

# New rules on the VAT applied to the supply of buildings and on renovation and repairs services as of 1 September 2026

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## In brief

On 27 February 2026, the Eight Schedule of the VAT Law (95(I)/2000) was amended pursuant to the Regulatory Administrative Act (R.A.A.) 103/2026 and the Fifth Schedule of the VAT Law was amended pursuant to the R.A.A. 102/2026 .

The R.A.A. 103/2026 amendment introduces new conditions under which the supply of a new building is subject to VAT. Specifically, under the new rules, VAT is imposed on the sale of buildings or parts thereof and the land transferred with them when supplied **before the first occupation**. First occupation means the **first use** of the building which is defined as the systematic use for a period of at **least eighteen (18) months**.

The R.A.A 102/2026 amendment revises the definition of first occupation for the purposes of applying the reduced 5% VAT rate.

The amendments are effective as of **1 September 2026** and have a significant impact on developers, investors, and buyers.

# In detail

## Current VAT Law

According to the Eight Schedule of VAT Law currently in force, the supply of a building is **subject to VAT** when supplied before its first delivery and under any subsequent deliveries within a period of five (5) years from its completion, provided that **no actual use** has occurred by an **unrelated** person for a period of at least **twenty-four (24) months**.

For the purposes of the above provision, the following definitions are applicable:

1. Completion means the completion of the building so as to be able to be put in use for the purpose which is intended.
2. Actual use means the use of the building on a systematic basis.
3. Related person has the meaning given in paragraph 1(4) of the Fourth Schedule to the VAT Law.

Additionally, according to the Fifth Schedule of the VAT Law, renovation and repair work carried out by a taxable person on private residences (both houses and apartments) is subject to the reduced VAT rate of 5% provided that the private residence qualifies as old. A residence is considered old when at least three years have passed since its first occupation. For these purposes, renovation refers to interventions such as additions, improvements, or repairs made to a private residence that qualifies as an old property.

## New VAT Law as of 1 September 2026

Pursuant to the new provisions of the VAT Law, the following transactions are subject to VAT:

- Transfer of buildings or parts of buildings, including the plot of land transferred together with them, and
- Transfer of possession of buildings or parts thereof (including the land) through, a contract of sale, an agreement that explicitly provides for future transfer of the building together with the land, or a lease with an option to purchase,

When supplied **before the first occupation**.

For the purposes of the above provision, the following definitions are applicable:

1. First occupation means the **first use** of the building after its delivery or construction, including owner-occupation, self-use, leasing, or any other use which continues on a systematic basis.
2. **First use** means the use or exploitation of the building after its delivery or construction, which is carried out systematically for a period of **at least eighteen (18) months**.

In relation to the amendment to the Fifth Schedule, the definition of first occupation and renovation has changed in relation to the 5% VAT reduced rate. As of 1 September 2026, first occupation shall mean the first use as defined above. Additionally, under the amended provisions, renovation and repair services may be subject to the reduced VAT rate of 5% only where it can be demonstrated that the residence is at least three years old and has been used for at least eighteen (18) months. The satisfaction of the 18-month use requirement is now an explicit condition for applying the reduced rate.

# Takeaway

The amendment is expected to have significant impact on any transaction involving buildings and the cost of such transactions.

Since the amendment of the Eight Schedule will impact the VAT treatment of the disposal of buildings and whether VAT will be imposed on the value of the supply, it is important that the business carefully examine the impact of the amendment on their transactions.

Under the VAT Law currently in force, the disposal of a building completed more than five (5) years ago or used/exploited by an unrelated party for twenty-four (24) months would generally be treated as VAT exempt. However, under the amended provisions effective **1 September 2026**, the mere passage of time will no longer be a determinative factor.

Accordingly, maintaining proper documentary evidence and accurate record-keeping substantiating the eighteen (18) months of use/exploitation becomes crucial in determining the VAT treatment of whether the disposals are exempt from VAT or subject to VAT, as well as the applicable VAT rate in relation to any renovation services.

Given the potential financial impact in the real estate sector, businesses should proactively review and reassess their current and upcoming transactions well in advance of the effective date, as early evaluation can help mitigate unexpected VAT risks.

Our dedicated VAT team is at your disposal to assist in assessing the VAT treatment of sales of building and ensuring the correct and timely implementation of the new provisions.

## Let's talk

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

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