

# C-11/2023: 5% Reduced VAT rate on the acquisition or construction of property to be used as the primary and permanent place of residence

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## In brief

On 16 June 2023, the Amending VAT Law of 2023 introduced new conditions/rules on the application of the 5% reduced VAT rate on the acquisition or construction of a new property intended to be used as primary and permanent place of residence.

This newsletter serves as a reminder of the key provisions outlined in the Amending VAT Law of 2023 and relevant Circular 11/2023 issued by the Tax authorities, with particular emphasis on the transitional provisions for the application of the conditions prior to the Amending VAT Law of 2023. Specifically, the reduced 5% VAT based on the provisions of the previous VAT Law shall apply, inter alia, provided that **a duly completed declaration** along with the supporting documents specified therein is submitted within three years **from 16 June 2023, i.e. by 16 June 2026**.

## In detail

### Application of the 5% reduced VAT rate

As per the new Amending VAT Law, the reduced rate of 5% is applicable to the purchase of houses or apartments used as primary and permanent residence for the first 130 square meters of a buildable area, provided that the value does not exceed €350,000. If the buildable area is between 130 and 190 square meters, and/or the property value is up to €475,000, the 5% reduced VAT rate applies only to the portion of the value up to €350,000 and/or to the first 130 square meters, calculated on a proportional basis. If the buildable area is over 190 square meters and/or the property value is over €475,000, the buyer will not be eligible for the 5% VAT based on the new rules.

In case of a person with a disability, the reduced rate of 5% VAT is applied for the first 190 square meters of a buildable residential area, irrespective of the total buildable area.

In case of large families (with at least four children), the total area of the residence is increased by 15 square meters for each additional child beyond three, both for construction and acquisition of the residence. However, the increase does not affect the threshold of €350,000 and €475,000 on the value of the properties.

### Transitional provisions

According to the transitional provisions of the Amending VAT Law dated 16 June 2023, the reduced rate of 5% VAT shall apply to the first 200 square meters of the buildable area according to the previous VAT Law, contingent upon the following:

- a) A planning permit was issued by 31 October 2023, or
- b) An application for a planning permit was submitted to the competent authority by 31 October 2023,  
**AND**
- c) submission of a duly **completed declaration** along with the supporting documents specified therein within three years **from 16 June 2023, i.e. by 16 June 2026.**

In the event where the above conditions are met and the buildable area exceeds 200 square meters, the standard rate VAT will apply on the remaining square meters.

## The takeaway

Based on the transitional provisions, individuals who wish to acquire properties which have obtained or applied for the necessary planning permits by 31 October 2023 must proceed with a duly submitted declaration for the 5% VAT by 16 June 2026. To ensure that the application is successful, all documentation and information must be accompanied at the time of the submission.

Our dedicated team of VAT specialists can assist in assessing whether an individual is eligible for the 5% reduced VAT rate on a primary and permanent residence, in the application and obtainment of the 5% reduced VAT rate as well as the provision of VAT advice on related matters.

Our dedicated team of Indirect Tax Specialists is available to support businesses in understanding how legal changes affect compliance requirements, including the application of the reduced VAT rate, transitional provisions, and record-keeping obligations.

# Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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