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Progress payments lead to profit realisation

The finance ministry has decreed that architects, engineers and construction contractors shall realise their profits in accordance with the agreed progress payments reflecting the degree of contract completion.

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Traditionally, it has been considered acceptable for tax purposes to delay profit recognition on long-term contracts in the construction and similar industries until final completion of the contract. This view was overturned in 2014 by a Supreme Tax Court decision holding that an engineer working on a long-term design project should recognise profits by degree of contract completion as measured by his entitlement to progress payments. Architects and engineers are entitled to agree on progress payments when working as consultants, provided the due dates reflect actual and measurable contract progress. The finance ministry has now endorsed this judgment in a decree calling for general application of the judgment to all cases of progress payments based on degree of contract completion. Architects and engineers on long-term consultancy, design or planning projects and building and similar contractors are those primarily affected. However, recognising that this advancement of profit recognition might lead to serious hardship in the year of change, the ministry has allowed taxpayers to split the additional profit realised over two or three equal annual instalments. The change is to be effected in the first business year beginning on or after December 24, 2014. The decree draws an explicit distinction between progress payments and payments in advance, as the latter do not lead to profit realisation.

Schlagwörter

long-term contracts, profit realisation, progress payment