



Engineering Oilfield Solutions R&D incentives for businesses in the oilfield services industry

Our industry experience suggests that the oilfield services sector is becoming more focused on the development of technology to exploit challenging reservoirs, and accessing deeper and more remote basins. We have also seen significant movement into both renewable and unconventional energy sectors. Furthermore, the continued investment in mature assets has led to many businesses developing new or appreciably improved production technologies to maximise recovery from brownfield sites.

Whether a company claims R&D tax relief (the super-deduction) or the new R&D expenditure credit (RDEC), the eligibility requirements are relatively broad in nature and any development work where your personnel face significant technological challenge has the potential to qualify for this valuable benefit.

Qualifying revenue expenditure can include:

- Salary costs (including employers' NI and pension contributions) of engineers, technologists and other employees directly and actively involved in the R&D work, and of those indirectly supporting eligible R&D projects;
- The cost of consumable items employed in the R&D process or in offshore trials;
- 65% of contract staff costs; and
- Cost of software licences, and power, fuel and water used in the R&D projects.

Under the R&D scheme for large companies, claims can be made for activities contracted to the claimant company, but not for the R&D work which has been subcontracted to a corporate third party. R&D subcontracted to individuals, universities or other qualifying bodies, however, can be claimed.

In contrast, the R&D relief for small and medium sized enterprises (SME relief) allows claimants to include 65% of the costs of R&D subcontracted to corporate third parties. R&D performed by an SME which is funded, subsidised or contracted to the company, however, cannot be claimed under the SME regime. In these circumstances, the SME can generally make claims under the large company scheme for the excluded expenditure.

In addition, all companies can claim 100% accelerated capital allowances on capital expenditure on carrying out R&D activities.

Understanding your industry

Our experience of preparing claims for a large number of the oilfield services industry's leading companies, representing in excess of £2bn in qualifying expenditure, suggests that many businesses are still unaware of the extent to which their activities are eligible for R&D incentives. Claims are not limited to R&D centres, eligibility can also extend into facility design, day-to-day operations and sustaining activities.

Examples of activities that are typically eligible for R&D incentives, but we have seen are often overlooked, include:

- **Engineering, Procurement and Construction (EPC)** – the industry move towards exploitation of fields in more challenging locations such as deep waters, and maximising production from existing assets, present significant technological challenges in the development of the required production facilities and subsea infrastructure. To address these challenges, the industry is investing in early phase concept studies, Front End Engineering Design (FEED), and Detailed Design phases for the development of new or appreciably improved offshore technologies. Eligible areas include:
 - Subsea infrastructure and tie-ins to existing facilities;
 - Jacket design and installation methodologies;
 - Topsides processing and integration of new technology; and
 - Existing facility expansion and redevelopment.

- **Exploration and Production Drilling** – both maturing brownfield sites and new discoveries can present significant technological challenges in producing hydrocarbons economically, and can contain complex fluid properties such as high corrosivity, low viscosity or high temperature and pressure. The industry is addressing these challenges through the development of innovative drilling and subsea technology, many requiring testing of prototype equipment or offshore trials. Areas that may have eligibility include:

- Advanced drilling technologies such as drill bit design, measurement while drilling (MWD) and direction drilling techniques;
- Enhanced oil recovery methods;
- Completion tools and deployment strategies; and
- Developments to meet more stringent safety and environmental legislation.

- **Subsurface/Reservoir Modelling** – scientific or technological projects to improve reservoir or geological models, such as the development of improved simulation workflows or enhancing seismic surveying acquisition techniques and tools.

The Deloitte touch

Deloitte's Innovation Tax team has a history of awards and thought leadership. We have significant credentials for assisting major oilfield service businesses make successful claims, and as a result we have developed an exceptional understanding of the boundaries of R&D in the offshore, subsea and onshore environment. Combined with our leading-edge costing, technical and project management skills, Deloitte's Innovation Tax team is the clear choice for R&D claims advice and support.

Working with you

Our service model offers a range of bespoke solutions and flexible working arrangements that focuses our support wherever it can add value best. This may involve assisting you to manage your claims on HMRC enquiry, carrying out a review and providing advice on the suitability of systems and processes for claim preparation, a review of claims prepared in-house or the provision of training for your staff.

As a member firm of our global network, we can also access in-country experience and advice across the large number of jurisdictions that now offer tax-based R&D incentives.

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