

Tax briefing note

Energy profits levy

June 2025

What is it?

The energy profits levy is a surcharge on North Sea oil and gas profits. It was originally levied at 25 per cent when introduced in May 2022 and was scheduled to expire at the end of 2025 but, in November 2022, the rate was increased to 35 per cent and the expiry postponed to 31 March 2028. On 1 November 2024 the rate was increased again to 38 per cent and the expiry further postponed to 31 March 2030. The associated capital allowances were also withdrawn.

The 38 per cent energy profits levy is added to the 30 per cent 'ringfence corporation tax' and 10 per cent supplementary charge to produce a headline corporation tax rate of 78 per cent for North Sea oil and gas profits.

What's the problem with it?

As a tax on company profits the energy profits levy causes all the same problems that corporation tax does. In other words, it is ultimately a tax on investment, it penalises companies according to how efficiently they use resources and it is complex. Fortunately, the enormous combined 78 per cent headline rate on North Sea oil and gas profits is ameliorated in its effect on investment somewhat by relatively generous allowances although some of these have just been removed. Generous tax allowances, however, do little to attract new money. It's one thing to invest profits that would otherwise be heavily taxed but quite another to raise capital for a new organisation.

The levy was also supposed to be a one-off windfall tax justified by the unexpectedly beneficial impact of high energy prices resulting from the war in Ukraine. Apart from the merits of the tax itself, extensions to the expiry date diminish the credibility of temporary taxes. Why invest now to take advantage of high prices in a few years if a temporary tax that will supposedly expire by then might in fact be extended to capture the potential profits motivating your investment?

This principle extends even to windfall taxes that are credibly temporary due to governments in the country not being in the habit of extending them. When evaluating an investment proposal companies model a range of scenarios. In the case of oil and gas investment oil (and gas) prices form an important component of this. The possibility of financial upside from high prices is factored in to assessments as well as the risk of losses from low prices. If governments gain a reputation for imposing windfall taxes on profits when prices are unexpectedly high then investment modelling assessments will adjust the upside potential accordingly, with the ultimate consequence being fewer investments being viable.

The industry association, Offshore Energies UK, has calculated that the recent increases alone will put at risk 35,000 jobs and reduce investment from £14 billion to £2 billion.¹ This follows previous investment retrenchments at Buchan,² Pensacola³ and TotalEnergies projects.⁴

¹ Race, M. & Hoggan, K., Fears over energy tax rises as business confidence falls, BBC, 2 September 2024, www.bbc.co.uk/news/articles/cx287xq91e5o (accessed 15 May 2025).

² BusinessMatters, North Sea Oil Project Delayed Amid Windfall Tax Uncertainty Before Election, 6 June 2024, bmmagazine.co.uk/news/north-sea-oil-project-delayed-amid-windfall-tax-uncertainty-before-election (accessed 15 May 2025).

³ Findlay, K., North Sea firm's shares plunge again after it walks away from big oil find, Press and Journal, 11 June 2024, www.pressandjournal.co.uk/fp/business/6498634/north-sea-firms-shares-plunge-again-after-it-walks-away-from-big-oil-find (accessed 15 May 2025).

What should be done?

Reinstate the original expiry date of 31 December 2025.

⁴ Smith, O., Oil giant TotalEnergies to cut North Sea investment over windfall tax, BBC, 2 December 2022, www.bbc.co.uk/news/business-63834419 (accessed 15 May 2025).