

TD 92/186 - Income tax: property development: can a construction contract which runs for less than twelve months be regarded as a long-term construction contract for the purposes of Taxation Ruling IT 2450?

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! This document has changed over time. This is a consolidated version of the ruling which was published on *12 November 1992*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, the Determination applies to transactions entered into both before and after its date of issue.

Taxation Determination

Income tax: property development: can a construction contract which runs for less than twelve months be regarded as a long-term construction contract for the purposes of Taxation Ruling IT 2450?

1. Yes. Paragraph 11 of Taxation Ruling IT 2450 clearly states that long-term construction contracts are contracts relating to construction work where construction extends beyond a year of income. Accordingly, the Ruling applies to any construction contract which straddles two or more years of income, and contractors can adopt either of the methods specified in the Ruling for returning income derived from those contracts, provided that the method is applied consistently to all similar contracts.

Examples:

Contractor A (the taxpayer) generally enters into construction contracts which run for several years and uses the estimated profits basis for returning income from those contracts. If the taxpayer commences work under a construction contract in May 19X1 and completes the work in April 19X2, the taxpayer must treat that contract as a long-term construction contract for the purposes of IT 2450 and return income from that contract on the same basis that is adopted for all of their other construction contracts, that is, the estimated profits basis.

Contractor B (the taxpayer) generally enters into construction contracts which run for less than 12 months, some of which are completed within a year of income and some of which extend beyond a year of income. If the taxpayer commences work under a construction contract in May 19X1 and completes the work in September 19X1, the taxpayer can treat that contract as a long-term construction contract for the purposes of IT 2450 and can adopt either of the methods specified in that Ruling, provided that the same method is used for all similar contracts, that is, construction contracts which extend beyond a year of income.

Commissioner of Taxation

12/11/92