

## 51. Long-term contracts

(1) A person accounting for income tax purposes on an accrual basis shall compute the income arising under a long-term contract on the basis of the percentage of completion method.

(2) The percentage of completion of a long-term contract in a tax year is determined by comparing the total costs allocated to the contract and incurred before the end of the year with the estimated total contract costs as determined at the commencement of the contract.

(3) In this section -

"long-term contract" means a contract for manufacture, installation, or construction, or, in relation to each, the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced; and

"percentage of completion method" means the generally accepted accounting principle under which income and expenses arising under a long-term contract are recognised by reference to the stage of completion of the contract, as modified by subsection (2).

## 52. Financial leases

(1) This section applies to an asset that is leased or hired under a financial lease.

(2) If this section applies, this Act applies on the basis that -

- (a) the lessee is the owner of the asset;
- (b) the lessee acquired the asset at the commencement of the lease, except in cases where the lessee already was the owner of the asset; and
- (c) the lessor has made a blended loan to the lessee at the commencement of the lease and each lease payment is in part repayment of principal and in part payment of interest under that loan.

(3) The cost of the asset treated as owned by the lessee under paragraph (a) of subsection (2) is -

- (a) if the lessor and lessee are not associates and an amount is stated as the cost or value of the asset in the lease agreement, that amount; or
- (b) in any other case, the fair market value of the asset at the commencement of the lease.

(4) The amount of the loan referred to in paragraph (c) of subsection (2) is the amount determined under subsection (3) as the cost of the asset.

(5) The interest part of each payment made under the loan is computed by reference to the interest rate implicit in the lease agreement.

(6) In this section -

"blended loan" means a loan under which payments by the borrower represent in part a payment of interest and in part a repayment of principal where the interest part is calculated on the principal outstanding at the time of each payment;

"financial lease" means -

- (a) a hire purchase agreement; or
- (b) a lease if -
  - (i) the lease agreement provides for transfer of ownership at the end of the lease term, or the lessee has an option to acquire the asset at the end of the lease term for a fixed or determinable amount,
  - (ii) the lease term exceeds seventy-five *per cent* of the useful life of the asset,
  - (iii) the estimated fair market value of the asset at the end of the lease term is less than twenty *per cent* of its fair market value at the commencement of the lease,
  - (iv) in the case of a lease that commences before the last twenty-five *per cent* of the useful life of the asset, the present value of the minimum lease payments equals or exceeds ninety *per cent* of the fair market value of the asset at the commencement of the lease term, or
  - (v) the asset is custom-made for the lessee and at the end of the lease term the asset will not be of