

Changes to the Tax Treatment of Real Estate Development and Construction Companies



The Tax Department of the Republic of Cyprus has issued a Circular according to which, the Circular 1987/21 governing the tax treatment of Real Estate Developers and Contractors, is being abolished on January 1st, 2022.

The tax treatment of Real Estate Development and Construction Companies from tax year 2022 onwards, will be subject to the Implementing Directive 15/2021.

In particular, the recognition of revenues from construction projects for tax purposes, will be based on the Directive, ie it should be consistent with the accounting treatment based on International Financial Reporting Standard (IFRS) 15 - Revenue from Contracts with Customers. Therefore, any profits recognised on the basis of IFRS 15 up to the tax year 2021, but not subjected to taxation, due to implementation of the previous Circular, should be calculated and accumulated in the Income Tax Return for the year 2022.

The additional income and tax due in 2022, arising due to the implementation of the Directive, should be taken into account for both instalments of Provisional Tax Payments for the tax year 2022.

The affected taxpayers have the option, to apply the Circular 1987/21 for “Old projects” (for which construction work has started by December 31st, 2021) until the tax year 2023. In such case, any additional profits recognised on the basis of IFRS 15 up to the tax year 2023, should be calculated and accumulated in the Income Tax Return and the two instalments of Provisional Taxation, for the year 2024.

In addition, the Taxpayers have the option to apply the transitional treatment only for tax year 2022, in which case, any additional profits recognised on the basis of IFRS 15 up to the tax year 2022, should be calculated and accumulated in the Income Tax Return and the two instalments of Provisional Taxation, for the year 2023.

The option relates to the sum of “Old projects” of the Taxpayer.

Regardless of the options mentioned above, for “New projects” (for which construction work will start after December 31st, 2021) the Implementing Directive 15/2021 should be applied from tax year 2022.