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Vat Facts

2020 - Cyprus



Knowing you.

VALUED ADDED TAX

Value Added Tax is imposed on the supply of goods and services within Cyprus, on the acquisition of goods from the European Union and on the importation of goods from third countries into Cyprus.

THE SCOPE OF VAT

A transaction among two parties is considered to be within the scope of Cyprus VAT legislation if it satisfies all of the following criteria:

- The place of supply of goods or services is considered to be within the territory of Cyprus.
- The supply of goods or services is made by a relevant taxable person¹.
- The supply of goods or services is made for business purposes².

HOW VAT WORKS

If a transaction is within the scope of the Cyprus VAT legislation we need to decide whether is **exempt** or **taxable**.

Exempt Activities: If it is exempt there is nothing that we need to do as no VAT should be added.

Examples of exempt activities:

- Sale of shares
- Provision of Loans that charging interest
- Insurance services.
- Most hospital, medical and dental care services.
- Management services provided to mutual funds.
- Certain cultural educational and sport activities.

¹ A Relevant taxable person is any person who carries on a business. It also includes any person who is registered with VAT anywhere within the EU or is required to be registered.

² Business means any economic activity which is carried out independently in any place, whatever the purpose or result of that activity is.

Taxable activities:

If it is taxable we need to check which VAT Rate is applicable to the relevant transaction.

Example of taxable activities:

- Provision of consultancy services.
- Sales of cars.
- Admission to watch a football game.
- Hairdressing Services.
- Catering Services.
- Sales of private households.

VAT RATES

• Standard VAT Rate:19%

The standard rate applies to the supplies of all goods and services within Cyprus which are not subject to the zero rate, the reduced rate or are not exempt.

• Reduced VAT Rate:9%

The reduced rate of 9% applies to:

- All restaurant and catering services.
- Accommodation in hotels, tourist lodgments and any other similar lodgments.
- Transportation of passengers.

• Reduced VAT Rate:5%

The reduced rate of 5% applies to:

- The supply of pharmaceutical products and vaccines that are used for health care or prevention of illnesses.
- Books, papers and magazines.
- Fees for entry at sports events.
- Entry fees to theaters, festivals, museums etc.
- The supply of foodstuff.
- Renovation and repair of private households after 3 years of first residence, excluding the value of materials which constitute more than 50% of the value of the services.

- Hairdressing services.
- Construction or sale of private households (the purchaser should purchase a private household for the first time).

- **Zero VAT Rate 0%**

The zero rate applies to:

- The exportation of goods.
- Supply, modification, repair, maintenance, chartering and hiring of sea going vessels and aircrafts, which are used to gain profit.
- Provision of services to meet the direct needs of sea going vessels and aircrafts.

REGISTRATION WITH THE CYPRIOT VAT AUTHORITIES

Registration with the Cypriot VAT Authorities is compulsory when a legal or natural person:

- Has a taxable turnover from the supply of goods or services in Cyprus in excess of €15.600 during the 12 preceding months.
- Receives goods in Cyprus from other E.U. Member States of a total value higher than €10.251, 61.
- Is expected to have a taxable turnover in excess of €15.600 from the supply of goods or services in Cyprus within the next 30 days following registration.
- Receives services from abroad, either from EU countries or from countries outside the EU in excess of €15.600. In such a case the Reverse Charge Principle should be applied.

- Provides services to taxable persons established in another EU Member State for business purposes, which the recipient is required to account for VAT under the Reverse Charge Principle. (VIIES Obligation arises).

Natural and legal persons have also the right to get registered (voluntarily) even though their taxable turnover falls below the registration threshold of €15.600.

PLACE OF SUPPLY OF GOODS

Basic Rule:

- If the goods are not physically moved between countries, the place of supply is where the goods are made available or delivered to the customer. Example: A Cyprus Company purchases goods from Italy where they remain. In this respect the place of supply of the goods is in Italy.

- The place of supply of intra community trade is where the transportation ends (a valid VAT Registration number is necessary). Example: A Cyprus company sell goods to a customer established in another EU Member State (possessing a Valid EU VAT no), the goods are physically moved from Cyprus to EU, and thus the place of supply for intra community sale of goods is where the EU VAT Registered person belongs to.

