



**K. TREPPIDES
& CO LTD**

Indirect Taxation

Newsletter - Issue 10/2023



5% reduced VAT rate on private residence

Clarifications issued by the Cyprus Tax Department



We would like to inform you that on the 28th of November 2023, the Cyprus Tax Department (CTD) issued Circular 11/2023 (“the Circular”) providing clarifications in relation to the imposition of the 5% reduced VAT rate on the acquisition/construction of a private residence further to the recent amendment in the Cyprus VAT Law N95(I)/2000 (“the Law”).

Specifically, the Circular provides clarifications as to the eligibility criteria for the 5% reduced VAT rate as well as with the limitations and the exemptions applicable for persons with disabilities and multi-child families. In addition, it specifies the right to benefit again the 5% reduced VAT rate before the lapse of the 10-year VAT monitoring period on the acquisition/construction of a private residence.

Transitional period: 5% reduced VAT rate for the first 200sqm irrespective of transaction value

The Circular highlights that the new regulation will not affect any immovable property that a planning permit has been issued, or a duly completed application for the planning permit has been submitted to the competent Authority until the

31st of October 2023, and provided that the application for claiming the 5% reduced VAT rate is submitted within 3 years from the date that this new law came into effect (i.e. from 16/06/2023).

It is clearly stated that if the planning permit application has been submitted and the unique 5-digit number has been issued; however the application has been rejected by the relevant Authority at a later stage, either because it was not sufficiently completed or because it did not meet the planning permit criteria, a new application should be submitted and hence, the deadline of the 31st of October 2023 might not be fulfilled.

In addition to the planning permit application, the Circular clarifies that for an application for claiming the 5% reduced VAT rate to be considered as fully completed and accepted by the CTD, it must be accompanied with a copy of the application of the planning permit as well as with a copy of the planning permit. In instances where these are not required under the applicable law, a copy of the application for a building permit and the building permit are required. The CTD will not process any application which is not considered as fully completed.

In this context and taking into consideration the above, it is noted that the building permit and/or planning permit does not have to be approved by the 31st of October 2023 and thus, as long as it has been filed to the relevant Authority and received the unique 5-digit number, then it has the right to apply for a reduced VAT rate and enjoy the previous applicable VAT treatment, on the basis that the application for the 5% reduced VAT rate is filed to the CTD within the next 3 years (until 15/06/2026) accompanied with the aforementioned documents.

New legislation – Exemptions and limitations

As analysed thoroughly in our [Newsletter Issue 06/2023](#), the new legislation which came into force on the 16th of June 2023 provides that the 5% reduced VAT rate will apply to the first 130 sqm of the buildable residential area, up to the transaction value of €350.000 provided that the total buildable residential area does not exceed 190 sqm and the total value of the transaction does not exceed €475.000.

As per the Circular, in case that the square meters or the value of the transaction exceeds the minimum of 130 sqm and €350,000 the 5% reduced VAT rate is calculated as follows:

- If the value of the transaction is up to €350,000, the reduced VAT rate is calculated based on the proportion of the square meters of the buildable residential area provided that the total square meters are within the range of 130 sqm and 190 sqm.
- If the value of the transaction is between €350,001 and €475,000, the reduced VAT rate is calculated on the value of €350,000 based on the proportion of the square meters of the buildable residential area provided that the total square meters are within the range of 130 sqm and 190 sqm.

It should be noted that in case that the total buildable residential area exceeds 190 sqm, and/or the value of the transaction exceeds €475,000, then the whole transaction will be subject to the standard VAT rate which is currently applicable in Cyprus.

The new Circular provides details as to the exemptions of the new rules which affect multi-child families and people with disability.

First exemption: Families with more than three children

- The 190 sqm threshold increases by 15 sqm for every additional child after the third child of the family.
- The transaction value threshold remains €475,000.

Please see below an example for better understanding of the VAT treatment:

Buildable area	220 sqm (190sqm+15sqm+15sqm)
Transaction value	€475,000
Multi-child family	5 children
Application submission date	i.e.: 02/01/2024 or 02/01/2025 or 02/01/2026
Transaction value to be rated at 5%	€254,545.45 $€350,000 * [(130+15+15)/(190+15+15)]$
Transaction value to be rated at 19%	€220,454.56 (€475,000-€254,545.45)
Total VAT to be paid	€12,727.27 + €41,886.36= €54,613.63

Second exemption: People with disability(ies)

- The 5% reduced VAT rate applies to the first 190 sqm of the property without considering the total buildable residential area of the property.
- The transaction value threshold remains €475.000.

Please see below an example for better understanding of the VAT treatment:

Buildable area	230 sqm
Transaction value	€475,000
Applicant with disability(ies)	Yes
Application submission date	i.e.: 02/01/2024 or 02/01/2025 or 02/01/2026
Transaction value to be rated at 5%	€392,391.30 [€475,000*(190sqm/230sqm)]
Transaction value to be rated at 19%	€82,608.70 (€475,000-€392,391.30)
Total VAT to be paid	€19,619.57+€15,695.65 = €35,315.22

Right to apply for the reduced rate before the lapse of the 10 years

As per the new legislation, if a person to whom the right of the 5% reduced VAT rate has been granted, decides to purchase a new main private residence before the lapse of the 10 year period can apply for the 5% reduced VAT rate provided that he/she will pay to the CTD a proportion of the VAT amount that was benefited based on the period for which the property will not be used over the 10 year period.

The Circular clarifies what will be the VAT treatment in cases where a person applies again for a reduced VAT rate before the elapse of 10 years. It denotes that the date from which the old private residence will be considered as "not in use", is the date from which the second application has been filed to the CTD. This date can be increased for a period of 24 months, which is sufficient in order for a person to obtain possession of the new private residence. This date is crucial for the purpose of calculating the VAT difference to be paid according to the 10 years monitoring period.

Cases where no obligation arises for the individual to repay the VAT amount already claimed

The Circular underlines that a person who has already claimed the 5% reduced VAT rate for the acquisition of a residential property does not have an obligation to pay the VAT benefited at the point that it will stop using the specific property for residential purposes only in case where the legal possession of the property is transferred to an adult child of the family who has not been benefitted with the 5% reduced VAT rate for the acquisition or construction of a private residence within the last 10 years .

In case where the child was benefitted from the scheme and it does not have the intention to use the private residence transferred by the parent, then the parent is responsible for paying the difference of the VAT amount. On the other hand, in case where a child will stop using the residence that has claimed the reduced VAT rate and instead will be using the residence transferred by the parent, then the child is liable for paying the VAT amount benefited.

Finally, in case where the person who has benefited the reduced VAT rate has passed away before the lapse of the 10-year period, the inheritor is not obliged to pay the difference of the VAT amount irrespective if the inheritor has already benefited the 5% reduced VAT rate for another residence over the past 10 years.

Our Indirect Taxation team is ready to discuss with you the content of this newsletter and provide any consultation required for better understanding of its content and how this could affect your business. Please do not hesitate to contact us at VAT@treppides.com.

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