



IMPORTANT AMENDMENTS TO THE CYPRUS VAT LAW - N. 121(I)/2020N & N. 122(I)/2020

AUGUST 2020

OVERVIEW

On 20th August 2020, the Cyprus Government published in the Official Government Gazette an amendment to VAT Law, aiming to improve the VAT collection and combat VAT fraud. The amendments are effective from 20th August 2020, with the exception of the following:

1. Article 11E - Reverse charge will become effective as of 1st October 2020.
2. Article 45(7B) - Reverse charge penalties for failure to apply the reverse charge mechanism will become effective as of 1st July 2021

SUMMARY OF KEY AMENDMENTS

1. Article 11B - Reverse charge for construction (Extension of its applicability)

- Article 11B summary: the obligation to account for VAT on construction services is shifted from the supplier to the recipient of the services;
- Amendment: Since 20th August 2020, construction services supplied by non-taxable persons will be also subject to the provisions of Article 11B;
- This means that even if the supplier is not registered for VAT purposes, the recipient of the construction services would still have an obligation to self-account for VAT on services received in relation to construction, modification, demolition, repair or maintenance of a property in the course of business.

2. Article 11E - Reverse charge on mobile phones and similar goods (New Article)

- New Article 11E: As from 1 October 2020, the recipient of the below mentioned goods will be responsible to self-account for VAT under the reverse charge provisions when these are acquired in the course of the business activity of the recipient;
- Goods that will be subject to the provisions of Article 11E are: mobile phones, other devices operating in networks, microprocessors, central processing units, gaming consoles, tablets and laptops;
- Separate record should be maintained for a period of six years in respect to the acquisition of goods which are falling within the scope of Article 11E.

3. Article 20(5A & 6A) - VAT credit balance

- As per the provisions of the new Article 20(5A), the Tax Commissioner reserves the right to suspend the payment of a VAT refund and applicable interest in cases where taxpayers have failed to comply with the obligation to submit income tax returns;
- Specifically, the refund is suspended until the taxpayer fully complies with the obligation to submit income tax returns;
- As per the provisions of the new Article 20(6A), 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 the relevant refund arose. Any requests that will be submitted after the lapse of the six

year deadline will be examined at the discretion of the Tax Commissioner.

4. Article 45 amendments - Increase of penalties

In order to combat the non-compliance and improve the VAT collection, the penalties imposed for non-compliance with certain VAT obligations is increasing as follows -

- Increase of the penalty for late submission of VAT returns from €51 to €100;
- 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 as of 1st July 2021.

5. Article 52A - 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.

6. 1st Schedule - 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;
- The amendment harmonizes the Cypriot VAST Law with the principles established in the Schmelz case (C 97/09), where the EUCJ has encouraged the majority of Member States to impose an immediate registration obligation on a non-established person selling services in their Member State.

7. 5th Schedule - Definition of “renovation”

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

8. 6th Schedule - Passenger Transportation Services

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

9. 12th Schedule - VAT debts write off

The right of the Tax Commissioner to write off VAT debts due to the economic conditions of the taxpayer based on the VAT Law will be abolished and the write offs will be handled by the competent Technical Committee as provided by the Accounting, Financial Management and Financial Control of the Republic Law.

OUR OPINION

The new rules aim to improve the VAT collection and combat VAT fraud. As a result of the above mentioned amendments, the requirements for the collection, analysis, and actual retention of data are rapidly increasing. Finally, as the tax authorities expect taxpayers to implement changes to regulations promptly and correctly within their business, it is essential for the taxpayers to obtain a coherent understanding of how the aforementioned amendments will be affecting their business.

WAY FORWARD: HOW WE CAN HELP YOU

If you are a business affected by the above mentioned amendments please contact us to arrange a meeting.

Our expert indirect tax team is at your disposal to discuss about any transactions affected by the above mentioned VAT Law amendments and provide advice as per the correct VAT treatment.

HOW WE CAN HELP

If you are a business affected by the above mentioned amendments please contact us to arrange a meeting.

Our expert tax team is at your disposal to discuss your needs and to provide advice on the most appropriate tax structure for your business.

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