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DIFFERENCES IN THE TAX AND FINANCIAL ACCOUNTING OF REAL ESTATE DISPOSAL IN THE REPUBLIC OF ARMENIA

Manya Poghosyan*
Armenian State University of Economics
Ph.D. in Economics, Associate Professor
manya.poghosyan1319@gmail.com
ORCID ID: https://orcid.org/0009-0008-3483-5379

Gayane Avalyan
Armenian State University of Economics
Ph.D. in Economics, lecturer
gayane_avalyan@yahoo.com
ORCID ID: https://orcid.org/0000-0002-4586-3008

Gohar Harutyunyan
Armenian State University of Economics, lecturer
gohar76hartyunyan@gmail.com
ORCID ID: https://orcid.org/0009-0008-9435-9589

Abstract: The article provides an in-depth examination of the accounting and tax accounting mechanisms related to the disposal, leasing, and transfer of real estate for free use. As a result, the differences in measuring income and expenses in financial accounting and tax accounting in cases of real estate disposal are clarified, revealing the discrepancies between accounting profit and taxable profit.

This article contains essential information on approaches to accounting for real estate disposal transactions and is aimed at enhancing the reliability of the information presented in financial performance reports and corporate income tax returns.

Keywords: real estate, accounting, disposal, taxable profit, leasing, free-of-charge transfer.

JEL codes: M41, H25, H71

Research aims: The purpose of this article is to identify the differences between financial accounting and tax accounting that arise in real estate disposal transactions for both the seller and the buyer.

Research hypothesis: Since financial accounting and tax accounting apply different approaches in cases of real estate disposal, differences exist between taxable profit and accounting profit.

Research novelty: Identification of the differences between the mechanisms of financial and tax accounting for real estate disposal transactions and the development of accounting mechanisms.

Introduction

At present, an examination of the main provisions of the legal acts in force in the Republic of Armenia governing real estate disposal transactions shows that, in cases of disposal of real estate units - land plots, buildings, and structures (sale, lease, free-of-charge transfer) - the approaches to financial accounting and tax accounting differ both in terms of measurement and recognition.

Worldwide, as well as in the Republic of Armenia, real estate is measured using several values, including carrying (book) value, fair

(market) value, cadastral value, revaluation value, residual value, and others.

Among the factors influencing earnings management behavior, deferred tax expense and tax planning have become increasingly important, especially in emerging markets (Dwianika, Andika, Zanna, 2025).

Deferred taxes arise from the differences between financial accounting and tax accounting, and these differences occur across all asset classes, including tangible assets such as real estate, because the carrying amounts and tax bases are calculated according to different rules (Scott, Williams, 2021).

Moreover, deferred taxes arising from differences between financial and tax accounting have long been a contentious issue in financial accounting regulation, practice, and research **(**Görlitz, Dobler, 2021).

Research results

From the perspective of financial accounting, it is a conventional scenario when the disposal of real estate is carried out at its fair value, which is determined based on the sale of the asset between market participants as of the measurement date" (IFRS 13, 2005).

In the case of the disposal of real estate (land plots, buildings, structures), income and expenses are recorded at the amounts reflected in the issued tax account: income for the seller and acquisition costs for the buyer. In contrast, the Tax Code establishes different approaches to measuring income and expenses when the transaction between economic entities is conducted at an amount lower than 80% of the cadastral value. It should be added that,

under the RA Tax Code, such measurement approaches for income and expenses are not established if the seller, lessee, or sublessor is an individual entrepreneur or a natural person who is not a notary.

Thus, in the case of real estate disposal, different taxation scenarios are possible, which are presented in Figure 1.

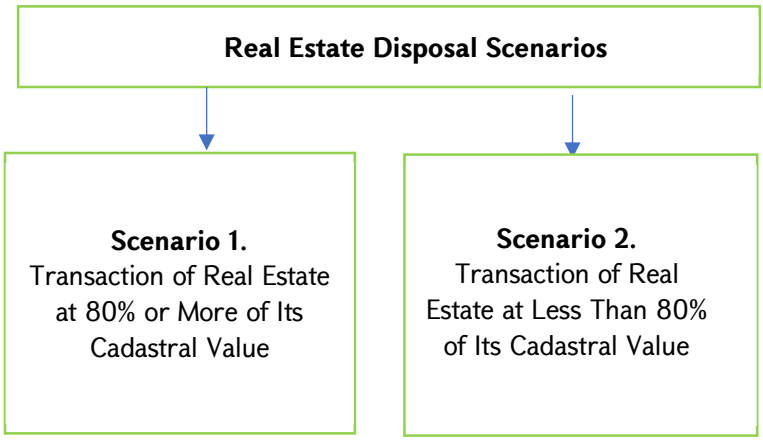


Figure 1. Possible Real Estate Disposal Scenarios Under Tax Accounting
Source: *Authors' own work.*

Under tax accounting, in the case of the disposal of land plots, buildings, and structures, the transactions presented in Diagram 1 can be grouped as follows:

- ✓ The disposal of a real estate unit between economic entities (participants in the sale and purchase) is conducted at an amount equal to or greater than 80% of the cadastral value of that real estate (which approximates its market value).

