

# ***GSTR 2008/2 - Goods and services tax: development lease arrangements with government agencies***

⚠ This cover sheet is provided for information only. It does not form part of *GSTR 2008/2 - Goods and services tax: development lease arrangements with government agencies*

⚠ This ruling is being reviewed as a result of a recent court/tribunal decision. Refer to Decision Impact Statement: Commissioner of Taxation v Gloxinia Investments Ltd atf Gloxinia Unit Trust (S 154 of 2010).

⚠ Please note, this Ruling has been impacted by the Full Federal Court decision in *Federal Commissioner of Taxation v. Gloxinia Investments Ltd (as Trustee for Gloxinia Unit Trust)* [2010] FCAFC 46. A decision impact statement will issue shortly.

⚠ This document has changed over time. This is a consolidated version of the ruling which was published on 7 May 2008



## Goods and Services Tax Ruling

### Goods and services tax: development lease arrangements with government agencies

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#### **Preamble**

This document is a ruling for the purposes of section 105-60 of Schedule 1 to the *Taxation Administration Act 1953*. You can rely on the information presented in this document which provides advice on the operation of the GST system.

### What this Ruling is about

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1. This Ruling explains the GST treatment of particular transactions arising in the context of development lease arrangements involving a government agency.<sup>1</sup> These development lease arrangements have the following features:

- the government agency supplies land by way of sale of the freehold or grant of a **long-term lease**<sup>2</sup> to a private developer for development purposes; and
- before the transfer or grant of the freehold or leasehold title to the land to the developer, the developer is required to undertake the development in accordance with the terms of a short term lease (commonly referred to as a 'development lease') granted by the government agency.

2. In particular, this Ruling considers for GST purposes:

- (a) whether the grant of the development lease by the government agency to the developer is a supply made for consideration;
- (b) whether the developer, in undertaking the development works on the land, makes a supply of development services to the government agency;

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<sup>1</sup> For the purposes of this Ruling the term 'government agency' includes both **Australian government agencies** and **Government related entities**, as defined in section 195-1 of the *A New Tax System (Goods and Services Tax) Act 1999* and section 995-1 of the *Income Tax Assessment Act 1997*.

<sup>2</sup> Certain terms used are defined in the Definitions section of this Ruling at paragraphs 73 to 79. These terms when first mentioned appear in **bold type**.

- (c) whether the sale of the freehold or grant of the long-term lease of the land by the government agency to the developer is properly characterised as a supply of land including the completed development works or as a supply of the land without those works; and
- (d) whether a subsequent sale or supply of a long-term lease by the developer of a development (or part of a development) consisting of completed **residential premises** is a supply of **new residential premises** as defined in section 40-75 of the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act).<sup>3</sup>

3. These or similar transactions may arise in the context of a variety of development lease arrangements. The GST treatment of such transactions depends on the individual facts and circumstances of each type of arrangement. This Ruling only applies to the particular transactions arising in the arrangements as described at paragraphs 16 to 18 of this Ruling.

4. This Ruling does not apply to development lease arrangements that do not involve a supply of land by a government agency to the developer. This is because it is development lease arrangements involving government agencies that have been examined in detail by the Tax Office. The GST implications of other arrangements where there are short-term leases with an entitlement to freehold title or long-term leases upon satisfaction of conditions of the short-term lease, but not involving government agencies, would depend upon an assessment of the features of the particular arrangements.

5. This Ruling also does not consider the application of Subdivision 38-N (Grants of land by governments) and Division 81 (Payments of taxes, fees and charges).

## Date of effect

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6. This Ruling explains the Commissioner's view of the law as it applies both before and after its date of issue. You can rely upon this Ruling on and from its date of issue for the purposes of section 105-60 of Schedule 1 to the *Taxation Administration Act 1953*. Goods and Services Tax Ruling GSTR 1999/1 explains the GST rulings system and the Commissioner's view of when you can rely on this interpretation of the law in GST public and private rulings.

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<sup>3</sup> All legislative references in this Ruling are to the GST Act unless otherwise indicated.

7. If this Ruling conflicts with a previous private ruling that you have obtained or a previous public ruling, this public ruling prevails. However, if you have relied on a previous ruling, you are protected in respect of what you have done up to the date of issue of this public ruling or, if there is a change to the legislation, you are protected in respect of what you have done up to the date the legislative change takes effect. This means that if you have relied on the earlier ruling and have underpaid an amount of GST, you are not liable for the shortfall prior to either the issue date of this Ruling or the date the legislative change takes effect, as appropriate. Similarly, if you have relied on the earlier ruling you are not liable to repay an amount overpaid by the Commissioner as a refund.

