

1. Minutes from last meeting and action points

- 1.1 Minutes from the last meeting were agreed and there were no corrections. There were two action points outstanding: Gas valuation and the shuttle tankers.
- 1.2 AT noted that the conclusions on the gas valuation project had been circulated the previous day. The final work noted that there were a number of methods used. There did not appear to be any issues.
- 1.3 The shuttle tankers issue was on the agenda.

2. Autumn Statement

- 2.1 HMT thanked Industry for their support with regard to the Fiscal Review and Cluster Allowance Consultation.
- 2.2 Autumn Statement 2014 contained a 2% reduction in the supplementary charge, an extension of the ring fence expenditure supplement and the introduction of the cluster allowance (the temperature and pressure thresholds for which had been reduced from initial proposals as a result of the consultation).
- 2.3 The fair fuel stabiliser had also been abolished.
- 2.4 Further announcements had been made on the 4th, providing overriding principles to drive investment: reducing the tax burden in the North Sea as it matures, recognising the wider economic benefits produced by the Oil and Gas sector besides Corporation Tax and to consider the international competitiveness of the basin with regards to considering what constitutes a fair return.
- 2.5 An ambition is to supersede the plethora of current allowances with a basin wide investment allowance and to deliver action on seismic data acquisition to support exploration, both to a Budget 2015 timescale.
- 2.6 HMT to host a meeting on Friday 12th December to debrief the measures introduced at Autumn Statement and discuss points forward.

3. Brownfield Allowances

- 3.1 AT thanked Industry for engaging with HMRC on this point. HMRC and industry had drafted some guidance on Capital/Revenue which was about to be circulated to a wider audience amongst industry. The aim was to come up with guidance on the nature of capital expenditure within the context of the oil and gas business.
- 3.2 Industry pointed out an issue with BFA guidance on the gov.uk website in that they were not notified when the guidance was changed. It would be useful to know that guidance was updated.
- 3.3 HMRC pointed out that often these were very modest changes. They agreed to disseminate a note around through emails when the guidance was updated.

4. PRT certificates

- 4.1 Industry and HMRC noted that they had a detailed discussion on this subject with a small workgroup of companies who have been most affected by the issues resulting from less detailed PRT certificates being available. The main issue is that the legislation at s.80 of FA2013 does not give HMRC authority to release data to help establish the amount of tax history for DSAs, instead it is worded 'for the purpose of enabling the company to determine the reference amount.' However in practice, there were continuing difficulties in relation to Decommissioning security agreements.
- 4.2 They had held a meeting (on 2nd December, hosted by Oil & Gas UK) to discuss the problem and to develop a more flexible approach whereby businesses could gain access to others' full PRT certificates without adding to demands on HMRC's resources. This would make it much easier to move to post tax DSA and would also save HMRC resource. HMRC was concerned that they have already been asked for a number of new certificates from the same participators the numbers changed, which was resource intensive. A waiver approach is being explored.
- 4.3 Industry enquired why it was not possible to amend the legislation. They believed that this was why the legislation route had been chosen during the initial discussion, rather than the waiver route.
- 4.4 HMRC pointed out that the problem with the legislative route was that it forced the disclosure of information in a very sensitive area, particularly with regard to the interrelationship between the various entities. Unlike the existing legislation for DRD, the possible participants in a DSA were more varied and excluded the government. Industry acknowledged that the timescale for any legislative change was unlikely to be acceptable either.
- 4.5 The other issue with the legislative route that was mentioned in the meeting was the lack of parliamentary time to implement the change in the near term, whereas the waiver approach did not suffer from the same political risk and time delay.
- 4.6 Industry stated that they had explored this at the time in some detail. The problems had already been identified. If the company in question held the license, a waiver would be sufficient. However, for those entities who had left the basin, this is more difficult. HMRC noted that, even if the fields needed to be tracked back, there would still be an 'owner'. There would be very few examples where there would be no owner.
- 4.7 Industry suggested that the ideal solution was to have the waiver within the DRD itself, or alternatively, this could be appended to the DRD. Those participators who already had DRD's could enter into the waiver as a side agreement.
- 4.8 HMRC stated that the next step would be if industry could request this formally and HMRC/HMT could consider this and take it forward as appropriate. Claire Ralph from OGUK commented that they were in the process of drafting a letter.

5. EITI

- 5.1 HMRC stated that they were grateful for industry participation in the Extractive Industry Transparency Initiative (EITI) which had enabled the UK to achieve candidacy status in October 2014. A very good Multi Stakeholder Group (MSG) from

the three constituencies - civil society groups, government and industry is working collaboratively.

