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VAT on Land: Important Amendment to the VAT Legislation

In November 2017, the Cyprus parliament voted a significant amendment to the Cyprus VAT Legislation (VAT Law – Amending Law No. 3) which amends the main VAT Law N.95(I)/2000 concerning taxation of building land, in order to align it with the provisions of EU VAT Directive 2006/112/EC. The amendment was published in the Official Gazette on 13 November 2017 and will come into force on 2 January 2018.

Specifically the amendments relate to (a) the imposition of 19% VAT on the sale of building land, (b) the taxation of new commercial immovable property leasing contracts and (c) the application of reverse charge on transactions relating to transfers of immovable property during the process of loan restructuring.

In relation to commercial immovable property leasing, the rental/leasing of business premises (i.e. all properties other than residential properties) is subject to VAT at the standard rate of 19% when it is a business to business transaction and the recipient is engaged in taxable activities.

As per the above amendment, the standard VAT rate of 19% will be imposed in all of the following cases:

- (i) transfer of ownership,
- (ii) transfer of interests in land,
- (iii) transfer of ownership via contract or sale agreement or agreement which specifically provides that the ownership will be transferred on a future date or leasing agreement with buyout option,

the above cases 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.

The Council of Ministers shall have the power to designate, via relevant regulations, the types of land which will fall under the category of non-developed building land, as well as the exact date which will be taken into account for the identification of the time of supply for VAT purposes. The aforementioned regulations will need to be approved by the Parliament.

No VAT will be imposed on the disposal of shares or shareholdings in companies, resulting in transfer of ownership of related immovable property.

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