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Facts

A Societe will construct a number of villas. Some of the villas will be sold together with the freehold land on which they are built whereas others will be sold with only leasehold interest in the land on which they are built. The leasehold interest will be for eighty years and the buyer will make one lump sum payment in respect of the acquisition of the villa together with the leasehold interest in the immovable property.

Point at issue

Whether the Societe is allowed to claim a deduction in respect of the costs of the land and construction of the villas against the lump sum payment received from the sale of the villas and the leasehold right.

Ruling (given in December 2005)

The costs incurred in the acquisition of the land and constructions of villas are allowable deductions against the gross income derived from the sale of freehold immovable properties. As regards villas sold on leasehold interests for 80 years, the costs of land and construction of villas are not allowable.