

*Taxation*  
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*Value Added Tax (VAT) on Building Land*

We would like to inform you that the Cyprus House of Representatives in Cyprus voted on 3 November 2017 a new Law amending the Cyprus VAT Law N. 95(I)/2000 (hereafter 'the Law'). The new Law was published in the Official Gazette of the Republic of Cyprus on the 13 of November 2017.

The new Law introduces the following amendments:

1. Imposition of VAT at the standard rate of 19% on the sale of building land as from **2 of January 2018**.
2. Imposition of VAT at the standard rate of 19% on the rental of premises used in business as from **13 November 2017**.
3. Application of Reverse Charge mechanism on VAT taxable supplies of land and property under loan restructuring and/or force-sale arrangement as from **2 of January 2018**.

**1. Supply of Building Land is now subject to VAT**

The new Law changes the VAT treatment applicable on the supply of undeveloped building land from VAT exempt (applicable up to the date that the new law will come

into effect) to VAT taxable under the standard VAT rate in Cyprus (currently 19%). This amendment applies to the supply of undeveloped building land that will be used for the erection of one or more fixed structures and this supply is performed in the carrying on of an economic activity.

The new Law gives the power to the Council of Ministers to issue Regulations, that will need to be submitted for approval to the House of Representatives, that will provide further clarifications on the nature of the land which falls under the definition of undeveloped building land, as well as on the time period that the transfer of the building land will be considered to be completed.

The above amendment will come into force as from **2 of January 2018** and until then, it is expected that Regulations will be issued by the Council of Ministers and Circulars will be issued by the Cyprus Tax Department that will clarify some grey areas arising from the above amendments.

***2. Leasing/Rental of commercial premises used in business are now subject to VAT.***

The new Law changes the VAT treatment applicable on leasing/rental of immovable property to VAT taxable persons for the purposes of carrying out a VAT taxable activity, from VAT exempt (applicable up to the date that the new law came into effect) to VAT taxable under the standard VAT rate in Cyprus (currently 19%), with the exemption of the leasing of immovable property that will be used for residential purposes.

The new Law clarifies that the above covers only leasing and/or rental of a building of which the commencement of the leasing/rental is on or after the date that the Law came into force.

The new law gives the right to the lessor to notify the Commissioner of Taxation and choose the option not to tax the lease/rent of the immovable property, under the terms and circumstances which will be defined in a notification that will be issued by the Commissioner of Taxation and will be published in the *Official Gazette of the Republic of Cyprus*. It is also clarified that the initial decision of the lessor to exercise

the option not to tax the lease/rental of the immovable property cannot be altered by the lessor in the future.

The above amendment in the VAT Law comes into effect as from the **13<sup>th</sup> of November 2017** which is the date that the Law was published in the Official Gazette of the Republic of Cyprus.

### **3. Reverse Charge rules apply on supply of land and property under loan restructuring and/or force-sale arrangement.**

The new Law provides that when the transfer of the building land is performed by the borrower in the course of a loan restructuring or under force sale arrangements,, the specific transaction is a VAT taxable transaction **by the recipient** of the building land (i.e. the credit institution), under the reverse charge rules, provided that the recipient receives the building land in the course of performing or furtherance of its business irrespective if the assets being transferred are capital assets of the business of the recipient.

The above provisions are described in the new article 11D which is added in the current VAT Law, which applies provided that the following conditions are satisfied:

- a) *A taxable person subject to VAT provides goods to the recipient*
- b) *The goods fall under the scope of paragraph (1) of e article 11D(a new building, building land intended for the erection of one or more fixed structures)*
- c) *The recipient at the time that receives the goods was a VAT taxable person and receives those goods in the course of performing or furtherance of its business*

*Provided that the above conditions are satisfied, the recipient of the goods has the obligation to apply the reverse charge rules by self-imposing VAT on the value of the goods received.*

The above amendment in the VAT Law comes into effect as from the **2<sup>nd</sup> of January 2018** and will remain into force (based on the current legislation) up to the 31<sup>st</sup> of December 2019.

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