


TD 93/D175 - Income tax: property development: can costs incurred and payments received under the terms of a long-term construction contract be returned on a completed contracts basis?

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This document has been finalised by TD 94/39.

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: property development: can costs incurred and payments received under the terms of a long-term construction contract be returned on a completed contracts basis?

1. No. As stated in paragraph 34 of Taxation Ruling IT 2450, the completed contracts basis is not an acceptable method for determining taxable income from long-term construction contracts.
2. Under the completed contract method, revenue is recognized for accounting purposes only when the contract is completed or substantially completed. All costs and progress payments 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 contractor who does not elect to use the estimated profits basis of returning income must account for expenditure and receipts on an accruals basis.
4. Some contractors have adopted a variation of the completed contract method for returning income from contracts which extend beyond one year of income: expenditure incurred during the course of the contract has been claimed as a deduction in the year in which it is incurred, and advance or progress payments derived during the course of the contract have not been returned as assessable income until the year in which the contract is either completed or is substantially completed. For the same reasons outlined in paragraph 3 of this Determination, this method of returning income clearly is not correct.
5. However, where a contractor enters into an arm's length contract which provides that the contractor is not entitled to receive any payment until completion of the contract, the income from that contract is not derived until the year in which the contract is completed.

Commissioner of Taxation

8/7/93

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