapter 5 provides an assessment of the impacts of the new incentive
- Chapter 6 summarises the consultation questions and explains the consultation process

Stage of consultation

1.3 The proposals set out in this document are at stage 1 (setting out objectives and identifying options) and stage 2 (determining the best option and developing a framework for implementation including detailed policy design) of the government's framework for tax consultation (https://www.gov.uk/government/publications/tax-consultation-framework).

Box 1.A: How to respond to the consultation

Please send comments by 9am on 23 February 2015 to:

Simon Lee
Environment and Transport Taxes Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Email: investmentallowance@hmtreasury.gsi.gov.uk

Phone: 020 7270 1929

2 Context

2.1 Over the past 50 years, the UK's oil and gas industry has produced around 42 billion barrels of oil equivalent (boe).[1] There are still significant, long term, opportunities remaining – with between 11 and 21 billion boe still to recover.[2] These resources offer huge potential for the UK economy. The industry makes a considerable contribution to the economy – directly and indirectly supporting 375,000 jobs,[3] providing around 40% of the UK's primary energy needs[4] and paying £4.7 billion in upstream corporation tax in 2013/14.[5] The government is committed to ensuring that the industry will continue to play an important role for decades to come.

2.2 The price of oil has more than halved in the past 6 months, radically reducing profitability for companies operating in this sector, consequently operators have identified the need to cut investment in order to limit their exposure to current low oil prices. The UKCS is particularly vulnerable to cut backs by global operators, given its high cost environment and perceived scale of opportunity in comparison with other basins.

2.3 There is a risk that investment cutbacks could have a long-term impact on the UKCS. Severe cut backs in investment in mature fields will lead to further declines in production efficiency, with the risk that fields are decommissioned prematurely, while cuts in exploration and appraisal risk the pipeline of new projects.

2.4 Independent of recent trends in oil prices, the government also acknowledges that, as the UK's oil and gas basin matures, companies are working in a higher risk environment. Increasingly, opportunities are smaller, technically challenging or both. Companies are also working with ageing infrastructure and face significant competition for capital from basins overseas.

2.5 The government is committed to ensuring the UK remains an attractive place to invest throughout a downturn in oil prices and as the nature of the basin changes. It is currently implementing the recommendations contained with Sir Ian Wood's review of the regulatory system, including the establishment of a new regulator, the Oil and Gas Authority.

2.6 In 2014 the government also undertook a complete review of the fiscal regime applicable to the UKCS.[6] This culminated in a radical plan to reward investment in the UKCS at all stages of the industry life cycle, to make the fiscal regime more competitive, simpler and more predictable and represent the most balanced and investment-focused way to move to a lower tax burden over time. Supporting billions of pounds of investment throughout the lifecycle of UKCS fields.

2.7 In light of the findings of that review the government has already made changes to the fiscal regime. At Autumn Statement 2014 it set out measures to reduce the rate of the supplementary charge by 2% (from 32 to 30%), extend the ring fence expenditure supplement from 6 to 10 years and implement a new cluster area allowance to support investment in economic but commercially marginal high pressure high temperature projects.

2.8 The fiscal review conclusions led the government also announced a package of additional areas of focus including a basin-wide investment allowance to sustain levels of investment across the UKCS in times of challenge and uncertainty. This package included an undertaking to:

---

[1] DECC figure

[2] DECC figures

[3] 'Fuelling the next generation', Ernst and Young, 2014

[4] DECC figure

[5] HMRC figure

[6] https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence

- introduce a single basin-wide investment allowance to reward investment, hugely simplifying the existing regime of field allowances and maximising the remaining opportunities in the UKCS
- boost offshore exploration by providing financial support for a programme of seismic surveys in under-explored areas of the UKCS and work with industry on options for shared funding models
- consider options for supporting exploration through the tax system, such as a tax credit or similar mechanism, in a way that is carefully targeted and affordable
- open discussions with industry in 2015 on the fiscal treatment of infrastructure and decommissioning relief following asset transfers

2.9 This consultation looks at the detailed design of this new investment allowance. The government's proposal, outlined in Chapter 4, builds on the structure of the cluster area allowance, introduced at Autumn Statement 2014, and the onshore allowance, introduced at Autumn Statement 2013. It recognises the significant capital cost of North Sea projects; by setting the level of allowance as a proportion of capital expenditure, the allowance is focused on a key economic feature of projects, rather than on their physical characteristics (which have previously been used as a proxy for costs). It creates a direct link between investment and the availability of tax relief and provides companies with a greater degree of certainty, transparency and predictability around the tax treatment of their projects.

