TD 93/D228 - Income tax: are "Factor (f)" payments received by pharmaceutical companies assessable on a "receipts" or an "accruals" basis?

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Australian Taxation Office

Taxation Determination TD 93/D228

Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

Income tax: are "Factor (f) " payments received by pharmaceutical companies assessable on a "receipts" or an "accruals" basis?

1. Payments are received under the Factor (f) program by participating pharmaceutical companies under a scheme administered by the Pharmaceutical Benefits Pricing Authority. The objective of the scheme is to increase the international competitiveness of the Australian pharmaceutical industry. A firm's overall entitlement to a payment under the scheme is established in advance. Payments are made progressively over the period of the program as the company satisfies the criteria for payment.

2. We have recently examined a case in which the company brought the payments which it received under the scheme to account on an accruals basis for annual reporting purposes. However, only amounts actually received were brought to account for taxation purposes. Accordingly we have found it necessary to consider the basis on which payments under the Factor (f) scheme are assessable.

3. Under paragraph 26(g) of the *Income Tax Assessment Act 1936*, certain bounties and subsidies received in or in relation to the carrying on of a business are included in the assessable income of the recipient. The terms "bounty" and "subsidy" used in that paragragh have a very wide meaning. Payments made under Factor (f) scheme fall within the wide meaning of those terms and thus are primarily assessable under that paragraph. Amounts received under the Factor (f) program which are assessable under paragraph 26(g) should be included in assessable income in the year of receipt even though the recipient may account for them on an accruals basis for accounting purposes.

Commissioner of Taxation
2/9/93

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