HMRC - OT26017 - 1967 Memorandum - HMRC View On Exclusions

Not all expenditure up to the end of Stage 3 will be on research and development.

The character of the expenditure must be such that it can reasonably be regarded as “activities in the field of natural science” and also “for the extension of knowledge”. Thus, drilling a well to see if there is oil in place may well be on research and development depending on when in Stages 2 to 5 it takes place. However, economic planning, deciding how best any field might eventually be developed as between alternative possibilities, negotiating over the sale price of gas etc, whilst all being steps that may take place before the end of Stage 3 are not of themselves research & development. These activities can be very important and resource intensive but the fact that they take place before the end of Stage 3 does not turn them into research & development. These examples are illustrative and not exhaustive.

Although these costs are excluded from RDA claims they may qualify for relief under other codes. Relief may be available under the plant and machinery code or, if too remote from the plant and machinery (see Ben Odeco Ltd v Powlson 52TC459), the expenditure may be relievable by way of mineral extraction allowances.

The original submissions by UKOITC seeking the agreement show that it was making representations solely about exploration activities. This is made clear by Section 2(1) of the agreed memorandum. The scope of the memorandum specifically referred to the costs of searching for, discovering and testing new petroleum deposits. It did not cover such matters as deciding and considering various economic appraisal and development plans.

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