- ✓ A real estate unit is sold by one economic entity to another at an amount lower than 80% of the cadastral value approximated to the market value.

Scenario 1: A corporate income juridical taxpayer sold a building to another juridical person. The building's cadastral value is AMD 250 million. The transaction amount (sale price) was AMD 220 million, with a calculated value-added tax of AMD 44 million. It should be added that the building's carrying amount as of the first day of the month including the disposal date was AMD 100 million.

Scenario 2: A corporate income juridical taxpayer sold a building to another juridical person, where the building's cadastral value is AMD 250 million. The transaction (sale) price in Scenario 2 is AMD 150 million, with a calculated value-added tax of AMD 30 million. It should be added that the building's carrying amount as of the first day of the month including the disposal date was AMD 100 million.

Table 1 presents Scenario 1, where the disposal transaction price exceeds 80% of the cadastral value. The table shows the income and expenses calculated for tax purposes for both the seller and the buyer.

As shown in the above table, if the sale price of real estate exceeds 80% of the cadastral value, income and expenses are recorded in the same way from both the tax and financial accounting perspectives. Specifically, for the seller, income is recognized at the transaction price, and expense is recorded at the carrying amount, while for the buyer, the initial cost of the acquired asset is also recognized at the transaction price.

Table 1. Scenario 1 (Sale Price > 80% of Cadastral Value)
Source: *Authors' own work.*

Indicators	Amount, AMD	Calculation
Transaction Price	220 000 000	
Cadastral Value	250 000 000	
Lower Threshold of Cadastral Value	200 000 000	250 000 000 x80%
Positive Difference Between Transaction Price and Lower Threshold of Cadastral Value	20 000 000	220 000 000-200 000 000 > 0
For the Seller		
Taxable Income	220 000 000	
Value-Added Tax	44 000 000	220 000 000 x 20%
Expense – Additional Taxes	0	
Expense – Carrying Amount	100 000 000	
Taxable Profit Base- Taxable Profit	120 000 000	220 000 000-100 000 000
Accounting Profit	120 000 000	220 000 000-100 000 000
For the Buyer		
Acquisition Cost	220 000 000	
Value-Added Tax	44 000 000	220 000 000 x 20%
Included Liability	0	
Initial (Accounting) Cost	220 000 000	

Table 2. Scenario 2 (Sale Price < 80% of Cadastral Value)
Source: *Authors' own work.*

Indicators	Amount, AMD	Calculation
Transaction Price	150 000 000	
Cadastral Value	250 000 000	
Lower Threshold of Cadastral Value	200 000 000	250 000 000 x 80%
Positive Difference Between Transaction Price and Lower Threshold of Cadastral Value	50 000 000	150 000 000 – - 200 000 000 < 0
For the Seller		
Taxable Income	250 000 000	
Value-Added Tax on Taxable Income	50 000 000	250 000 000 x 20%
Value-Added Tax on Transaction Price	30 000 000	150 000 000 x 20%
Expense – Additional Taxes (VAT)	20 000 000	50 000 000-30 000 000
Expense – Carrying Amount	100 000 000	
Corporate Income Tax Base - Taxable Profit	130 000 000	250 000 000 – 100 000 000- 20 000 000
Accounting Profit	50 000	150 000-100 000
For the Buyer		
Acquisition Cost	250 000 000	
Value-Added Tax (VAT)	50 000 000	250 000 000 x 20%
Income (Included Liability)	100 000 000	250 000 000 - - 150 000 000
Initial (Accounting) Cost	150 000 000	

Table 2 presents Scenario 2, where the sale price is lower than 80% of the cadastral value. In this scenario as well, income and expenses are calculated for tax purposes for both the seller and the buyer.

Since in the scenario described in Table 2 the real estate sale transaction was conducted at an amount lower than 80% of the cadastral value (200 million AMD) - specifically, at 150 million AMD - for tax accounting purposes, the seller must recognize taxable income not at the transaction price, but at the cadastral value of 250 million AMD. Value-added tax (VAT) must also be calculated on this amount, totaling 50 million AMD.

This creates a difference between the VAT calculated on the cadastral value and the VAT based on the transaction price (30 million AMD), amounting to 20 million AMD, which, according to the Tax Code, is considered an expense. Similarly, when determining the taxable profit base, this amount is deducted from taxable income along with the carrying amount.

For the buyer, the acquisition cost is recognized not at the transaction price, but at the cadastral value (250 million AMD), and the debited value-added tax is calculated based on this amount (50 million AMD). Additionally, the difference between the cadastral value (250 million AMD) and the transaction price (150 million AMD), amounting to 100 million AMD, is considered a liability assumed by the seller. According to the Tax Code, assumed liabilities are recognized as income and included in the total revenue.