2.10 The evidence gathered through this consultation, and the conclusions reached, will in addition to shaping the design and implementation of the investment allowance help inform additional aspects of the long-term plan for the fiscal regime which emerged from the wider review, against a backdrop of a challenging market and operating environment.

Oil and gas taxation – the current regime

2.11 The 'ring fence' fiscal regime applies to the exploration for, and production of, oil and gas in the UK and UK Continental Shelf (UKCS) and comprises 3 taxes.

Box 2.A: Oil and gas taxation – the current regime

- Ring fence corporation tax (RFCT) – This is calculated in the same way as the mainstream corporation tax applicable to all companies but with the addition of a 'ring fence' and the availability of 100% first year allowances for virtually all capital expenditure. The ring fence prevents taxable profits from oil and gas extraction in the UK and UKCS from being reduced by losses from other activities or by excessive interest payments. The current main rate of tax on ring fence profits, which is set separately from the rate of mainstream corporation tax, is 30%.
- Supplementary charge (SC) – This is an additional charge, currently set at a rate of 30%, on a company's adjusted ring fence profits (which exclude any deduction for finance costs).
- Petroleum revenue tax (PRT) – This is a field-based tax charged on profits from oil and gas production from individual oil fields which were given development consent before 16 March 1993. The current rate of PRT is 50%. PRT is deductible as an expense in computing profits chargeable to RFCT and SC.

The overall effect of the fiscal regime is a marginal tax rate of:

- 80% on profits from PRT-paying fields
- 60% for other fields

These rates are reduced on any portion of profits covered by field allowances.

2.12 The aim of the oil and gas fiscal regime is to maximise the economic recovery of the UK's oil and gas reserves while ensuring a fair return for the nation taking into account the competitiveness of the opportunities on the UKCS (in accordance with the principles outlined in the government's 'Driving investment' paper published in December 2014[7]). To help achieve this aim, the government provides support through field and cluster area allowances for projects that are economic but commercially marginal given current tax rates. Fields that qualify for these allowances under the current system obtain relief on the 30% supplementary charge for a certain amount of their profits. They still pay ring fence corporation tax on this portion.

2.13 Providing support for wider investment through addressing the level of the supplementary charge borne by companies builds on the government's approach under the existing regime, while simplifying it greatly.

[7] https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence

3 The government's objectives

3.1 The government is committed to maximising the benefits of the North Sea for the UK economy and supporting this important industry through the current, challenging, market conditions. Consistent with the fundamental principle articulated by Sir Ian Wood – maximising economic recovery.[1]

3.2 The government previously introduced field allowances which offered support to technically and commercially challenging projects, which were economic but commercially marginal at prevailing tax rates. Throughout the course of the fiscal review into oil and gas conducted in 2014 a prevailing theme was that though these allowances have been very successful in encouraging investment in the targeted fields (of £14.4 billion investment in the UKCS in 2013, around £7 billion was in fields receiving a field allowance) they have added complexity and distortions to the regime and that, consequently, a more simple approach to incentivising investment would be preferable.

3.3 At Autumn Statement 2014, the government introduced a capital expenditure-linked allowance for projects of a high pressure high temperature nature which is being legislated for within Finance Bill 2015. This initiative, and the mechanism used to effect it, have been welcomed by industry.

3.4 The government proposes a similar capital expenditure-linked allowance, the investment allowance, be introduced across the basin. This approach will give greater support to challenging projects and reward investment at all stages of the industry lifecycle. Moving a further step away from allowances based on physical characteristics of a field, the new allowance will also ensure greater certainty on future tax treatment and simplify the regime. The government will adopt an approach that:

- rewards investment, providing certainty on eligibility at an early enough phase in the investment cycle in order to influence long-term investment decisions
- enhances the case for investment in the basin, and specifically supports the development of near-field and brown field projects
- rewards successful exploration and appraisal – to give companies an incentive to think further than existing fields to nearby discoveries and prospects, consistent with maximising economic recovery principles
- is flexible enough to respond automatically to changes in investment costs
- uses existing mechanisms for delivering relief as far as possible
- simplifies the existing regime
- ensures a fair return for the nation, taking into account the guiding principles in the government's 'Driving investment' paper published in December 2014,[2] and
- ensures that the measure is not open to abuse and is affordable

[1] In simple terms, maximising economic recovery means ensuring that all resources are recovered where the benefits of recovery outweigh the costs, in such a way as to maximise value in current terms for the UKCS overall.