**Transitional Tax Office treatment of development lease arrangements entered into before the issue of the Draft Goods and Services Tax Ruling GSTR 2007/D2 Goods and services tax: development lease arrangements with government agencies**

8. For pre-existing development lease arrangements entered into before the issue of GSTR 2007/D2 on 3 October 2007, the application of the views set out in this Ruling may be subject to the transitional administrative treatment. The application of the transitional administrative treatment is limited to those development lease arrangements that exhibit the features described in paragraphs 16 to 18 of this Ruling.

9. Before the issue of GSTR 2007/D2 our approach to development lease arrangements was such that we considered that:

- the developer made a taxable supply of development services to the government agency which made a corresponding creditable acquisition;
- the government agency made a taxable supply of land including buildings (which may comprise residential premises) created by the development works to the developer for which the consideration included the development services;
- to the extent that the land comprised residential premises, the developer did not make a creditable acquisition in acquiring the land from the government agency; and
- supplies of completed residential premises (commonly, strata titled units) by the developer to the third party purchasers were input taxed. This was on the basis that the residential premises were considered to have been previously sold or the subject of a long-term lease as part of the land supplied by the government agency to the developer.

10. The views set out in this Ruling represent a change to our previous approach, as set out in paragraph 9 of this Ruling, to development lease arrangements. The change in our approach has been influenced by recent court decisions<sup>4</sup> on the application of the GST law. However, we will not seek to disturb the GST treatment of the transactions forming part of a pre-existing development lease arrangement, as identified in paragraph 9 of this Ruling, if the government agency or the developer as the case may be:

- had, before the issue of GSTR 2007/D2, accounted for GST<sup>5</sup> on all the relevant transactions according to our previous approach; and
- continues to account for GST on that basis on or after the date of issue of GSTR 2007/D2 for any such transactions that are part of the same arrangement.

11. However, the government agency or the developer may choose to apply the views set out in this Ruling, rather than our previous approach, to account for GST on transactions that occur after the date of issue of GSTR 2007/D2 but form part of a pre-existing development lease arrangement. If so, the government agency or the developer, as the case may be, will be required to revise the GST treatment of those transactions that occurred prior to the date of issue of GSTR 2007/D2 to reflect the views set out in this Ruling (unless entitled to rely upon a private ruling to support the basis on which GST was brought to account on the earlier transactions).

12. If before the date of issue of GSTR 2007/D2, a developer was already committed to a development lease arrangement but did not need to account for GST because work had not commenced on the development, the developer or the government agency or both may account for GST on the basis of our previous approach for transactions occurring on or after the date of issue of GSTR 2007/D2. The developer and the government will not be required to use the same approach to account for GST.

13. However, regardless of the approach used to account for GST, the developer or the government agency must consistently apply the one approach to all of the relevant transactions arising under the arrangement.<sup>6</sup> For example, if the developer, in accordance with our previous approach, treats the final sale of residential units to third parties as input taxed, the developer would need to also treat the undertaking of the development works as a taxable supply to the government agency.

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<sup>4</sup> See the discussion at paragraphs 23 to 26 of this Ruling.

<sup>5</sup> For the purposes of this Ruling 'accounted for GST' means that the relevant amount of GST has been accounted for in an activity statement that has been lodged with the Tax Office.

<sup>6</sup> For the purposes of this Ruling the final sales of completed residential units, constructed pursuant to a development lease arrangement, by the developer are considered to be transactions arising under the arrangement.

14. For the purposes of this Ruling, it would be accepted that a developer 'was committed to a development lease arrangement' if the developer and the government agency had executed contractual documents that identify the relevant supplies between the two parties under the arrangement, and the consideration for those supplies, even though work may not yet have commenced on the development. Developers in other circumstances, where for example they had made irrevocable offers and are unable to recover any net additional GST cost, are invited to contact the Tax Office so that their particular circumstances can be considered.

## **Background**

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15. To ensure land development is carried out in accordance with statutory requirements and policy objectives, government agencies commonly sell, or grant long-term leases of, land to private developers subject to conditions governing the developments to be undertaken on the land. The developments commonly include commercial/retail and residential components (usually strata titled units).

16. There are variations between particular arrangements, but in general, the developer is required to carry out the development works under a development lease arrangement that involves:

- the government agency initially granting a development lease to allow the developer to enter the land and to carry out the development. The developer may be required to pay a nominal amount of rent for the supply of the land under the development lease;
- the development lease providing that all of the costs and risks relating to the development rest with the developer;
- the developer undertaking the development on its own account and not as agent or builder for the government agency;
- an expectation of the parties that the development works will be completed in accordance with the terms of the development lease or an associated deed;
- the government agency transferring or granting freehold or long-term leasehold title to the land to the developer only when the development is completed in accordance with the terms of the development lease or an associated deed;

- the developer paying the government agency a monetary amount that reflects the price for the land sold or supplied as a long-term lease but not the development works effected by the developer. In some cases, this amount is not payable until completion of the development, at which time the freehold or long-term lease is transferred or granted to the developer. In other cases, this amount may be payable upon the grant of the development lease; and
- the developer selling the completed development or strata titled units in the development on its own account to a third party or parties.

