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Relevant Contracts Tax for the oil & gas sector

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Oil and gas companies undertaking explorations and exploitations in Ireland have an obligation to operate Relevant Contracts Tax "RCT".

Given the broad scope of RCT, it is important that companies operating in this sector are aware of when RCT should be operated, and have adequate controls and processes in place to manage RCT compliance.

What is RCT?

Relevant Contracts Tax "RCT" is a withholding tax that applies on payments made to subcontractors for certain works and includes exploration / exploitation works and related activities.

There are three deduction rates, 0%, 20% and 35%, with the rate dependant on the tax compliance position of the contractor engaged.

When does RCT apply?

Companies carrying out an oil or gas undertaking have an obligation to operate RCT on payments to subcontractors for certain works, known as "Relevant Operations".

This definition includes any works which form an integral part of, are preparatory to, or are for rendering complete, the drilling for or extraction of minerals, oil, natural gas or the exploration for, or exploitation of, natural resources.

What are the common RCT pitfalls for the oil and gas sector?

Failure to operate RCT can result in costly tax settlements. In our experience, most penalties for RCT non-compliance have stemmed from a lack of knowledge of RCT and when it should apply, such as:

- Mistaken belief that RCT doesn't apply - oil and gas companies not recognising that RCT applies to their sector and the extent of the works caught for RCT;

- Companies unaware of the territorial scope of RCT and that it includes any area over which Ireland has exploration/exploitation rights.

- Procurement not being aware of RCT rules – failure to recognise that a contract is within the scope of RCT at the time that a contract is entered into;

- Non operation of RCT on payments for the supply of labour (e.g. inter-company payments, payments to employment agencies.)

If you are a subcontractor operating in the oil and gas sector, what should you consider?

Application to Revenue to obtain a 0% RCT rate	Securing a 0% RCT rate means that you can receive payments gross, without deduction of RCT.
Offset RCT withheld against other tax liabilities	Subcontractors can offset any RCT withheld on payments to them against other tax liabilities.
Obligation to operate RCT	To the extent that you are engaging other contractors, you may have an obligation to register as a Principal Contractor and operate RCT on payments to subcontractors.

Would you like to know more?

Our RCT team has extensive knowledge of all RCT issues facing both Principal Contractors and subcontractors operating in the oil and gas sector and can provide a wide range of RCT support including managing Revenue Audits, carrying out health checks and making 0% rate RCT applications.

The team also has significant experience in delivering RCT training sessions to clients, so that organisations have the skills they need to address RCT issues and reduce the risk of future errors.

If you would like to ensure that your business is RCT compliant, please contact us today.

Get in contact today

Emer O’Sullivan
Director

E: emer.osullivan@pwc.com
T: +353 1 792 6695

Elaine O’Rourke
Senior Manager

E: elaine.orourke@pwc.com
T: +353 1 792 5098

Jim Kinahan
Senior Manager

E: jim.kinahan@pwc.com
T: +353 1 792 8641

Emily Bourke
Senior Manager

E: emily.bourke@pwc.com
T: +353 1 792 6796

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