

Cyprus amends VAT law to improve tax collection and address VAT fraud

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The Cyprus House of Representatives voted on and approved several important amendments to the Value Added Tax (VAT) Law on 31 July 2020. The amending bill was enacted as part of a package of measures to improve tax collection and to tackle the VAT fraud. This Alert summarizes the key changes. Affected businesses should seek immediate guidance to ensure compliance and implementation of potential benefits.

The majority of amendments take effect from publication in the *Official Gazette* (not yet released) with the exception of two aspects noted below in bold italics for ease of reference.

Overview of key amendments

1. Domestic reverse charge for construction services expanded (Article 11B)

- The obligation of a taxable person to self-account for VAT by applying the reverse charge mechanism on services or services together with goods in relation to construction, modification, demolition, repair or maintenance of a property (as the recipient of the services) under Article 11B of the Cyprus VAT Law has been expanded to cases where the supplier of the services is not a taxable person.

2. Domestic reverse charge under Article 11E on electronic devices

- ▶ A new article will be introduced (Article 11E) from **1 October 2020**, according to which the person liable to account for the applicable VAT on transactions concerning mobiles phones, other devices operating in networks, microprocessors, central processing units, gaming consoles, tablets and laptops is no longer the supplier of the goods. Instead, the obligation is transferred to the **purchaser of the goods**, with immediate right for input VAT recovery. The seller, therefore, in a similar manner as with Intra- community supplies, will issue invoices without imposing VAT and the purchaser will be responsible to self-account for output VAT under the reverse charge provisions when such goods are acquired in the context of furtherance of a business.

3. VAT refund on credit balance (two important amendments)

- ▶ The Tax Commissioner reserves the right to suspend the refund of a VAT credit balance together with the applicable interest if the taxpayer has failed to comply with the obligation to submit income tax returns (i.e., Company Income Tax Return (IR4), Self-employed Income Tax Return (IR1), Employer's Return (IR7). The VAT refund is suspended until the taxpayer complies with the obligation to submit the respective income tax return(s).
- ▶ In addition, according to the passed law, the right to request the refund of a VAT credit balance will be limited to six years from the end of the VAT period in which the refund arose. Any VAT refund requests submitted after the six-year period will be examined at the discretion of the Tax Commissioner and only if certain conditions proving entitlement are fulfilled.

4. Increased VAT compliance penalties

- ▶ The penalty for late submission of a VAT return increases from €51 to €100 for each late submitted VAT return.
- ▶ **With effect 1 July 2021**, the failure of the reverse charge provisions application as per Articles 11, 11A, 11B, 11C, 11D, 11E or 12A, will result in the imposition of a €200 one-off penalty per VAT return but will not exceed the total penalty amount of €4,000.

5. Deadline for submitting an objection to the Tax Commissioner

- ▶ The deadline for submitting an objection to the Tax Commissioner following the issuance of a VAT assessment is set at 60 days from the date the taxable person is notified of the Tax Commissioner's decision to proceed with such an assessment and not from the date of issuance of the relevant assessment.

6. Obligation for VAT registration of nonresident taxable persons: Threshold lifted

- ▶ Taxable persons, not established in Cyprus, engaged or expected to be engaged in VAT taxable activities in Cyprus related to a business, will have the obligation to register with the Cyprus VAT Registry, without a prerequisite VAT registration threshold.

7. Definition of the term "renovation" for application of 5% reduced VAT rate

- ▶ The term "renovation" for the purpose of application of the 5% reduced VAT rate has been extended to also cover additions/extensions to a private house, provided that at least three years have passed since its first occupation.

8. Passenger transportation services: Zero rating for the Cyprus leg of international flights

- ▶ According to the new law, the Cyprus leg of international passenger transport services is subject to the zero% rate of VAT.

9. Write off of overdue VAT

- ▶ The Tax Commissioner will no longer have the right to write-off overdue VAT and such cases will be handled solely by the competent Technical Committee as provided in the Accounting, Financial Management and Financial Control Law.

For additional information with respect to this Alert, please contact the following:

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EYG no. 005981-20Gbl

1508-1600216 NY
ED None

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