17. A variation to the more common type of development lease arrangement as described above is where the government agency and developer do not at the outset agree that the freehold or leasehold interest will be transferred to the developer on completion of the works. Rather, the government agency grants the developer an option to acquire the freehold or long-term leasehold interest on completion of the works. In addition to completing the development works, the developer exercises the option and pays the agreed price for the sale or long-term lease of the land to become entitled to the transfer or grant of the freehold or long-term leasehold title. As in the more common type of arrangements, the price payable reflects the value of the land only and not the development works undertaken by the developer. If the call option is not exercised, the terms of the arrangement do not provide for the developer to be compensated for the development works undertaken nor for the developer to be entitled to remove any part of the works.

18. In some development lease arrangements the developer is required to undertake works, such as infrastructure works, on land that is not to be transferred to or retained by the developer.<sup>7</sup>

19. There are also development lease arrangements where the government agency initially requires the completed development works for its own use, even though there is to be a subsequent sale or long-term lease of the land, containing the completed development works to the developer.

20. This Ruling does not apply to development lease arrangements to the extent that they have features of the kind referred to in paragraph 19 of this Ruling.

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<sup>7</sup> The GST treatment of these works is discussed at paragraph 44 to 51 of this Ruling.

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## Ruling with explanation

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### Nature of development lease arrangements

21. The documentation in development lease arrangements commonly provides for a sale or long-term lease of land by the government agency to the developer. Under these arrangements the developer is required to enter into a development lease of the land for a period during which the developer will undertake the development on the land. It is only when the development works are completed that the freehold title or long-term lease of the land is transferred or granted to the developer.

22. It is acknowledged that the works form part of the land as they are constructed on the land, and that they remain so at the time legal title to the freehold or long-term leasehold interest is transferred or granted to the developer. However, that does not necessarily determine how the GST law applies to transactions arising under a development lease arrangement. The application of the GST law will depend on the proper characterisation of the transactions for GST purposes.

### Characterisation of a transaction for GST purposes

#### *Judicial approach*

23. In analysing a transaction for GST purposes, regard must be given to the true character of the arrangement in which the transaction arises and all the facts and circumstances surrounding it. While the legal form of a transaction is relevant, support for adopting a practical analysis of transactions involving land and not unduly focussing on the legal interests can be found in the *Sterling Guardian Pty Ltd v. FC of T (Sterling Guardian)*,<sup>8</sup> *Saga Holidays Limited v. Commissioner of Taxation (Saga Holidays)*<sup>9</sup> and United Kingdom value added tax cases.<sup>10</sup>

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<sup>8</sup> *Sterling Guardian Pty Ltd v. FC of T* [2005] FCA 1166; 2005 ATC 4796; (2005) 60 ATR 502, *Sterling Guardian Pty Ltd v. FC of T* [2006] FCAFC 12; 2006 ATC 4227; (2006) 62 ATR 119.

<sup>9</sup> *Saga Holidays Limited v. Commissioner of Taxation* (2006) 156 FCR 256; [2006] FCAFC 191; 2006 ATC 4841; 64 ATR 602.

<sup>10</sup> See *Brady King Pty Ltd v. FC of T* [2008] FCA 81; 2008 ATC 20-008, which at the date of publication of this Ruling is on appeal to the Full Federal Court.



24. In *Sterling Guardian*, Stone J said:

The clear thrust of the GST Act, both in its wording and as explained in the EM, is that of a practical business tax imposed with respect to elements of commerce. As Senior Counsel for the respondent pointed out, although in economic terms the burden of the GST is borne by the ultimate consumer, in terms of 'imposition, collection and administration' it is a tax on business. It is for the taxpayer to prepare business activity statements and pay the appropriate GST and in this context abstract propositions about interests in land and the acquisition of a brand new set of rights arising from registration of a strata plan are irrelevant.<sup>11</sup>

25. Her Honour's approach was upheld on appeal by the Full Federal Court.<sup>12</sup>

26. The practical business approach to GST as described by Stone J was confirmed by the Full Federal Court decision in *Saga Holidays*<sup>13</sup> where her Honour, with whom the other members of the Full Court agreed, saw this as part of the context for the interpretation of the GST legislation. Her Honour also regarded the approach of Lord Hoffman in *Beynon and Partners v. Commissioner of Customs and Excise (Beynon)*<sup>14</sup> in focussing on the 'social and economic reality' of a transaction as being relevant in an Australian GST context.<sup>15</sup>

### **Supply and consideration**

27. 'Supply' is defined in section 9-10 which states in subsection (1) that 'a supply is any form of supply whatsoever'. Subsection 9-10(2) in turn refers to 'supply' as including a supply of things such as goods, services, advice or information, real property, rights or obligations.

