HMRC - OT26018 - 1967 Memorandum - HMRC View On End Of Stage 3

The end of Stage 3 is important as it marks the point when purpose changes.

The actual physical operations may be very similar whether the purpose is exploration (research and development) or production (which is something else). The identification of the cut off at the end of Stage 3 thus defines when drilling activity ceases to be research & development. According to the agreement Stage 3 is finished when commercial production is considered worthwhile. This does not mean that all expenditure prior to this date is automatically and necessarily research and development. The date is a question of fact which must be decided by reference to the actual and particular circumstances.

It has been claimed that the end of Stage 3 automatically coincides with the submission to the Secretary of State of a development plan, or the subsequent granting of development consent. HMRC does not accept this particularly as the formal submission of the plan may come after previous negotiations which have accepted commercial viability. The agreement of 1967 did not have this attempted usage in mind. The procedure giving rise to the submission of Annex B, now known as a field development plan, started much later in 1976.

When Stage 3 ends depends on the relevant facts but as a general rule, the HMRC view is that it is unlikely to be later than the submission of the field development plan and is more likely to precede the start of work on the latter. Companies are unlikely to spend time and resources working up a field development plan unless they are persuaded commercial production is worthwhile.

Previous page

Next page