Petroleum Production Tax

Part 24-04-01

This document should be read in conjunction with sections 696G to 696M of the Taxes Consolidation Act 1997

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Table of Contents
1. What is Petroleum Production Tax (PPT)? .............................................................3
2. Operation of PPT ....................................................................................................3
  2.1 Calculation of “R Factor” ...................................................................................4
  2.2 Calculation of PPT payable ................................................................................4
  2.3 Calculation of minimum 5% PPT payable ..........................................................5
3. Interaction with Corporation Tax ...........................................................................5
4. Apportionment ......................................................................................................5
5. Valuation of petroleum/petroleum related asset..................................................5
6. Interaction with Profit Resource Rent Tax .............................................................5
7. Groups ....................................................................................................................5
8. Returns ..................................................................................................................6
9. Payment of PPT ......................................................................................................6
10. Collection ............................................................................................................6
1. What is Petroleum Production Tax (PPT)?

Petroleum production tax (PPT)\(^1\) is a new tax that applies to revenues from discoveries made under petroleum authorisations\(^2\) granted by the State on or after 18 June 2014. PPT replaces the profit resource rent tax introduced in Finance Act 2008 for new petroleum authorisations. Profit resource rent tax will still apply to profits from discoveries made under authorisations granted by the State between 1 January 2007 and 17 June 2014.

PPT was introduced to strengthen the taxation provisions to provide for an increased financial return to the State from future discoveries whilst continuing to attract the high-risk exploration investment needed to prove the potential of the Irish offshore sector.

2. Operation of PPT

PPT is calculated on a field by field basis and applies once the field starts producing oil or gas. It applies to a taxable field’s\(^3\) **net income** at a rate that is determined by reference to the “R factor” i.e. the profit ratio of the field. The “R Factor” is calculated using the formula \(A/B\) where,

A is the cumulative gross revenues, in respect of that particular field in relation to that relevant period\(^4\), and

B is the cumulative field costs, in respect of that particular field in relation to that relevant period.

Where the tax payable under the profit ratio formula would be less than 5% of the annual gross revenues (net of transportation costs), a minimum PPT payment of 5% of gross revenues (net of transportation costs) will be charged.

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\(^1\) Introduced by section 20 of Finance Act 2015.

\(^2\) Exploration licences, reserved area licences or licensing options granted on or after 18/6/2014 (specified licences) other than exploration licences resulting from the exercise of a licensing option issued prior to 18/6/2014.

\(^3\) A taxable field is an area covered by a petroleum lease awarded on foot of a specified licence.

\(^4\) Relevant period is an accounting period or part of an accounting period of a company which commences on or after 18 June 2014.
The PPT rates are as follows:

<table>
<thead>
<tr>
<th>R factor</th>
<th>PPT rate</th>
</tr>
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<tbody>
<tr>
<td>&lt;1.5</td>
<td>5% of gross revenue less transport costs</td>
</tr>
<tr>
<td></td>
<td>Or if greater</td>
</tr>
<tr>
<td>= 1.5</td>
<td>10% of net income</td>
</tr>
<tr>
<td>&gt;1.5 to 4.5</td>
<td>10% + {(R Factor –1.5) / (4.5–1.5) * (40%-10%)} of net income</td>
</tr>
<tr>
<td>≥ 4.5</td>
<td>40% of net income</td>
</tr>
</tbody>
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2.1 Calculation of “R Factor”

For the purposes of calculating the “R Factor” cumulative field gross revenue is the total of gross revenues (less petroleum production tax paid) earned by the company in relation to the taxable field since 18 June 2014. Gross revenue is the total amount derived, for the relevant period, from sales of petroleum extracted from the field including any amounts derived from the assignment, disposal or sale of any assets, interests, options or rights in respect of the field. Cumulative field costs mean the total of all field costs (both capital and operating costs) incurred by the company in relation to the field since 18 June 2014. Field costs are the total of all expenditure including exploration, development and transportation expenditure incurred by the company for that relevant period whilst carrying out petroleum activities in relation to that field.

2.2 Calculation of PPT payable

To calculate the PPT payable (where the minimum tax rate of 5% of gross revenue, less transportation expenditure, is not applicable) the tax rate determined by the “R Factor” is applied to the net income from the field for the relevant period. The net income from the field is the gross revenue less eligible expenditure incurred in respect of that field. Eligible expenditure is the total of all expenditure, including exploration and development expenditure (as well as abandonment expenditure allowable under section 695) incurred by the company for that relevant period and includes any such expenditure incurred in any preceding period providing that a deduction has not been allowed in computing PPT.
2.3 Calculation of minimum 5% PPT payable

*Transportation expenditure* is allowable as a deduction from *gross revenue* in calculating the minimum 5% PPT payable. *Transportation expenditure* is those costs incurred in transporting the petroleum from the taxable field via pipeline to a place where it is landed in the State or, if produced on a platform, from the wellhead to the carrier, if the carrier serves as the point of export.

Terms such as development expenditure, exploration expenditure and abandonment expenditure are given the same meaning as in section 684 (subject to any necessary modifications).

The operation of the PPT regime ensures a maximum marginal tax take on a producing field (combining corporation tax and petroleum production tax) of 55%.

3. Interaction with Corporation Tax

PPT is payable in addition to the existing corporation tax rate of 25% and PPT payments are deductible for the purposes of calculating the amount of corporation tax due.

4. Apportionment

Where the accounting period of a company differs from the relevant period, any necessary apportionments to be made in computing taxable field profits or expenditure are allowable.

5. Valuation of petroleum/petroleum related asset

The disposal and acquisition of petroleum or a petroleum related asset, otherwise than by sale at arm’s length, is treated as having been made for a consideration equal to the market value of the petroleum or petroleum related asset at the time the disposal and acquisition were made. Market value also applies where the petroleum or petroleum related asset is appropriated for other uses.

6. Interaction with Profit Resource Rent Tax

Where a charge to PPT applies to a field, no charge to profit resource rent tax shall apply to the same field preventing a double charge to tax.

7. Groups

When calculating field costs and eligible expenditure for a taxable field, expenditure incurred by a company (the first company) may, in certain circumstances, be deemed to have been incurred by an associated company where one company is a subsidiary of the other or both are subsidiaries of a third company. An election must be made by the first company deeming the expenditure to have been incurred by its subsidiary, its parent or another subsidiary of the parent.
8. Returns
The PPT return, which is required under the new regime, has been incorporated into the CT1 return and breakdowns of field costs, gross revenue, transportation expenditure, net income, eligible expenditure and the petroleum production tax payable for each taxable field must be provided. Penalties apply for the failure to make returns and the filing of incorrect returns.

9. Payment of PPT
PPT is payable on an annual basis on or before the day on which the CT1 return for that relevant period is due with the scope for more frequent payments if necessary.

10. Collection
The normal corporation tax provisions for assessment and collection apply to PPT. The interest provisions in section 1080 also apply and an appeal of an assessment can be made to the Tax Appeals Commission within 30 days after the notice of assessment.