28. Where parties to a transaction have reduced their understanding of the transaction to writing, that documentation is the logical starting point in determining the supplies that have been made.<sup>16</sup> However, in determining whether the documentation represents the substance and reality of the transaction, regard must also be had to the surrounding facts and circumstances.<sup>17</sup>

<sup>11</sup> *Sterling Guardian Pty Ltd v. FC of T* [2005] FCA 1166; 2005 ATC 4796; (2005) 60 ATR 502 at paragraph 39.

<sup>12</sup> *Sterling Guardian Pty Ltd v. FC of T* [2006] FCAFC 12; 2006 ATC 4227; (2006) 62 ATR 119.

<sup>13</sup> *Saga Holidays Limited v. Commissioner of Taxation* (2006) 156 FCR 156; [2006] FCAFC 191 at [29]; 2006 ATC 4841; (2006) 64 ATR 602;

<sup>14</sup> *Beynon and Partners v. Commissioner of Customs and Excise* [2005] 1 WLR 86; [2004] 4 All ER 1091.

<sup>15</sup> *Saga Holidays Limited v. Commissioner of Taxation* (2006) 156 FCR 256; [2006] FCAFC 191 at [43]; 2006 ATC 4841; (2006) 64 ATR 602. The Full Federal Court also considered the 'social and economic reality approach' in its decision in *Reliance Carpet Co Pty Limited v. Commissioner of Taxation* [2007] FCAFC 99. At the time of publication of this Ruling, the High Court has reserved its decision on the Commissioner's appeal against the decision of the Full Federal Court.

<sup>16</sup> Paragraph 222 of Goods and Services Tax Ruling GSTR 2006/9 Goods and services tax: supplies.

<sup>17</sup> The circumstances in which a contract or other legal arrangements will not represent the total fact situation include those that are set out in paragraph 226 of GSTR 2006/9.

29. Consideration for GST purposes is defined in section 195-1 to mean 'any consideration, within the meaning given by section 9-15, in connection with the supply or acquisition'.

30. Section 9-15 expands on the meaning of 'consideration for a supply'. Consideration includes any payment, act or forbearance in connection with, in response to, or for the inducement of, a supply of anything.<sup>18</sup> Consideration may be provided voluntarily, or by someone other than the recipient of the supply.<sup>19</sup>

31. However, things such as acts, rights and obligations provided in connection with, in response to, or for the inducement of, a supply can often be disregarded as consideration if they do not have economic value and independent identity separate from the transaction.<sup>20</sup>

32. In determining whether a payment is consideration under section 9-15, the test is whether there is a sufficient nexus between the supply and the payment made.<sup>21</sup>

33. In determining whether a sufficient nexus exists between supply and consideration, regard needs to be had to the true character of the transaction. The test as to whether there is a sufficient nexus is an objective test.<sup>22</sup> The motive of the supplier and the recipient also may be relevant in determining whether the supply was made for consideration, if a reasonable assessment of the evidence supports that motive.

34. In *Westley Nominees Pty Ltd v. Coles Supermarkets Australia Pty Ltd (Westley Nominees)*,<sup>23</sup> the Full Federal Court said that, in determining whether expenditure secures an ancillary or incidental supply separate and discrete from the main supply, or whether it forms part of the consideration for a single supply, one should consider 'what the expenditure is calculated to effect from a practical and business point of view, rather than upon the juristic classification of the legal rights, if any, secured, employed or exhausted in the process'.

35. The discussion at paragraphs 23 to 34 of this Ruling sets out our approach to characterising, for GST purposes, transactions arising in the context of development lease arrangements. In determining the true character of an arrangement, it is necessary to examine all the relevant documentation and the commercial substance of the transactions entered into, including the surrounding circumstances, in the context of GST as a 'practical business tax'.

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<sup>18</sup> Subsection 9-15(1).

<sup>19</sup> Subsection 9-15(2).

<sup>20</sup> Paragraph 80 of Goods and Services Tax Ruling GSTR 2001/6 Goods and services tax: non monetary consideration.

<sup>21</sup> Paragraph 66 of GSTR 2001/6.

<sup>22</sup> Paragraph 72 of GSTR 2001/6.

