



GOVERNMENT WHIPS' OFFICE

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FROM THE BARONESS PENN

GOVERNMENT WHIP DFE DHSC HMT

020-7219 3778

5 September 2022

Dear Lord Sikka,

During the debate on the Energy (Oil and Gas) Profits Levy Bill on 13 July, I committed to write in response to your questions that I was unable to address. These related to the Energy Profits Levy's investment allowance and applying windfall taxes on certain other sectors.

First, you asked about leasing expenditure and the levy's investment allowance. In particular, you queried whether the Bill prevented the leasing of a used asset being eligible for the investment allowance. The legislation does not exclude an allowance being generated on a previously leased asset, but it does ensure that no allowance can be generated on a leased asset if the asset owner has obtained an allowance on the acquisition of that asset. The legislation also includes an anti-avoidance provision at section 5 to prevent any allowance being generated in connection with or in consequence of any avoidance arrangements.

It is also worth noting that the investment allowance for the levy is calculated in the same way as the allowance for Supplementary Charge. Eligible investment expenditure can comprise of capital expenditure and some operating and leasing expenditure, incurred on or after 26 May. The levy is targeted at the profits from oil and gas upstream activities, and so any relief from this levy for investment must naturally be related to oil and gas upstream activities.

Second, in answer to your question about extending the investment allowance to other sectors to increase more investment, the Government already has a range of tax and non-tax levers to support investment in renewables. These include:

- The UK's R&D tax relief regime;
- The Contracts for Difference scheme, which provides developers of low carbon electricity generation with direct protection from volatile wholesale prices, and has been hugely successful in driving the deployment of renewable energy while rapidly reducing costs; and
- The £1 billion Carbon Capture, Utilisation and Storage Infrastructure Fund, which will provide part-funding for Carbon Capture and Storage (CCS) project capital expenditure.

The Lord Sikka  
House of Lords

In addition, upstream oil and gas profits are now taxed at a combined rate of 65% (which includes the Energy Profits Levy), whereas profits from other forms of energy, such as renewables, continue to be taxed at the much lower rate of 19%.

Third, you asked about introducing taxes on other profitable sectors. Companies will already be paying Corporation Tax in line with their profitability; more profitable companies will be paying more. However, given the global context of high oil and gas prices has driven extraordinary profits for UK oil and gas producers, it is both fiscally prudent and morally right that the Government has introduced a temporary and targeted levy that applies to these extraordinary profits. The levy will raise around £5 billion of revenue over its first year so that the Government can help families with the cost of living, and as the former Chancellor said, it also avoids having to increase the debt burden further.

All taxes are kept under review and any changes are considered and announced by the Chancellor.

Finally, I would like to make a correction to what I said in the debate. As regards the levy's investment allowance, I indicated that the allowance has been carefully designed to ensure that it incentivises investment but does not provide relief for investment that would have taken place otherwise. Although the investment allowance within the levy will be generated on investment expenditure (capital expenditure and some operating and leasing expenditure) incurred on or after 26 May, the Government has not published analysis on which investments would have taken place without the investment allowance. However, the Government expects the combination of the levy and the investment allowance to lead to an overall increase in investment, and the OBR will take account of this policy in their next forecast. The legislation also includes an anti-avoidance provision to prevent any "recycling" of existing assets getting the allowance.

I will place a copy of this letter in the Library of the House.

Best wishes,

A handwritten signature in black ink, appearing to be 'Baroness Penn', with a stylized initial 'P' and a long horizontal stroke extending to the right.

**BARONESS PENN**