[2] https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence

4 Investment allowance

4.1 At Autumn Statement 2014 the government announced that it would introduce a new basin-wide investment allowance to reward investment in the UK Continental Shelf to simplify and replace the existing system of offshore field allowances over time. This chapter seeks the views of interested parties on a proposal for a new investment allowance.

Proposed approach

4.2 The investment allowance would operate similarly to existing field allowances, by exempting a portion of a company's profits from the supplementary charge – reducing the effective tax rate on that portion from 60% to 30% at current tax rates.

4.3 The amount of profits exempt from the supplementary charge would be based on a proportion of the qualifying expenditure a company incurs in relation to a field. The government proposes that qualifying expenditure will include capital expenditure (excluding decommissioning costs) and would welcome evidence to support the consideration of additional types of spend to the extent respondents are of the opinion that there are key investment activities which would fall outside of this scope.

4.4 Qualifying expenditure for the purpose of the investment allowance will not include any expenditure qualifying under the cluster area allowance or onshore allowance. It is not the policy intention that such costs be granted a second allowance. These allowances will continue to operate in parallel to the investment allowance.

4.5 Companies would start to generate and hold the allowance as soon as they incurred qualifying expenditure. Generation of the allowance would not be dependent on receiving field development plan approval from the Oil and Gas Authority (OGA) or the Department of Energy and Climate Change (DECC).

4.6 Costs incurred prior to an effective date would not contribute to the generation of the allowance. A key aim of the measure is to incentivise prospective investment rather than compensate historical spend.

4.7 The amount of investment allowance activated (i.e. made available to set off against profits) in any accounting period would be no more than the amount of the company's share of production and tariff income from the asset (field or infrastructure) in connection with which it incurred the expenditure. Providing a direct link between the qualifying expenditure and the revenues derived from those investment activities is a key design feature and necessary to reward behaviours and decisions that lead to success.

4.8 The government does not propose to allow companies to transfer generated allowance between different fields (or other areas determined by the OGA). Doing so would provide disproportionate benefit towards companies who obtain partial success by virtue of holding a portfolio of investments, in comparison to a company with a single asset.

4.9 As with the onshore and cluster area allowances, the government does not propose introducing a 5-year minimum activation period, which is a feature of other field allowances. This will enable companies to benefit from the allowance sooner after incurring qualifying expenditure, rewarding that investment in a more direct manner.

4.10 The allowance, when activated, would be available to be used against all of a company's adjusted ring fence profits. It would not be restricted to set off against profits from the field in which the expenditure was incurred.

4.11 Any activated allowance not used to reduce the supplementary charge otherwise payable by a company in a particular accounting period would be carried forward within that company and would be available for use in the next accounting period.

Question 1: Would the proposed approach achieve the government's objectives set out in paragraph 3.4?

Question 2: Are there alternatives or variations to the proposed approach that would better meet the government's objectives?

Question 3: Is the definition of qualifying expenditure sufficiently clear and is the scope wide enough? Are there other types of expenditure which, if included, would help to meet the government's objectives? If so, please provide evidence to support your case.

Question 4: Will the allowance introduce any additional administrative burdens for businesses? If so, are there options the government could consider to reduce this burden?

Question 5: Do you agree that current arrangements to protect the Exchequer are sufficiently robust for the investment allowance? Do you think there are any additional measures that would be helpful in this regard?

Level of allowance

4.12 This consultation document does not propose a specific proportion of capital expenditure that would set the level of the allowance. The final rate of the allowance will be announced alongside the final policy design.

4.13 In setting this rate, the government will consider the objectives set out in paragraph 3.4 in particular the need to create a key driver of new investment and provide a simple but effective alternative to the current system of field allowances. Respondents are asked to provide information on the economics of example projects (new, ongoing and brown field investments as well as exploration) within scope to inform the government's decision on the appropriate rate.

