

Recent VAT changes in Cyprus

Following the temporary deferral of due VAT payments for the VAT periods ending February, March and April and the temporary change of the VAT reporting periods from quarterly to monthly for certain VAT taxpayers, the following important VAT changes have been recently enacted in Cyprus (some with retrospective effect!)

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Quick Fixes implementation

- EU cross-border chain transactions and allocation of transport
- EU cross-border call-off stock simplification provisions
- Recapitulative (VIES) statements amendments

Legal acts and date of application

- N. 79(I)/2020 of 3 July 2020, effective retrospectively from 1 January 2020
- K.Δ.Π. 283/2020 of 3 July 2020, effective retrospectively from 1 January 2020
- K.Δ.Π. 284/2020 of 3 July 2020, effective retrospectively from 1 January 2020

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Temporary reduction of the VAT rate applicable to certain hospitality and transport services (from 9% to 5%)

- Accommodation services provided by hotels and similar establishments, including the provision of holiday accommodation
- Restaurant and catering services
- Transportation of passengers and their accompanying luggage within the Republic by urban, intercity and rural taxis and by tourist and intercity buses

Legal acts and date of application

- Decree K.Δ.Π 268/2020, effective from 1 July 2020 until 10 January 2021

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Various provisions

- See pages 5 to 17

Legal acts and date of application

- N. 121(I)/2020, effective from 20 August 2020
- N. 122(I)/2020, effective from 20 August 2020, except for
 - Article 11E (local reverse charge on certain electronic goods), which becomes effective from 1 October 2020
 - the new penalties for failure to apply relevant reverse charge provisions, which penalties become effective from 1 July 2021

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Write off of VAT debts

- All cases of VAT debts write offs are now to be handled as per the provisions of the Accounting, Financial Management and Financial Control Law and no longer by the Tax Commissioner

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New definitions

- **‘Legal person’** includes a company, a partnership, a club, an association, an organisation or any other union of persons, irrespective of whether it has been established or not in accordance with the provisions of any Law or regulation
- For VAT registration purposes, a person is treated as a **‘person established in the Republic’** if the person has a business establishment or a fixed establishment in the Republic in relation to the business carried out by that person
- For the purposes of the application of the reduced 5% VAT rate to private residences, amended definition of **‘renovation’** to include - in addition to improvements and repairs, any extensions added to a private home after 3 years of first occupation of the house

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Local reverse charge provisions - construction industry

- **Article 11B** – the amendments are extending the application of the local reverse charge provisions in the construction industry to include transactions of taxable recipients with non-taxable suppliers
- For example, services provided to a construction company by a non-VAT registered carpenter will now fall within the scope of the local reverse charge provisions of Article 11B

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Local reverse charge provisions – certain electronic goods

- **Effective from 1 October 2020 – new Article 11E**
- The new Article 11E will apply to the supply of the following types of goods to taxable persons:
 - i. mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use
 - ii. integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products
 - iii. game consoles, tablet PC's and laptops

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Local reverse charge provisions – certain electronic goods

- **Effective from 1 October 2020 – new Article 11E**
- For example, a laptop sold locally on or after 1 October 2020 by a store in Cyprus to a Cypriot VAT registered buyer, for its business purposes, should not charge VAT on the relevant sales invoice
- Instead, the buyer should self-account for the VAT due at the applicable standard VAT rate, including the corresponding VAT amounts and the value of the goods in its VAT return

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Refund of credit balances

- The Tax Commissioner can now reserve the right to suspend refunds of any pending VAT credit balances (and any applicable interest) until a taxpayer, who has defaulted on its obligations to submit income tax returns (under the provisions of Article 5 of the Assessment and Collection of Taxes Law), submits the respective returns
- Taxpayers' rights to request a refund of a VAT credit balance is now limited to six (6) years from the end of the relevant VAT period in which the credit balance arose. Any requests submitted after the 6-year time limit will be examined only at the discretion of the Tax Commissioner

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Penalties increase

- The late VAT return submission penalty was increased from EUR 51 to EUR 100

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Penalties increase

- **Effective from 1 July 2021 – new penalty**
- A new monetary penalty will be introduced for a failure to apply relevant reverse charge provisions
- In particular, the penalty will amount to EUR 200 for each VAT return where a failure occurred, however limited to EUR 4,000 in total

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Amended rights and obligations of the Tax Commissioner and the taxpayers

- Under Article 50 of the VAT Law, Tax Commissioner has now the right to re-examine and issue a new VAT assessment within 6 months from the date of the High Court declaring an assessment wholly or partly invalid
- Under Article 52A of the VAT Law, taxpayers have now 60 days to object to the Tax Commissioner's decision on a matter listed in the same Article from the date of notification of the decision

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Amended rights and obligations of the Tax Commissioner and the taxpayers

- Under Article 54 of the VAT Law, Tax Commissioner has now an obligation to pay interest in case of a decision by the High Court resulting in the Commissioner paying back VAT amounts to the affected taxpayer
- Under Article 54A of the VAT Law, the Tax Commissioner has now the right to submit his views before the Tax Tribunal on an appeal from a taxpayer

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Amendments to Schedule 1 of the VAT Law – VAT registrations

- The Title of Schedule 1 was amended to include reference to Article 11D (reverse charge in the context of loans restructuring and compulsory transfer of taxable immovable property to the lender from the borrower) and Article 11E (reverse charge for certain electronic goods)

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Amendments to Schedule 1 of the VAT Law – VAT registrations

- As result of the amendments made, the VAT registration threshold is now only applicable to persons established in Cyprus
- Prior to the changes, the VAT registration threshold in Cyprus applied equally to both established and non-established taxable persons
- Part I of Schedule 1 was amended making reference to a 'person established in the Republic' – see page 6, which means that the relevant provisions in Part I now only apply to taxable persons established in Cyprus
- New Part IA was added, covering provisions applicable only to taxable persons **not** established in Cyprus

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Correcting omissions and inaccuracies

- Sub-paragraph (e) of paragraph 5 was added (back) to Schedule 6 of the VAT law, restoring the provision which zero-rates international passenger transport services to the extent they occur in Cyprus (deleted unintentionally in 2011)
- Point (vi) of sub-paragraph (a) of paragraph 1 of Schedule 8, which deals with the imposition of VAT in respect of leases of immovable property to taxable persons, was amended correcting inaccuracy in the previous text which made reference only to 'buildings' in two instances instead of 'immovable property' which should have been used through the text of the provision