<sup>23</sup> *Westley Nominees Pty Ltd v. Coles Supermarkets Australia Pty Ltd* (2006) 152 FCR 461 at [59]; [2006] FCAFC 115; 2006 ATC 4363; (2006) 62 ATR 682.

## **Is the grant of a development lease a supply made for consideration?**

36. When a government agency grants a development lease to a developer to allow the developer to undertake the required development works on the land, it is making a supply of the land to the developer by way of lease.

37. Where the development lease expressly provides for a rental amount to be paid by the developer for the term of the lease, the rental payments are consideration for the supply by way of lease. In these circumstances, there is a clear nexus between the supply of the development lease and the rental payments. The rental payments do not form part of the consideration for the sale or the long-term lease of the land.

38. In some cases, a monetary amount reflecting the value of the land is paid by the developer upon the grant of the development lease by the government agency. In the circumstances covered by this Ruling, in the absence of any express statement or other evidence to the contrary, it is considered that the payment of this amount is properly characterised as consideration for the sale or the long-term lease of land rather than for the supply of the development lease.

39. As a development lease arrangement may create various rights and obligations for the parties to the arrangement, the question arises as to whether those rights and obligations are consideration (or additional consideration) for the grant of the development lease or for another supply. Ultimately, this is a matter of fact to be determined in the context of each case. GSTR 2001/6, which is about non monetary consideration, provides further guidance in this regard.

## **Is the undertaking of the development works on the land by the developer a supply of development services to the government agency?**

40. The undertaking of the development works by the developer is neither a supply of development services from the developer to the government agency nor (non-monetary) consideration for any supply made to the developer.<sup>24</sup>

41. While the undertaking of the development works by the developer is an obligation that needs to be fulfilled for the developer to become entitled to the freehold or leasehold title to the land, it does not have a separate identity or an independent value to the government agency. It is merely a condition of the primary transaction between the parties, being the sale or long-term lease of land by the government agency to the developer.

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<sup>24</sup> If a development lease arrangement does not proceed to completion as expected, the GST implications for the undertaking of the development works may differ depending on the particular facts and surrounding circumstances of the case.

42. Consideration for a supply may include acts, rights or obligations provided in connection with, in response to, or for the inducement of, a supply but these things may be disregarded as consideration where they do not have economic value and separate identity.<sup>25</sup>

43. Under the development lease arrangements, the development works undertaken on the land are not retained by the government agency for its own use. The terms of the development lease effectively require the government agency to transfer the freehold or long-term leasehold title in the land to the developer immediately upon completion of the works.

***Works on land that is not transferred to, or retained by, the developer***

44. In some cases, as a condition of the development lease arrangement, the developer is required to undertake works on land that is not ultimately transferred to, or retained by, the developer. These works include general infrastructure works such as sewers, roads and footpaths; and may include construction of other facilities required by the government agency.

45. The undertaking of these works constitutes a supply of development services to the government agency. The GST treatment of the supply of these development services depends on the arrangements in respect of the particular works.

46. Division 82 applies if the developer makes a supply of the works in return for a supply, by a government agency, of a right to develop land. The supply of a right to develop land includes, for example, approval by a government agency for such things as subdivision and rezoning of land.<sup>26</sup>

47. Under Division 82, the supply of the right to develop land is not treated as consideration for the supply of the works nor as a supply made for consideration if the supply of the works complies with requirements imposed by, or under, an **Australian law**. In other words, neither the supply of the works nor the supply of the right to develop land is a taxable supply where Division 82 applies.

48. However, Division 82 does not apply if the supply of the works is a condition of the sale or long-term lease of the land to the developer, rather than a condition of obtaining a right to develop the land.

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<sup>25</sup> Paragraph 80 of GSTR 2001/6.

<sup>26</sup> See paragraph 1.16 of the Explanatory Memorandum to Taxation Laws Amendment Bill (No. 3) 2002.

49. For example, under a development lease arrangement with a State government department, the developer is required to carry out the following works on land that is not transferred to the developer:

- sewers, roads and footpaths to provide infrastructure services to the subdivided land;
- parkland facilities; and
- a car park.

50. The construction of the infrastructure works (sewers, roads and footpaths) and parkland facilities is required as a condition of subdivision approval by the local council. Division 82 applies to the supplies of these works such that they are not taxable supplies by the developer and are not consideration for the supply of a right to develop land.

