HMRC - OT26060 - Farm-Ins

A claim under CAA2001\S439 requires that a claimant incurs capital expenditure on research and development (R&D), undertaken either directly by the claimant or directly on its behalf, and that such expenditure relates to the claimant’s trade. The case of Gaspet Ltd v Elliss (1987) involved consideration by the court of the degree of linkage between the claimant and the R&D expenditure required to satisfy the ‘directly undertaken’ test.

A farm-in is an agreement where the ‘farmer-in’ agrees to undertake (or have undertaken at its cost) a certain amount of R&D (which in the case of an exploration licence would be (R & D) in exchange for an interest in an oil field.

In the normal case of a farm-in HMRC accepts that the farmer-in satisfies the required linkage to have the relevant R&D work directly undertaken by it or on its behalf.

The fact that the farmer-out benefits from the relevant R&D work undertaken by the claimant does not prevent the claimant from being able to show that the expenditure relates to its trade.

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