



## **Cyprus amends VAT - imposes 19% on building land**

On 3 November 2017, The Cyprus House of Representatives approved a new VAT Law which amends the main VAT Law N.95(I)/2000. It was published in the Official Gazette of the Republic of Cyprus on 13 November 2017 and came into force as of 2 January 2018.

The new law introduces VAT at the standard rate for the sale of building land and the leasing/rental of business premises as per the conditions included in the law. It also introduces the reverse charge mechanism for VAT-subject supplies of land and property under a loan restructuring/force-sale arrangement, which will mostly impact financial institutions.

### **Imposition of VAT at the standard rate of 19% on building land**

The standard VAT rate of 19% will be imposed in all of the following cases:

- Transfer of ownership
- Transfer of indivisible land portion
- Transfer of ownership via contract or sale agreement or agreement which specifically provides that the ownership will be transferred at a future date or leasing agreement with buyout option

The above shall apply to non-developed building land which is intended for the construction of one or more structures in the course of carrying out a business activity.

More clarifications are still required for the purposes of applying the law, such as the circumstances whereby a transfer is not considered to form part of a person's economic activities. It is expected that these clarifications will come in the form of Regulations in the near future as these require to be approved by the House of Representatives.

The aforementioned provisions are effective as from 2 January 2018.

### **VAT on leasing of immovable property used for business purposes**

The leasing of immovable property - except buildings which are used as residential dwellings - to taxable persons for taxable business activities will be subject to VAT.

The lessor has the right, based on terms and conditions which will be designated by the Commissioner of Taxation in his relevant Notification, to opt for the non - imposition of VAT to the lessee of the immovable property. The option is irrevocable.

The provisions on leasing have immediate effect and will apply to lease agreements which are concluded from 13 November 2017 onwards.

### **Introduction of Reverse Charge provisions on transfers resulting from loan restructuring or forced transfer of property to lender**

Transfers under loan reorganisation or compulsory transfers are normally made without any payment by the Bank to the taxpayer.

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The transaction creates a VAT liability that the taxpayer clearly would not be in a position to pay. For this reason, article 11D is introduced in the main VAT Law and stipulates transferring the obligation to discharge the VAT in such situations from the taxpayer to the recipient (the bank).

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

The new reverse charge provisions came into force as of 2 January 2018 and will remain in force for a limited timeframe, currently until 31 December 2019.

As the property development and management industries are huge contributors to the Cyprus economy, the ripple effects of this new amendment to the VAT Law will surely impact many businesses and investments across the island, despite certain aspects still needing to be confirmed and details to be ironed out.

Our VAT advisors are ready to assist you towards undertaking a review of any relevant change in order to assess and evaluate the effect of the change and help you in maintaining compliance with the new legislation.

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