51. On the other hand, the construction of the car park is not required as a condition of obtaining subdivision approval by the local council. Nor is it a condition of obtaining any other right to develop land. It is a condition of the sale or long-term lease of the land by the State government department to the developer. In these circumstances, Division 82 does not apply. Rather, the construction of the car park is a taxable supply to the State government department and forms part of the consideration for the supply of the land by the State government department to the developer.<sup>27</sup>

**Is the sale of the freehold or grant of the long-term lease of land to the developer by the government agency properly characterised as a sale or lease of the undeveloped land or of the land and completed development?**

52. The sale of the freehold or grant of the long-term lease of the land to the developer is merely a supply of land;<sup>28</sup> not land and the attached development works. The consideration for the supply is the agreed amount payable to the government agency by the developer. If the requirements of section 75-5 are satisfied, the government agency will be able to use the margin scheme to work out the amount of GST on its supply of the land to the developer.<sup>29</sup>

<sup>27</sup> The application of the attribution rules where consideration is non monetary is addressed in paragraphs 166 to 227 of GSTR 2001/6.

<sup>28</sup> If at the time of the entry into a development lease arrangement, the land contains residential premises, the supply of the land by the government may be an input taxed supply of residential premises under section 40-65.

<sup>29</sup> The application of the margin scheme is explained in Goods and Service Tax Rulings GSTR 2000/21, GSTR 2006/7 and GSTR 2006/8.

53. Although the development works (for example, buildings constructed on the land) form part of the land when the freehold or long-term leasehold title to the land is transferred to the developer, the substance of the transaction is that the government agency is supplying only the land. This is evidenced by the agreed price payable for the supply of the land, which reflects only the value of the land itself and not the development works completed by the developer. It is also evidenced by the fact that the developer bears all of the risks associated with the development. It is only because of the need to ensure government policy objectives are met that the sale or long-term lease is subject to the developer completing the development before the legal title is transferred to the developer. The developer has developed the land for its own benefit.

54. The above analysis also applies where the developer, upon completion of the development works, has an option to call for a grant or transfer of freehold title or a long term lease.

55. It is acknowledged that, until the option is exercised, there is neither a contract of sale nor a transfer or grant of the legal interest in the land. The option is merely a contractual mechanism which in practical terms is similar to those arrangements where the government agency agrees at the outset to transfer title on completion of the works in return for payment of any required sum for the land. The developer is not compensated for the development works undertaken, nor allowed to remove them if the option is not exercised. The expectation of the parties is that in the normal course the option will be exercised.

56. Such an analysis of the transaction in the GST context is consistent with the 'social and economic reality' of the arrangements and properly reflects what the parties have agreed to supply and pay for rather than unduly focussing upon the legal interest conveyed to complete the transaction.

57. An alternative view to the view above is discussed at paragraphs 59 to 64 of this Ruling.

**Where the development includes a residential component, are the sales or long-term leases of the residential premises (for example, strata titled units) by the developer supplies of new residential premises as defined in section 40-75?**

58. As discussed at paragraphs 52 to 56 of this Ruling, the transaction is properly characterised as one under which the government entity merely sells or leases land (not land and the attached development works) to the developer. Therefore, when the developer supplies the completed residential premises by way of sale or long-term lease, it is making supplies of new residential premises,<sup>30</sup> as the premises 'have not previously been sold as residential premises and have not previously been the subject of a long-term lease'.

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<sup>30</sup> As defined in section 40-75.

**Alternative view**

59. An alternative view of the GST treatment of the transactions as discussed at paragraphs 52 to 56 of this Ruling is that the character of the supply the government agency makes to the developer reflects the completed development works that form part of the land at the time the legal interest is granted or transferred. This is on the basis that, as a matter of property law, buildings constructed on the land form part of the land.

60. On this view, the government agency makes a supply of new residential premises to the developer if the development includes residential premises. It follows on this view that the developer's supplies of the residential premises to third party purchasers are input taxed under section 40-65 or section 40-70.

61. On this analysis, the developer also makes a supply of development services to the government agency that would constitute non-monetary consideration for the supply of the land by the government agency to the developer.

62. It is considered that this alternative view does not reflect the true character of the arrangement between the government agency and the developer, unduly focussing on the legal interests in land in the context of analysing transactions for GST purposes, contrary to the approach of the Full Federal Court in the *Sterling Guardian*<sup>31</sup> and *Saga Holidays*<sup>32</sup> cases.

63. It is considered that this alternative view would also be inconsistent with the evident object of the GST legislation, which contemplates GST being borne on the value added to new residential premises. On the alternative view, the value added by the developer would not be fully taxed.

64. It has been suggested that the approach of the Courts in stamp duty cases (in particular, *Bambro (No. 2) Pty Ltd v. CSD*) (*Bambro*)<sup>33</sup> supports the alternative view. In *Bambro*, the Court held that the duty fell to be calculated 'by reference to the property agreed to be sold or conveyed regarded as that which, viewing the matter as at the date of the agreement, will be, under the terms of the agreement, the subject of the conveyance at the time when, under the terms of the agreement, the conveyance is to be executed'.<sup>34</sup> *Bambro* was decided in the context of a duty then imposed on instruments where the relevant inquiry was as to the subject matter of the conveyance. In the current context, the relevant inquiry for GST purposes is not as to the subject matter of a conveyance, but rather: does the government agency make a supply of residential premises by way of sale or long-term lease? It is considered that as a matter of substance, the answer is that the government agency supplies the land and the developer constructs the development.

