

Important Amendments in Cyprus VAT Law

Issue N-14-2020, 04 August 2020

In brief

New legislative amendments have been voted in the meeting of the House of Representatives of the Republic of Cyprus held on 31/07/2020 and will be enacted into the Cyprus VAT Law.

The main aim of the amendments is to improve tax collection and combat VAT fraud.

In detail

1. Extension of reverse charge under Article 11B for construction

- Article 11B which shifts the obligation to account for VAT on construction services from the supplier to the recipient of the services, widens in scope to capture transactions that are supplied by non-taxable persons.
- This means that even if the supplier is not a taxable person registered for VAT purposes, the recipient (himself being a taxable person) would still have an obligation to self-account for VAT on services or services together with goods in relation to construction, modification, demolition, repair or maintenance of a property in the course of business.

2. Reverse charge on mobile phones and similar goods

- As from 1 October 2020, new provisions are being adopted (Article 11E) to combat fraud in the field of mobile phones, other devices operating in networks, microprocessors, central processing units, gaming consoles, tablets and laptops.
- Under Article 11E, the recipient of the abovementioned goods will be responsible to account for VAT under the reverse charge provisions when these are acquired in the course of a business activity.
- This is in line with the framework of the European VAT Directive on the common system of VAT which allows Member States to apply a reverse charge mechanism in certain transactions where fraudulent activities are detected.

3. Increase of penalties

- In order to increase the compliance rates of taxpayers, the financial burden of non-compliance with certain VAT obligations is increasing.
- Article 45 is amended to increase the penalty for late submission of VAT returns from €51 to €100.
- With effect 1 July 2021, failure to apply the reverse charge provisions as per Articles 11, 11A, 11B, 11C, 11D, 11E or 12A, will result in the imposition of €200 per VAT return but will not exceed a total penalty of €4.000. This provision will apply irrespectively of whether a taxpayer is in a fully recoverable VAT position.

4. VAT credit balance

- The Tax Commissioner reserves the right to suspend the payment of a VAT credit balance and applicable interest in cases where taxpayers have failed to comply with the obligation to submit income tax returns. The refund is suspended until the taxpayer complies with the relevant obligations.
- The right to request refund of a VAT credit balance will be limited to six years from the end of the VAT period in which it arose. Any requests submitted after the six year deadline has elapsed will be examined at the discretion of the Tax Commissioner.

5. Non-resident taxpayers - VAT registration obligation

- Taxpayers who are not established in Cyprus but are engaged or expect to be engaged in taxable activities in Cyprus in the course of their business, will have the obligation to register for VAT purposes, without a VAT registration threshold.

6. Definition of “renovation”

- The term "renovation" is modified to include in the transactions eligible for the reduced VAT rate of 5%, any additions to a private home for which three years have passed since its first occupation.
- Prior to this amendment, the 5% VAT was applicable only on any improvements and repairs.

7. Write off debts

- The right of the Tax Commissioner to write off debts based on the VAT Law will be abolished so that all the government's non-recoverable funds will be handled by the competent Technical Committee as provided by the Accounting, Financial Management and Financial Control of the Republic Law.

8. Deadline for submitting an objection to the Tax Commissioner

- The deadline for submitting an objection to the Tax Commissioner is set at 60 days from the date of the notification of the decision of the Commissioner to the taxpayer.

9. Passenger Transportation Services

- Passenger transportation services to and from the Republic are subject to the zero rate VAT to the extent the transport takes place within the Republic.

The takeaway

Effective Date of application of the Law amendments

The Law will become effective from the date of its Publication in the Official Government Gazette, with the exception of the following:

- Reverse charge (article 11 E) will become effective as of 1 October 2020.
- The penalties in relation to the non application of the reverse charge mechanism will apply as of 1st July 2021.

Let's talk

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

Theo C Parperis

Partner

Head of Tax & Legal

theo.parperis@pwc.com

Chrysilios Pelekanos

Partner

In Charge of Tax Reporting Strategy and
Indirect Tax Advisory

chrysilios.pelekanos@pwc.com

Martha Lambrou

Director

Indirect Tax Advisory

martha.lambrou@pwc.com

Michael Michael

Director

Indirect Tax Advisory

michael.michael@pwc.com

Or your usual PwC contact

PwC Cyprus

PwC Central

43 Demostheni Severi Avenue

CY-1080 Nicosia, Cyprus

P O Box 21612

CY-1591 Nicosia, Cyprus

www.pwc.com.cy

This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

© 2020 PricewaterhouseCoopers Ltd. All rights reserved. PwC refers to the Cyprus member firm and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.