

## Information Sheet No. 28

### VAT on Immovable Property

#### Value Added Tax on Immovable Property

##### VAT ON BUILDINGS

The Cyprus VAT law (as amended in 2004) foresees for the imposition of VAT on the sale of new buildings or part of the building as well as the land that is transferred with the buildings.

New buildings are defined by law as the buildings for which the application for town planning permission was submitted to the authorities after the 1<sup>st</sup> May 2004.

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.

For contracts concluded up to 30 September 2011 for the acquisition and/ or construction of residences for use as the primary and permanent place of residence, the eligible person must apply for a grant.

The reduced rate of 5% applies for the first 200 square meters of residences of total covered area of up to 275 square meters. In the case of families with more than 3 children the allowable total covered area increases by 15 square meters per additional child beyond the three children.

The reduced rate is imposed only after obtaining a certified confirmation from the VAT Commissioner.

The eligible person must submit an application on a special form, issued by the VAT Commissioner, 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 or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

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 VAT Commissioner, 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.



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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.

### **FIRST RESIDENCE**

First residence is defined by the law as the first use of the building after the construction for all purposes including own occupation, own use, rent and any other use.

### **CLAIMING INPUT VAT**

VAT paid on purchases of immovable property can only be reclaimed in the cases where the property is used for the purposes of generating taxable supplies for example offices, hotels and factories.

VAT paid on expenses relating to property for which the application for town planning permission has been submitted to the authorities before the 1<sup>st</sup> May 2004, cannot be reclaimed, since the sale of the property does not constitute a taxable supply itself.

Companies that have both taxable and not taxable supplies must keep separate records for each project to enable them to distinguish the VAT on the qualifying buildings.

VAT on all common expenses is absorbed to each project based on the sales value.

### **CONTRACT CANCELLATIONS**

Where a contract for the sale of a house is cancelled, the company must issue a credit note and adjust its books and records accordingly. The correction is shown as a deduction on the output tax in the period in which the credit note is issued.

If the company sells the house again to a new buyer before its first occupation, then VAT must be charged on the new sale.

### **SALE OF HOUSES BY INDIVIDUALS**

The sale of a house by an individual does not constitute a taxable supply provided this is not normal practice. However, it is up to the VAT authorities to determine whether a sale is considered normal practice or not. The frequency of sales by the individual is a crucial factor in reaching a conclusion as to whether the sale is subject to VAT or not.

In the case where the sale is considered trading activity then 19% VAT must be imposed on the sale.

### **SALE OF OFFICES**

The sale of used old offices is exempt from VAT.

Where a company sells its used offices for which input VAT has been claimed, then an adjustment must be made to return the "unused" amount of VAT back to the authorities. The total period of use



for offices for VAT purposes is set at 10 years. The input VAT is apportioned over the 10 years. If the offices are sold before the 10<sup>th</sup> year then an adjustment must be made to pay back the VAT relating to the years that the offices were not held. If offices are sold after 10 years no adjustment is required.

### **COMMISSIONS PAYABLE ABROAD FOR THE SALE OF PROPERTY IN CYPRUS**

Commissions paid abroad on the sale of land/buildings situated in Cyprus gives rise to VAT in Cyprus. The VAT is payable using the reverse charge procedure by the receiver of the service (in cases where the supplier is not registered in Cyprus) or the registration of the supplier of the service in Cyprus provided it exceeds the €15.600 registration limit.

### **CONTRACTS FOR THE SALE OF BUILDINGS**

The contracts must state the sales value of the building plus 19% VAT.

### **VAT DUE DATE**

The VAT is due on the date of the receipt of the money not on the date of the contract.

Every receipt by the developer must include 19% VAT.

### **VAT REGISTRATION**

According to the VAT law a person/company is liable to register for VAT in the following cases:

- At the end of the month in which the taxable supplies for the year then ended exceed €15.600.
- If there are reasons to believe that the taxable supplies during the next 30 days will exceed €15.600.
- For land developers, liability for registering arises when they receive commission services from abroad for property sold in Cyprus and the cost of these services exceeds €15.600. In this case 19% VAT will be due by applying the reverse charge procedure.

Liability for registration also arises in the cases where a company receives services falling under the 3<sup>rd</sup> Appendix of the law and exceed €15.600.

Examples of services falling under the 3<sup>rd</sup> appendix include:

- Patens and trademarks
- Advertising
- Consultancy services
- Agency services

### **NOTES:**

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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