<sup>31</sup> *Sterling Guardian Pty Ltd v. FC of T* [2005] FCA 1166; 2005 ATC 4796; (2005) 60 ATR 502, *Sterling Guardian Pty Ltd v. FC of T* [2006] FCAFC 12; 2006 ATC 4227; (2006) 62 ATR 119.

<sup>32</sup> *Saga Holidays Limited v. Commissioner of Taxation* (2006) 156 FCR 256; [2006] FCAFC 191; 2006 ATC 4841; (2006) 64 ATR 602.

<sup>33</sup> *Bambro (No. 2) Pty Ltd v. CSD* (1963) SR (NSW) 522.

<sup>34</sup> *Bambro (No. 2) Pty Ltd v. CSD* (1963) SR (NSW) 522 at 528.

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## Example

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### **Government agency transfers freehold title to land to developer upon completion of works**

65. Government A enters into a deed with DevCo for the sale of land to DevCo. The deed provides for the grant of a development lease for a period of 3 years. The development lease specifies a nominal rental of \$11 per annum to be paid by DevCo to Government A. DevCo is required to undertake certain development works on the land subject to the terms of the development lease.

66. The development to be undertaken on the land includes construction of residential premises. Government A retains legal title to the land during the period of development. In accordance with the terms of the development lease, all of the risks relating to the development and its costs rest with DevCo. DevCo undertakes the development works on its own account and not as agent or builder for Government A.

67. The deed between Government A and DevCo provides that upon completion of the development works, Government A will transfer freehold title to the land to DevCo in return for payment of \$22 million. This amount reflects the value of the land exclusive of the development works undertaken by DevCo.

68. Government A makes a supply of land by way of lease to DevCo under the development lease. This supply is made for consideration, being the nominal rental of \$11 per annum.

69. DevCo does not make a supply of construction services to Government A.

70. Government A is merely selling land and not completed residential premises to DevCo. The \$22 million payment is consideration for the sale of the land.

71. When DevCo sells the completed residential premises to third parties, it is making a supply of new residential premises,<sup>35</sup> as the premises have not previously been sold or the subject of a long-term lease as residential premises.

72. If the deed in this example was in relation to a supply of a long-term lease of the land to DevCo, the GST consequences would be the same for Government A and DevCo.

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<sup>35</sup> As defined in section 40-75.



## Definitions

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73. The following terms used in this Ruling are defined in section 195-1.

74. **Australian law** has the meaning given by section 995-1 of the *Income Tax Assessment Act 1997* (ITAA 1997), which in turn refers to the definitions in that Act of 'Commonwealth law', 'State law' and 'Territory law'.

75. **Australian government agency** has the meaning given by section 995-1 of the ITAA 1997. Section 995-1 of the ITAA 1997 defines an Australian government agency as:

- (a) the Commonwealth, a State or Territory; or
- (b) an authority of the Commonwealth or of a State or a Territory.

76. **Government related entity** is:

- (a) a government entity; or
- (b) an entity that would be a government entity but for subparagraph (e)(i) of the definition of government entity in the *A New Tax System (Australian Business Number) Act 1999*; or
- (c) a local governing body established by or under a State law or Territory law.

77. **Long-term lease** means a supply by way of lease, hire or licence (including a renewal or extension of a lease, hire or licence) for at least 50 years if:

- (a) at the time of the lease, hire or licence, or the renewal or extension of the lease, hire or licence, it was reasonable to expect that it would continue for at least 50 years; and
- (b) unless the supplier is an Australian government agency – the terms of the lease, hire or licence, or the renewal or extension of the lease, hire or licence, as they apply to the recipient are substantially the same as those under which the supplier held the premises.

78. **Residential premises** means land or a building that:

- (a) is occupied as a residence or for residential accommodation; or
- (b) is intended to be occupied, and is capable of being occupied, as a residence or for residential accommodation,

(regardless of the term of occupation or intended occupation) and includes a floating home.