- The place of supply of goods transferred to third countries is Cyprus and the VAT rate applied is the Zero VAT Rate.

The place of supply of goods follows the movement of the goods and not that of the invoice.

DISTANCE SELLING

Distance Selling arises when a supplier in one EU Member state, supplies goods and is responsible for their delivery to any person in another EU Member state who is not registered with the VAT.

VAT on such a distance sale in Cyprus is subject to VAT in that other EU Member State up to the annual threshold of Cyprus which is €35.000.

However, when the value of distance sales in Cyprus exceeds the threshold of €35.000, then the supplier becomes liable to get registered with the VAT Authorities in Cyprus, thus VAT on any further sales is taxed in Cyprus.

HOLDING OF INVESTMENTS

Purely Holding Companies are not considered to be exercising an economic activity due to the fact that their only source of income is dividends thus they do not have the right or the obligation to register for VAT.

Contrary to the above, the status of a non-economic activity may change, if the holding company is proved to have a direct or indirect involvement in the management of the companies that holds shares to.

Additionally, if a holding company in addition to holding of investments is also involved in other activities the non-economic status is no longer valid.

TRIANGULAR TRADE

Triangular Trade is a mechanism which is used for VAT purposes to simplify transactions carried out between three entities within EU countries. In this situation there are three entities involved and the goods are directly delivered from the first entity to the third entity instead of transferring them from the first entity to the second and then to the third.

In order to achieve the Triangular Trade, the following conditions must be satisfied:

- The trader must be registered for VAT purposes in Cyprus.

- The Seller must be registered with the VAT authorities in any EU Member state
- The Second buyer should be registered for VAT purposes in the country where the goods are delivered.

SUPPLY OF SERVICES

There are two General Rules:

Business to Business Supplies (B2B)

- When the recipient of the service is a relevant taxable person, the default place of supply is there where the recipient belongs.
- The service must be offered for business purposes and not exclusively for private purposes.

Business to Consumer Supplies (B2C)

- When the recipient is not a relevant taxable person.
- The recipient does not exercise any economic activity and receives the services exclusively for private purposes.

REVERSE CHARGE PRINCIPLE

This principle applies when a company receives services from abroad from any person situated either within the EU or outside the EU. The principle also applies when there is acquisition of goods in Cyprus for business purposes from an EU supplier who is a taxable person. By applying the principle, the recipient acts as if it is both the supplier and the customer, it imposes VAT on the services received itself and then, assuming that the services relate to VAT taxable supplies that the recipient supplies, it can claim it back as input VAT with zero balance.

However, in the event that the recipient also offers exempt services, then it cannot claim it in full but in proportion to the taxable/ exempt services offered during the particular VAT period.

VAT ON THE SUPPLY OF LAND

Under certain circumstances the supply of land can be subject to the standard rate of 19% VAT.tt

VAT ON THE RENT OF IMMOVABLE PROPERTY

Under certain circumstances the rent of an immovable property can be subject to the standard rate of 19% VAT.

VAT ON LONG-TERM LEASE

As from 1 January 2019, a Long – term lease of immovable property which effectively transfers the right to dispose the property as owner to the lessee constitutes a supply of goods subject to VAT. The factual circumstances of the lease will determine VAT implications including VAT Treatment and time of supply.

VIES STATEMENTS

If a person is registered for VAT purposes in Cyprus and provides certain services to VAT registered persons established in other Member State has an obligation to submit VIES statement.

PENALTIES AND INTERESTS

- Late registration: €85 per month of delay
- Late payment of VAT: 10% on VAT due plus 4% interest charge per annum
- Late submission of return: €51 for each return
- Late de-registration: €85 one-off
- Late submission of VIES return: €50 for each return
- Late submission of corrective VIES return: €15 for each return
- Penalty for omission to keep books and records for a period of 6 years: €341
- Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of €850.

This VAT Card has been prepared based on the latest legislation voted by the representatives of parliament as at 31 December 2019. You should consult your VAT advisor before making decisions on the basis of information given herein.

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