

Value Added Tax - 2017

Basis of taxation

VAT is imposed on the supply of goods and provision of services in Cyprus, as well as on the acquisition of goods from the European Union (EU) and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). If output tax in a VAT period exceeds total input tax, a payment has to be made to the State. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT.

Immediate refund of excess input VAT can be obtained in the following cases:

1. A period of three years has elapsed from the date the VAT became refundable (reduced to one year as from 1/1/2015 and eight months as from 1/1/2016).
2. Input VAT cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls.
3. The input VAT relates to zero rated transactions.
4. The input VAT relates to the purchase of capital assets of the company.
5. The input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus.
6. The input VAT relates to exempt financial and insurance services provided to non-EU resident clients (services for which the right to recover the related input VAT is granted).

For intra-community acquisition of goods (with the exception of goods subject to excise duty) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby it self-charges VAT and at the same time claims it back, provided it relates to supplies for which the right to recover input VAT is granted, thereby creating no cost to the business.

In cases the acquisition relates to a transaction for which the right to recover the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

VAT rates

The legislation provides for the following four tax rates:

1. Zero rate (0%).
2. Reduced rate of 5%.
3. Reduced rate of 9%.
4. Standard rate of 19% as from 13 January 2014

Exemptions

Certain goods or services are exempt from VAT. They include:

1. The letting of immovable property (the letting of immovable property with the right of purchase is not exempt).
2. Most banking and financial services and insurance services.
3. Most hospital, medical and dental care services.
4. Certain cultural, educational and sports activities.
5. Supplies of real estate (except supply of buildings before their first use) including supplies of land and of second-hand buildings.
6. Postal services provided by the national postal authority.
7. Lottery tickets and betting coupons for football and horse racing.
8. Management services provided to mutual funds

Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

Following a legislative amendment, the restriction that existed for the imposition of the reduced rate of VAT on the first 200 square meters for private residences up to 275 square meters no longer applies. Based on the amendment, the reduced rate of VAT of 5% applies on the first 200 square meters whereas for the remaining square meters as determined based on the building coefficient, the standard VAT rate is imposed.

The reduced rate is imposed only after obtaining a certified confirmation. The eligible person must submit an application on a special form, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from 8 June 2012, eligible persons include residents of non-EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply, electricity or municipal taxes bill) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

The private residences must be used as the main and permanent place of residence for a period of 10 years.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10-year period, must notify the Commissioner of Taxation within thirty days of ceasing to use the residence and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

In addition, based on the amendment, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re-apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10-year prohibition period for using the residence provided for in the legislation has lapsed or not. A condition for this to apply is that in case the 10-year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.

Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.

Imposition of the reduced rate of 5% on the renovation and repair of private residences

As from 4 December 2015, the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition, as from 4 December 2015, the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of VAT of 5%.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charged on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

1. Acquisitions used for making exempt supplies.
2. Purchase, import or hire of saloon cars.
3. Entertainment and hospitality expenses (except those relating to employees and directors).

Registration

Registration is compulsory for businesses with:

- (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months, or
- (b) expected turnover subject to VAT in excess of €15.600 within the next 30 days.

Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisitions of goods from other EU Member States in excess of €10.251,61 during any calendar year.

In addition, as from 1 January 2010, an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. No registration threshold exists for the provision of intra-community supplies of services.

Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12-month period.

Exempted products and services and disposals of items of a capital nature are not taken into account for determining annual turnover for registration purposes.

Registration is effected by completing the appropriate application form.

VAT declaration - payment/ refund of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT-registered persons have the right to request for a different filing period. The approval of the Commissioner of Taxation is required. The Commissioner of Taxation also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter, input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from 19 February 2013, taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner of Taxation is carrying out an investigation in relation to the submitted claim.

Thresholds and penalties

	Amount in Euro (€)
1. Registration threshold (taxable supplies in Cyprus)	15.600
2. Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus by suppliers resident in another EU Member State)	35.000
3. Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member State	10.251,61
4. Registration threshold for intra-community supply of services	no threshold
5. Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
6. Penalty for late submission of VAT return	51 for each return
7. Penalty for omission to keep books and records for a period of 6 years	341
8. Penalty for late submission of VIES return	50 for each return
9. Penalty for late submission of corrective VIES return	15 for each return
10. Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	850
11. Penalty for late registration with the VAT authorities	85 per delayed month