79. ***New residential premises*** is defined in section 40-75:

**Meaning of *new residential premises***

- (1) Residential premises are *new residential premises* if they:
  - (a) have not previously been sold as residential premises (other than commercial residential premises) and have not previously been the subject of a long-term lease; or
  - (b) have been created through substantial renovations of a building; or
  - (c) have been built, or contain a building that has been built, to replace demolished premises on the same land.
- (2) However, the premises are not new residential premises if, for the period of at least 5 years since:
  - (a) if paragraph (1)(a) applies (and neither paragraph (1)(b) nor paragraph (1)(c) applies) – the premises first became residential premises; or
  - (b) if paragraph (1)(b) applies – the premises were last substantially renovated; or
  - (c) if paragraph (1)(c) applies – the premises were last built;

the premises have only been used for making supplies that are input taxed because of paragraph 40-35(1)(a).
- (2A) A supply of the premises is disregarded as a sale for the purposes of applying paragraph (1)(a):
  - (a) if it is a supply by a member of a GST group to another member of the GST group; or
  - (b) if:
    - (i) it is a supply by the joint venture operator of a GST joint venture to another entity that is a participant in the joint venture; and
    - (ii) the other entity acquired the interest, unit or lease for consumption, use or supply in the course of activities for which the joint venture was entered into.
- (3) To avoid doubt, if the residential premises are new residential premises because of paragraph (1)(b) or (c), the new residential premises include land of which the new residential premises are a part.

## Detailed contents list

80. Below is a detailed contents list for this Goods and Services Tax Ruling:

	<b>Paragraph</b>
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<b>Date of effect</b>	<b>6</b>
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Goods and services tax: development lease arrangements with government agencies	8
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Is the undertaking of the development works on the land by the developer a supply of development services to the government agency?	40
<i>Works on land that is not transferred to, or retained by, the developer</i>	44
Is the sale of the freehold or grant of the long-term lease of land to the developer by the government agency properly characterised as a sale or lease of the undeveloped land or of the land and completed development?	52
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<b>Detailed contents list</b>	<b>80</b>

**Commissioner of Taxation**

7 May 2008

*Previous draft:*

GSTR 2007/D2

*Related Rulings/Determinations:*

GSTR 1999/1; GSTR 2000/21;  
 GSTR 2001/6; GSTR 2006/7;  
 GSTR 2006/8; GSTR 2006/9

*Subject references:*

- freehold
- government agencies
- GST consideration
- GST grants of freehold land
- GST long term lease
- GST new residential premises
- GST residential premises
- strata titles
- supply of land
- taxable supply

*Legislative references:*

- ANTS(GST)Act 1999 9-10
- ANTS(GST)Act 1999 9-10(1)
- ANTS(GST)Act 1999 9-10(2)
- ANTS(GST)Act 1999 9-15
- ANTS(GST)Act 1999 9-15(1)
- ANTS(GST)Act 1999 9-15(2)
- ANTS(GST)Act 1999 Subdiv 38-N
- ANTS(GST)Act 1999 40-35(1)(a)
- ANTS(GST)Act 1999 40-65
- ANTS(GST)Act 1999 40-70
- ANTS(GST)Act 1999 40-75
- ANTS(GST)Act 1999 40-75(1)
- ANTS(GST)Act 1999 40-75(2)
- ANTS(GST)Act 1999 40-75(2A)
- ANTS(GST)Act 1999 40-75(3)
- ANTS(GST)Act 1999 75-5
- ANTS(GST)Act 1999 Div 81
- ANTS(GST)Act 1999 Div 82

- ANTS(GST)Act 1999 195-1
- ANTS(ABN)Act 1999
- ITAA 1997 995-1
- TAA 1953
- TAA 1953 Sch 1 105-60

*Case references:*

- Bambro (No. 2) Pty Ltd v. CSD (1963) 63 SR (NSW) 522
- Brady King Pty Ltd v. FC of T [2008] FCA 81; 2008 ATC 20-008
- Beynon and Partners v. Commissioner of Customs and Excise [2005] 1 WLR 86; [2004] 4 All ER 1091
- Reliance Carpet Co Pty Limited v. Commissioner of Taxation [2007] FCAFC 99; 2007 ATC 4650
- Saga Holidays Ltd v. FC of T (2006) 156 FCR 256; [2006] FCAFC 191; 2006 ATC 4841; 64 ATR 602
- Sterling Guardian Pty Ltd v. FC of T [2005] FCA 1166; 2005 ATC 4796; 60 ATR 502
- Sterling Guardian Pty Ltd v. FC of T [2006] FCAFC 12; 2006 ATC 4227; 62 ATR 119
- Westley Nominees Pty Ltd v. Coles Supermarkets Australia Pty Ltd (2006) 152 FCR 461; [2006] FCAFC 115; 2006 ATC 4363; 62 ATR 682

*Other references:*

- Explanatory Memorandum to Taxation Laws Amendment Bill (No. 3) 2002.

## ATO references

NO: 2007/11072

ISSN: 1443-5160

ATOLaw topic: Goods and Services Tax ~~ Property and construction ~~  
 real property