



Newsletter 4/2019

On 21 February 2019, released Circular 231 was released which provides the Tax Authority's interpretative guidance in relation to the right of access or use of sport facilities.

The Circular in brief

1) According to Paragraph 7 of the 5th Schedule of the VAT Law of 2000 as amended, the right to access or use of sport facilities is subject to the **reduced rate of VAT (5%)**.

2) The right of access includes all the sporting events that take place in the Republic of Cyprus (i.e. football games, basketball games, track and field games, boxing, volleyball games etc.)

3) In addition, it is clarified that the term sport facilities includes swimming pools, volleyball fields, gyms and generally, areas of an immovable property which are specifically designed for any kind of **sports** (i.e. swimming, athletics, tennis, basketball, football etc.) or a **sporting event** (i.e. football games, swimming games etc.) or **training**. It is highlighted that the necessary condition that needs to be fulfilled is the existence of an **“operation licence”** according to the Regulations of the Private Gymnastics Schools of 1995 as amended. Otherwise, the right of use of the sport facility will be subject to the **standard rate of VAT (19%)**.

The reduced rate of VAT (5%) will apply only when the right of use is granted to **physical persons**, independently of the way that the consideration will be agreed (i.e. per visit, monthly/yearly subscription).

Additionally, the reduced rate of VAT (5%) will apply when the granting of right to access or use is given to organized groups (i.e. athletic clubs) for a **short - term period**.

4) It is also highlighted that the right of use of sport facilities for reasons other than those described above, such as, the right of use of the swimming pool for an event other than a sporting event such as photography or other artistic event or for advertisement purposes etc. , then this will be subject to the standard rate of VAT (19%)

Furthermore, the gymnastic services, such as indoor gymnastics, active/passive gymnastics with or without the use of machinery, or learning of a sport such as football, tennis, riding, squash, swimming etc.) by businesses or self-employed persons (personal trainers), as well as, and the generation of revenues by summer schools (other than those provided by licensed educational facilities), according to paragraph 9 of Table A of 7th Schedule of the VAT Law, will be subject to the standard rate of VAT (19%).

5) The **long term right of access** to sport facilities is **not** subject to the reduced rate of VAT (5%), since, it is considered to be long term leasing of an immovable property and hence subject the standard rate of VAT (19%), when supplied to another taxable person, according to the paragraph 1(a)(vi) of 8th Schedule of the VAT Law. According to such type of agreement, the lessee has the exclusive right of use of the immovable property and there is the intention of the two parties to enter into an agreement on a long-term basis. An example is the case that a legal person is the owner of a stadium/field/sport facility, which is granted to an athletic club in order to be used on a long-term basis. The same VAT treatment applies also when an educational institution or other business which owns a sport facility (i.e. mini football field, tennis field etc), grants the right of use to another person in order to be used for economic activity, such as the learning of a sport.

6) According to Article 31 of the VAT law, all the activities which are carried out by public authorities, local authorities or other public organizations, do not constitute taxable activities, given that there is no distortion of competition. Therefore, the activities described above (i.e. gym services, learning of sport, granting of sport facilities), which are subject to standard or reduced rate of VAT, will create a VAT Registration Obligation, since non subjecting these activities to VAT would create distortion of competition with other businesses of the private sector offering services of the same nature.

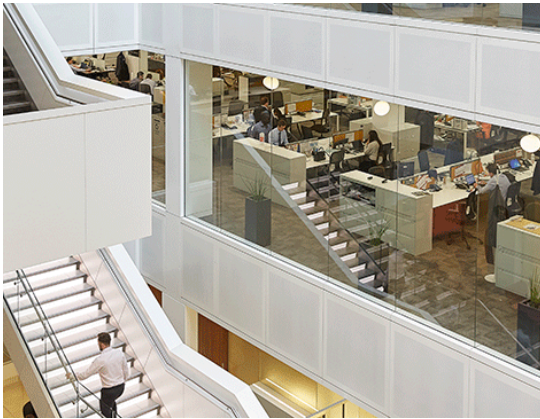
Impact of the Circular

Circular 231 clarifies the services which are subject to the reduced rate of VAT (5%) and distinguishes those services which are subject to the standard rate of VAT (19%).

Way forward: how PwC can help you

The dedicated team of VAT professionals at PwC is at your disposal to consider the impact Circular 231 will have on your business.

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