A similar situation arises when an economic entity provides real estate to another economic entity for free use. In such cases,

according to the RA Tax Code, the lessor recognizes taxable income equal to 2.5% of the cadastral value of the property, taking into account the actual period of use. The corporate income tax base for the lessor is calculated as the difference between 2.5% of the cadastral value (taxable income), the depreciation of the leased property, and any additional taxes. For the lessee, considering the period of free use, 2.5% of the cadastral value is treated as an assumed liability and included in the lessee's total income.

Scenario 3: A corporate income taxpayer (lessor) provides a building with a cadastral value of AMD 120 million to another corporate income taxpayer (lessee) for free use for one month. The building's annual depreciation amounts to AMD 1,800,000. According to the agreement between the parties, the contractual price for the free use is AMD 150,000.

In the scenario presented in Table 3, under tax accounting, the lessor recognizes 2.5% of the cadastral value of the freely provided building (AMD 250,000) as income. The value-added tax calculated on this amount (AMD 50,000), along with the depreciation expense for the period (AMD 150,000), is deducted from income, resulting in a taxable profit of AMD 50,000. In contrast, under financial accounting, the lessor does not expect to receive income but records a loss equal to the sum of depreciation (AMD 150,000) and VAT (AMD 50,000).

For the lessee, the situation is different. From a financial accounting perspective, income is considered the contractual price of the free use agreement (AMD 150,000), whereas under tax accounting, it is based on 2.5% of the cadastral value.

Table 3. Scenario 3 (Rent = 2.5% of Cadastral Value)
Source: *Authors' own work.*

Indicators	Amount, AMD	Calculations
Cadastral Value	120 000 000	
Lower Threshold of Cadastral Value (Monthly)	250 000	120 000 000 x 2.5% : 12
For the Lessor		
Monthly Taxable Income	250 000	120 000 000 x 2.5% :12
Expense: Additional Taxes (VAT)	50 000	250 000 x20%
Expense: Monthly Depreciation	150 000	1 800 000:12
Taxable Base for Profit Tax (Monthly)	50 000	250 000-150 000- 50 000
Financial Result: Loss	(200 000)	0-150 000- 50 000
For the Lessee		
Income from a Tax Perspective	250 000	120 000 000 x 2.5%:12
Income from Assumed Liability	250 000	
Income under Financial Accounting	150 000	

Conclusion

The conclusions regarding the differences between financial accounting and tax accounting for real estate disposal transactions are as follows:

- ✓ If real estate is sold at a price exceeding 80% of its cadastral value, there are no differences between accounting profit and

taxable profit for the seller and the buyer. No differences arise for the buyer concerning the initial recognition of the acquired property either. However, if the sale is conducted below 80% of the cadastral value, the seller's taxable profit significantly differs from the accounting profit, resulting in deferred tax assets from a financial accounting perspective. For the buyer, the acquisition costs differ between the two accounting subsystems, and tax accounting also gives rise to an assumed liability recognized as income.

- ✓ If real estate is provided for free use, the lessor recognizes income under tax accounting, resulting in taxable profit, whereas financial accounting records a loss. The accounting treatment also differs for the lessee, as tax accounting recognizes an assumed liability as income, while in financial accounting, income is reflected based on the contractual price.

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ԱՆՇԱՐԺ ԳՈՒՅՔԻ ՕՏԱՐՄԱՆ ՀԱՐԿԱՅԻՆ ԵՎ ՀԱՇՎԱՊԱՀԱԿԱՆ ՀԱՇՎԱՌՄԱՆ ՏԱՐԲԵՐՈՒԹՅՈՒՆՆԵՐԸ ՀՀ-ՈՒՄ

Մանյա Պողոսյան
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դասախոս

Բանալի բառեր - անշարժ գույք, հաշվառում, օտարում, հարկվող շահույթ, վարձակալություն, անհատույց հանձնում:

Հետազոտությունում ուսումնասիրված են անշարժ գույքի իրացման, վարձակալության և անհատույց օգտագործման նպատակով հանձնման հաշվապահական ու հարկային հաշվառման մեխանիզմները, արդյունքում՝ հստակեցվել են անշարժ գույքի օտարման դեպքում հաշվապահական հաշվառման և հարկային հաշվառման եկամուտների և ծախսերի չափման տարբերությունները՝ բացահայտելով հաշվապահական շահույթի և հարկային շահույթի միջև տարբերությունները:

Հետազոտությունը պարունակում է անշարժ գույքի օտարման գործարքների հաշվառման մոտեցումների վերաբերյալ անհրաժեշտ տեղեկատվություն և միտված է ֆինանսական արդյունքի մասին և շահութահարկի գծով հաշվետվություններում ներառված տեղեկատվությունը արժանահավատ դարձնելուն:

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