


TD 94/D23 - Income tax: is a prototype pilot plant for the purposes of the Research and Development (R&D) provisions of the Income Tax Assessment Act 1936?

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Draft Taxation Determination

Income tax: is a prototype pilot plant for the purposes of the Research and Development (R&D) provisions of the *Income Tax Assessment Act 1936*?

1. A prototype that is an experimental model of plant for use in either research and development activities or commercial production is 'pilot plant' (and 'plant') for the purposes of the R&D concession and is therefore deductible in equal instalments over three years (section 73B(15)). However, expenditure on a prototype that is not plant may be R&D expenditure and deductible in the year of income in which the expenditure is incurred (section 73B(14)).
2. A prototype is an original model on which something new is patterned. It is a basic model possessing the essential characteristics of the intended product; it is not an item intended for sale in its own right. Pilot plant is always a model of plant, but a prototype need not be plant. Often prototypes are of products of other kinds. Thus, a prototype is only pilot plant if it is a model of plant for use in research and development activities or commercial production.
3. R&D activities involved in developing a prototype that is not plant would be within the definition of 'research and development expenditure' (subsection 73B(1)). However, the construction costs of a prototype that is 'pilot plant' would be 'plant expenditure' and deductible at the accelerated rate (if the aggregate R&D expenditure exceeds the threshold) in equal instalments over three years from the time the plant is first used exclusively on R&D activities (subsection 73B(15)).

Example:

A company in the business of manufacturing life jackets, develops a new process to manufacture a technologically superior life jacket. It produces one life jacket which is then tested and used as a model for further production of other life jackets. The life jacket would be considered a prototype and not pilot plant. Subject to the development activities qualifying as R&D activities, the expenditure involved in the development of the prototype would be R&D expenditure.

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Related Determinations:

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