

Cyprus – VAT Update

The Cyprus Parliament has passed on the 3rd November 2017 an amendment to the relevant VAT law, effectively introducing VAT imposition at the standard rate (currently 19%) to the sale of land which is for building purposes and the leasing and/or rental of business premises. Furthermore, the new provisions introduce the “reverse charge mechanism” for VAT-applicable supplies of land and property under a loan restructuring and/or forced-sale arrangement with a creditor.

These new provisions now bring Cyprus in line with the EU Directive on VAT, for which Cyprus had obtained a temporary exemption upon succession into the EU.

In more detail, the new provisions are as follows:

A. VAT imposition on sale of land for building purposes

With effect as of the 2nd January 2018, VAT shall be imposed on all sales/transfers of land for undeveloped building plots, which is intended to be used for the construction of buildings, provided that such sale/transfer is effected in the course of carrying out a business activity.

It is clarified that VAT will apply at the standard rate, which is currently at 19%.

The Tax Department is expected to issue a further Circular to clarify various matters of such definitions within the new provisions, such as when will a transfer/sale of land be considered as falling within a person’s “business activities”.

B. VAT imposition on the leasing and/or rental of business premises

The new VAT provisions on leasing and/or rental of business premises have immediate effect and will apply to lease agreements which are concluded from **13 November 2017 onwards**, provided that the taxable person is renting such premises as part of his/her taxable business activities (residential dwellings are excluded). VAT will apply at the standard rate, which is currently at 19%.

The new provisions of the law provide that the lessor has the right (through an irrevocable option) to choose to opt out of VAT under certain conditions and procedures, which are still to be confirmed by the Tax Department under a Circular to be issued.



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C. Reverse Charge Provisions on transfers resulting from loan restructuring or forced-sale to Creditors

Transfers of immovable property which are effected as a result of loan reorganization or compulsory transfers will create a VAT imposition, but under Article 11D of the VAT Law the obligation to discharge the VAT in such situations has been transferred from the tax payer to the recipient (being the Creditor).

The provisions apply to immovable property including land and/or buildings which are transferred along with the land in which they are build on, provided that the transaction takes place before the first occupation of the building.

The new reverse charging provisions will come in force as of 2 January 2018 and will remain in force for a limited period of time, currently being until 31 December 2019.

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