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AUTUMN BUDGET 2024: KEY TAKEAWAYS FOR THE UK'S ENERGY SECTOR – PART ONE

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SUMMARY

The UK's new Labour Government's first Budget has revealed key measures, aiming to support the UK's transition into cleaner energy. Whilst many changes are largely positive for the renewable sector, the Budget does highlight some potentially challenging times ahead for investors in the oil and gas industries. In this two-part article, BCLP discusses the key changes the Autumn Budget brings, and the subsequent impact on the energy sector.

On 30 October 2024, Rachel Reeves, Chancellor of the Exchequer delivered the Autumn 2024 budget; Labours' first Budget since 2010 following their win in July's general election.

Reeves' Budget has revealed key measures, aiming to support the UK's transition into cleaner energy. Such commitments are unsurprising, given Labour's ambitious promises in their June 2024 Manifesto to "Make Britain a clean energy superpower" and initiatives, including the recent removal of the de facto ban on onshore wind farms. Whilst many changes are largely positive for the renewable sector, the Budget does highlight some potentially challenging times ahead for investors in the oil and gas industries. In this two-part article, BCLP discusses the key changes the Autumn Budget brings, and the subsequent impact on the energy sector.

KEY CHANGES

Energy Profits Levy

Perhaps one of the more significant changes, is to the Energy Profits Levy ('EPL'). The EPL was previously introduced in 2022 to tax the extraordinary profits of oil and gas companies, which operate in the UK and UK Continental Shelf.

In an effort to ensure oil and gas companies contribute more to make the UK a clean energy superpower, the government confirmed an increase in the EPL taking effect from 1 November 2024, raising it from 35% to 38%. Doing so brings the headline rate of tax to 78%.

The Levy is now to apply until 31 March 2030. It was previously due to expire on 31 March 2029. The government will also remove "*unjustifiably generous investment allowances*" from the EPL, including the main 29% investment allowance for qualifying expenditure incurred on or after 1 November 2024. Further, the government will make no additional changes to tax relief available within the EPL.

Despite the government's pledge to ensure the energy transition is managed *"in a way that supports jobs in existing and future industries,"* the changes to the EPL highlight how difficult the environment is for the UK oil and gas industry at a time when traditional fuels still play an important role in the transition and domestic production is still of material benefit to the economy. Commodity prices have already been at recent lows, and the industry has already taken a hit.

Whether the funding from the additional 3 per cent Levy will help to drive the UK's clean energy transition remains questionable. The UK's current reliance on oil and gas is still significant, and higher taxation could just simply push the UK to rely *more* on imported oil and gas, as operators and supply chains begin to look elsewhere. The extra funding for renewable energy is unlikely to immediately impact certain challenges the UK already faces in its renewable transition, like the current gaps in the needed technology.

In a more positive move for the industry, the 100% first year capital allowances within the EPL will remain. This could encourage some investment within the oil and gas industry and will likely be a move supported by the industry. The decarbonisation investment allowance will also be retained, with its uplift reduced to 66%.

A consultation will be published in 2025, regarding how taxation of offshore oil and gas will respond to price shocks, after the EPL ends in 2030. This should help to ensure longer term certainty on industry tax measures.

To read more about these changes and the impact on clients, please see Tax partner Kyle O'Sullivan's July blog: Further changes to the Energy (Oil and Gas) Profits Levy announced | BCLP.

Relief for payments made into a Carbon Capture Usage and Storage Decommissioning Fund

In an additional and more positive measure targeting oil and gas companies, the government will legislate in the Finance Bill 2024-25 to provide tax relief in respect of payments made into decommissioning funds, relating to assets sold from oil and gas companies to a Carbon Capture Usage and Storage ('CCUS') company. Separately, the legislation will exempt the related payments made by the CCUS company to the oil and gas companies as a result of the sale of these assets from the scope of the EPL.

The measure is intended to remove tax barriers preventing oil and gas companies from transferring suitable assets to be used in CCUS, promoting the cheaper and sustainable usage of these assets, as opposed to CCUS companies building new assets.

Concluding Remarks

The 2024 Budget ultimately does mark the introduction of challenging times for the oil and gas industry, highlighted by changes to the EPL. Ultimately, reactions to the Budget are likely to be mixed, with the proposed measures marking potential wins and losses for the energy sector as a whole. BCLP discusses the further measures introduced by the Autumn 2024 Budget in the Autumn Budget 2024: Key Takeaways for the UK’s Energy Sector – Part Two.

This article was written with trainee solicitor Hannah Fraser.

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