Question 6: Can you provide evidence on the potential economics of specific projects which would benefit from the allowance, particularly projects which are eligible for existing allowances? This could include (but is not limited to):

- the likely capital expenditure and operating expenditure profiles of project
- the likely production and production income profiles
- exploration and appraisal costs and the number of wells companies plan to drill
- whether you factor exploration and appraisal risk into your economics and, if so, how; and
- whether you expect to have other ring fence profits over the next 5 years, if you plan to invest over that timeframe

Scope

4.14 Previous field allowances have attracted investment in new fields, while the brown field allowance has encouraged projects delivering incremental recovery in existing fields. It is proposed that new investment, in both new and existing fields, including infrastructure within the ring fence tax regime, would be within scope of the investment allowance. Driving incremental investment in existing projects (including those associated with critical infrastructure) in addition to new projects. The investment allowance will cover areas which industry has singled out for attention i.e. brown field projects and near-field (tieback) developments.

4.15 The government recognises the vital role which infrastructure plays by sustaining existing production and facilitating new opportunities. The inclusion of infrastructure which is subject to the ring fence tax regime will encourage the development and retention of these crucial assets.

4.16 As all fields which would previously have been eligible for a field allowance will be within the scope of the new investment allowance, the government would propose removing all existing field allowances. Existing fields which already qualify for a field allowance, however, would be transitioned to the new investment allowance (arrangements outlined below).

Question 7: Do you agree with the government's proposed approach to include new investment in new and existing fields within the scope of the measure?

Question 8: Do you agree with the government's proposed approach to include new/existing fields which qualify for the existing system of field allowances? Do you think there are any potential risks or unintended consequences of removing these projects from the scope of all current field allowances and instead providing the projects with the proposed investment allowance?

Split between participants

4.17 Existing field allowances for new fields are divided between participants in a field in proportion to each company's share of equity in the field. Given the structure of the new allowance, the government proposes that each participant would generate their own allowance based on the qualifying expenditure they incur. Under this approach, a participant that did not incur any qualifying expenditure would not generate any allowance. This is consistent with the approach adopted for the onshore and cluster area allowances.

Question 9: Do you agree that the investment allowance should be split between participants in a project based on actual expenditure incurred by each participator? If not, what do you consider to be a more appropriate method to split the investment allowance between participants?

Transitional arrangements

4.18 From the effective date, new fields and incremental projects will no longer qualify, respectively, for field allowances for new or brown field projects.

4.19 As discussed above, any expenditure claimed for the purposes of calculating the cluster area allowance would be excluded from consideration for the investment allowance.

4.20 Existing fields in receipt of a field allowance will still be entitled to that quantum of relief from the supplementary charge under the new regime, any activated field allowance at the effective date would be carried forward to the new regime for use as under the existing regime.

4.21 For existing fields in receipt of a field allowance, any unactivated field allowance would be converted into the investment allowance as at the effective date which would be available to be activated immediately by production income from that field. The company would be able to set-off this allowance for supplementary charge purposes as normal. Again, this would ensure that the value of the existing field allowance is preserved for such fields.

4.22 Qualifying expenditure incurred in relation to existing fields after the effective date will generate investment allowance **but only to the extent that the total investment allowance generated exceeds the licensee's share of the total field allowance(s) for which that field has qualified (the original field allowance)**. As such fields in receipt of an existing field allowance will be able to generate incremental investment allowance in certain circumstances.

4.23 Companies may have spent significant amounts on developing fields prior to the effective date which have not yet provided production against which they are able to activate their converted allowance. Under the mechanism at paragraph 4.22 they would not be able to access the Investment Allowance until the allowance generated by their post-effective date qualifying spend exceeds their original field allowance.

4.24 To accommodate this, the government proposes that the OGA would be empowered to determine a date at which the programme/project(s) described in the relevant FDP/FDP addendum(s) has/have been "materially completed" on a field-by-field basis. **After this date, qualifying expenditure incurred in relation to the field can generate the investment allowance, even if the allowance generated since the effective date has not exceeded the original field allowance** in respect of that field. The OGA would consider applications for such determinations from any of the licensees with interests in the applicable field and publish a list of fields where this date has passed. This will ensure that new projects in respect of fields which already receive field allowance will not be penalised in comparison to projects on new/existing opportunities commencing after the effective date.

4.25 It is proposed that first commercial production be used as a proxy for material completion, with the exception of clearly phased projects where much of the originally contemplated spend was scheduled after first production. This will prevent companies from accessing investment allowance on spend clearly associated with previous investments which are ongoing but not complete and for which the spend would not have generated an incremental investment allowance under the mechanism described at 4.22.

Question 10: Do you think these transitional arrangements are appropriate? If not, please indicate what you think would be suitable arrangements, providing evidence to support this.