- 5.2 Several approaches had been considered for the reconciliation of company and government tax data. However, it had been decided to take a simple approach and industry guidance would be updated when the recommended approach is formally adopted by the MSG.
- 5.3 In brief, the approach is for companies making payments both inside and outside the ring fence, the business could optionally notify HMRC of payments relating to ORF liabilities to allow HMRC to keep a record and notify the Independent Administrator (IA) in order for the necessary reconciliation to be done. This means that downstream payments can be excluded from the published EITI reports.
- 5.4 As most payments by companies in scope are upstream, this should not be onerous and is in any case not compulsory – it is merely an option that businesses can consider. Businesses can already make multiple payments both inside and outside of a Group Payment Arrangement. This approach is not changing the tax system in any way.
- 5.5 OGUK noted that there was a tight timetable. As the candidacy had been accepted in October, the first report was due by April 2016. The first report would be in relation to 2014 data and this approach would apply to payments made in 2015.
- 5.6 A transitional approach would be needed with regard to 2014, which was the first year to be disclosed for EITI. It is being proposed that HMRC would simply notify the IA of all payments received, businesses would do the same but would also notify the split between upstream and downstream. Again, the intention is that only upstream payments will be published.
- 5.7 Industry guidance covering all of this in more detail will be issued shortly if and when it is agreed by the MSG.

6. Gas Valuation Project

- 6.1 HMRC stated that they had concluded their review of the information on the methodology and it appeared that, on the whole, most produced similar results which mirrored commercial arrangements. The conclusions have been circulated to industry.

7. S1313 and Shuttle Tankers

- 7.1 HMRC were concerned that the nature of their enquiry was unclear. This had been a genuine attempt to collaborate with industry and advisers. HMRC had limited historical information to support the existing treatment, hence the approach. This was not a policy change and whilst it remains open for HMRC to review its interpretation of legislation, they would aim to express the reasoning for any requests in future.
- 7.2 HMRC confirmed that they would not be changing the current approach to the taxation of non-participator shuttle tankers under section 1313 CTA2009. However this was a grey area and they did not agree with a number of the points raised in the discussion.

- 7.3 HMRC does not agree that 'in connection with' would not apply to the activity in question. The phrase has a wide meaning and relates to all aspects of field life which arise as a consequence of the exploitation of natural resources. Neither did it consider the Norwegian Supreme Court case to be relevant as the PTA had specifically excluded non-pipeline transportation.
- 7.4 However, there is a lack of clarity over the application of international agreements and particularly double taxation agreements in this area. HMRC also recognised the practical issues raised by respondents when transport locations could change frequently. HMRC had concluded that there was not sufficient certainty to warrant a change in current practice.
- 7.5 Industry noted that HMRC could review its interpretation of legislation and stated that this was an industry concern. They would appreciate the opportunity to work collaboratively on new measures at the draft legislation stage. It was also pointed out that Industry should have clear guidance on the HMRC view from the Oil and Gas manual.

8. SC apportionment of profits

- 8.1 HMRC pointed out that a lot of enquiries fell under this umbrella and HMRC could not comment on the specific cases due to taxpayer confidentiality. The facts of each case were case specific.
- 8.2 HMRC are holding an internal meeting scheduled next week to discuss the advice currently expected from the Solicitors office regarding this issue and will be contacting Companies in the New Year to notify them of their current thinking regarding this issue.
- 8.3 Industry pointed out that the difficulty was with the words 'just and reasonable.' They asked whether it was possible to provide details of any agreed methodologies.
- 8.4 HMRC confirmed that in some instances the issue has already been resolved but this has resulted in the withdrawal of the election rather than the application of any agreed alternative apportionment methodology. It is very difficult for HMRC to identify common threads at present.

9. Any other business

- 9.1 AT thanked everyone and asked if there was any other business. He suggested that next year, the Joint Conference could take place after the Autumn Statement.
- 9.2 Industry noted that the R&D changes in the Autumn Statement would affect the industry through the restriction on the definition of Qualifying Expenditure. This would affect the oil industry through the use of trial crudes in refineries.
- 9.3 Industry also asked whether there was any possibility of an increase to the rate of RDEC to make it more competitive. HMRC noted that this was a question for Ministers.
- 9.4 HMRC introduced Sue New as an Assistant Director (AD) and CRM who would be taking on wider responsibility as downstream sector lead. Andrew Hoar, also an AD and CRM, would become sector lead on upstream.

- 9.5 HMRC also reminded Industry that it is possible to file PRT returns electronically. HMRC promised to write to Industry summarising the available filing options.
- 9.6 In conclusion, AT thanked Diane Williams, a long standing AD and CRM, for her service, explaining that she would be retiring in January.

10. Next Meeting

- 10.1 It was agreed that the next meeting would be on March 24th at 15.00