



TD 94/39 - Income tax: property development: can costs incurred and income derived under the terms of a long-term construction contract be returned on a completed contract basis?

 This cover sheet is provided for information only. It does not form part of *TD 94/39 - Income tax: property development: can costs incurred and income derived under the terms of a long-term construction contract be returned on a completed contract basis?*

 This document has changed over time. This is a consolidated version of the ruling which was published on *5 May 1994*

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, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: property development: can costs incurred and income derived under the terms of a long-term construction contract be returned on a completed contract basis?

1. No. As stated in paragraph 34 of Taxation Ruling IT 2450, the completed contract basis is not an acceptable method for determining taxable income from long-term construction contracts.
2. The completed contract method is an accounting concept that recognises revenue only when a contract is completed or is substantially completed. All costs incurred and income derived under the contract are accumulated during the course of the contract and are brought to account in the year in which the contract is substantially completed.
3. As explained in IT 2450, this basis for returning income is not acceptable because a taxpayer's liability must be determined annually. Accordingly, a taxpayer who does not use the estimated profits basis for returning income from long-term construction projects must account for income and outgoings on an accruals basis. In other words, all payments received or receivable are brought to account as assessable income in the year in which they are derived and expenditure is deductible in the year in which it is incurred.
4. Some taxpayers have adopted a variation of the completed contract method for returning income from contracts which extend beyond one year of income: that is, expenditure incurred during the course of the contract is claimed as a deduction in the year in which it is incurred and all amounts derived during the course of the contract are not included in assessable income until the year in which the contract is either completed or is substantially completed. This method of returning income clearly is not correct. All payments received or receivable are assessable in the year in which they are derived.

5. However, where a taxpayer enters into an arm's length contract under which the taxpayer is not entitled to receive any payment until completion of the contract, the income from that contract is not derived in terms of subsection 25(1) of the *Income Tax Assessment Act 1936* until the year in which the contract is completed: see *H.W. Coyle Limited v. C of IR (NZ)* 80 ATC 6012 per Holland J at 6022; (1980) 11 ATR 122 at 133. On the other hand, outgoings are deductible as they are incurred.

Commissioner of Taxation

5/5/94

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Related Determinations: TD 92/186

Related Rulings: IT 2450

Subject Ref: long-term construction contracts; completed contract method

Legislative Ref: ITAA 25(1)

Case Ref: *H.W. Coyle Limited v. C of IR (NZ)* 80 ATC 6012 (1980) 11 ATR 122

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