



Exploring every opportunity R&D incentives for businesses in the upstream sector

In response to global demands, upstream businesses are spending more on exploration and production (E&P). Much of this is focused on developing technologies to find new reserves and on enhancing production efficiencies from existing fields. Furthermore, increasing environmental and safety requirements have led to many businesses developing new or appreciably improved production technologies.

Many costs associated with exploratory and appraisal work are capitalised. However, in our experience, costs in relation to subsurface, exploration and production development activities are incurred prior to the capitalisation point on a project and may be eligible for R&D incentives. Whether a company claims for R&D tax relief (the super-deduction) or the new R&D expenditure credit (RDEC), the benefit of making a claim inside the ring fence can be 18.6% of the qualifying expenditure.

Qualifying revenue expenditure includes:

- salary costs (including employers' NI and pension contributions) of geoscientists, engineers 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;
- 65% of contract staff costs;
- cost of software licences, and power, fuel and water used in the R&D projects.

While claims are also allowed for collaborative developments with third parties, it is not possible to claim for costs paid to corporate parties to whom R&D work has been subcontracted, although some Joint Industry Projects with universities are eligible.

Understanding your industry

Our experience of preparing a wide range of claims in the upstream sector suggests that many E&P businesses are still unaware of the extent to which their activities are eligible for R&D incentives. Claims are not limited to research centres, as eligibility also extends into day-to-day operations. Examples of activities that are typically eligible for R&D incentives, but in our experience are often overlooked, include:

- **Exploration and reservoir modelling** – scientific or technological projects to improve reservoir and geological models and improve under-performing reservoirs in mature basins, such as the development of improved simulation workflows or enhancing seismic surveying acquisition techniques.
- **Subsurface and drilling** – many new discoveries are too small to develop on a separate production platform, and contain technologically challenging fluids which are highly corrosive, of low viscosity, or at high pressures and temperatures. These challenges are driving innovative drilling and subsea technology developments. Areas that may have eligibility include:
 - underbalanced drilling of depleted reservoirs
 - exploiting low porosity reservoir structures
 - enhanced oil recovery methodologies.
- **Production developments** – once a field is in production, technology developments will continue throughout the lifetime of the field. In addition, increasingly stringent safety and environmental legislation is forcing operators to develop new or improved technologies. Some developments may involve substantial revenue expenditure eligible for an R&D claim. Activities including testing of prototype equipment and consumable or transformable materials (chemicals) employed in trials and testing should also be considered.

The Deloitte touch

Deloitte's Innovation tax team has a history of awards and thought leadership. We have significant credentials for assisting major upstream businesses make successful claims, and as a result we have developed an exceptional understanding of the boundaries of R&D in an upstream 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 best add value. 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.

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

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