



Indirect Tax Advisory Newsletter

Newsletter 3/2018

On 9 January 2018, the TAX Authority has released Circular 222 which provides the Tax Authority's interpretative guidance on the interaction between holding companies and VAT.

The Circular in brief

The Circular defines a holding company and how to determine its VAT status, (active engaged in business or passive holding company not engaged in business), on the basis of European Court of Justice decided principles.

Therefore, the Circular re-iterates the principle that a passive holding company which does not involve itself in the management of its subsidiaries is not a business person for the purposes of VAT. On the other hand a company which involves itself in the management of its subsidiaries is considered to be an active holding company which falls within the scope of VAT. The direct or indirect involvement in the management of the subsidiaries will be examined on a case by case basis and has to be established on the basis of factual evidence (i.e. common board of directors, board resolutions, management agreements etc).

The key part of the Circular is the section which looks at when VAT is deductible by holding companies and to what extent. Essentially, in order for the VAT to be deductible, VAT must be incurred by a taxable person in the course of an economic activity and have a direct and immediate link to taxable supplies made by that person.

The guidance also confirms that management services provided for consideration to subsidiaries constitute economic activities for which the right to recover input VAT is applicable.

The Circular also states that mixed holding companies (both those that make taxable supplies to some subsidiaries and not to others, and those that make taxable supplies and exempt loans) should recover VAT according to the resulting pro rata on the basis of the holding company's actual activities.

Impact of the Circular

The Circular reconfirms the decided ECJ principles that active holding companies are business persons, while at the same time confirms that active holding companies are able to recover input VAT, at least partially. The Circular sheds more light on an area of VAT which is rather complex and highly technical.

Way forward: how PwC can help you

The dedicated team of VAT professionals at PwC is at your disposal to consider the impact Circular 222 will have on your business and to help you calculate any the recoverable VAT on the basis of the factual evidence of the holding company's activities.

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