A Summary of impacts

A.1 The following is a consultation stage tax impact assessment of the impact of providing fiscal incentives for investment in the UK Continental Shelf. We welcome any comments on our assessment of the impacts. These will feed into the tax information and impact note to be published alongside draft legislation.

Exchequer impact	Since this consultation document does not propose a specific level of allowance, it is not currently possible to estimate the Exchequer impact. The government will be using data gathered through the consultation to determine the appropriate level of allowance to achieve the government's objectives and to identify the Exchequer impact.
Economic impact	The proposals outlined are expected to increase investment in oil and gas projects and on exploration and appraisal in the UK Continental Shelf. This investment would create jobs, increase the domestic production of hydrocarbons and bring benefits to the UK supply chain.
Impact on individuals and households	Any resulting increase in production would contribute to the UK's security of energy supply.
Equalities impacts	The proposal is considered to have no differential impact on any equality groups.
Impact on businesses and Civil Society organisations	The administrative impacts on companies from the proposals are anticipated to be negligible, but the consultation seeks views on this.
Impact on HMRC or other public sector delivery organisations	The additional costs for HMRC in implementing these proposals are anticipated to be negligible.
Other impacts	Sustainable development, wider environment and health: While the changes are expected to increase the production of hydrocarbons, the UK has a strong regulatory system which provides a comprehensive and fit for purpose regime for this activity. Small firms impact: The administrative impacts on small companies are expected to be negligible.

B Consultation process

The government welcomes views on the following questions:

Question 1: Would the proposed approach achieve the government's objectives set out in paragraph 3.3?

Question 2: Are there alternatives or variations to the proposed approach that would better meet the government's objectives?

Question 3: Is the definition of qualifying expenditure sufficiently clear and is the scope wide enough? Are there other types of expenditure which, if included, would help to meet the government's objectives? If so, please provide evidence to support your case.

Question 4: Will the allowance introduce any additional administrative burdens for businesses? If so, are there options the government could consider to reduce this burden?

Question 5: Do you agree that current arrangements to protect the Exchequer are sufficiently robust for the investment allowance? Do you think there are any additional measures that would be helpful in this regard?

Question 6: Can you provide evidence on the potential economics of specific projects which would benefit from the allowance, particularly projects which are eligible for existing allowances? This could include (but is not limited to):

- the likely capital expenditure and operating expenditure profiles of project
- the likely production and production income profiles
- exploration and appraisal costs and the number of wells companies plan to drill
- whether you factor exploration and appraisal risk into your economics and, if so, how; and
- whether you expect to have other ring fence profits over the next 5 years, if you plan to invest over that timeframe

Question 7: Do you agree with the government's proposed approach to include new investment in new and existing fields within the scope of the measure?

Question 8: Do you agree with the government's proposed approach to include new/existing fields which qualify for the existing system of field allowances? Do you think there are any potential risks or unintended consequences of removing these projects from the scope of all current field allowances and instead providing the projects with the proposed investment allowance?

Question 9: Do you agree that the allowance should be split between participants in a project based on actual expenditure incurred by each participator? If not, what do you consider to be a more appropriate method to split the allowance between participants?

Question 10: Do you think these transitional arrangements are appropriate? If not, please indicate what you think would be suitable arrangements, providing evidence to support this.

Submitting responses

B.1 Please send comments by 9am on 23 February 2015 to:
investmentallowance@hmtreasury.gsi.gov.uk

B.2 Alternatively, address responses to:

Simon Lee
Environment and Transport Taxes Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

B.3 Please be aware that responses may be shared with HM Revenue and Customs, the OGA and DECC.

Confidentiality

B.4 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1988 (DPA) and the Environmental Information Regulations 2004.

B.5 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory code of practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

B.6 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation principles

B.7 This consultation is being run in accordance with the government's consultation principles.

B.8 The consultation is being run over a shortened timing period at the request of industry. As this measure builds on existing mechanisms the fundamentals of the measure were consulted on as part of the fiscal review. A shortened consultation is required in order to finalise detailed aspects of the investment allowance design.

B.9 The consultation principles are available here:
https://www.gov.uk/government/publications/consultation-principles-guidance

B.10 If you have any comments or complaints about the consultation process please contact:

Oliver Toop
Consultation Coordinator, Budget Team
HM Revenue & Customs
100 Parliament Street
London
SW1A 2BQ

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

B.11 Please do not send responses to the consultation to this address.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk