

Cyprus Tax Department releases circular clarifying VAT treatment of long-term immovable property leases

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The Cyprus Tax Department recently released Circular 229 clarifying the Value Added Tax (VAT) treatment of long-term leases of immovable property. As from 1 January 2019, a long-term lease of immovable property which effectively transfers the right to dispose of the property as owner to the lessee constitutes a supply of goods subject to VAT. The factual circumstances of the lease will determine the VAT implications including VAT treatment and time of supply.

Circular 229

Circular 229 clarifies the implementation of the long-term leasing amendment by explaining that:

- ▶ As from 1 January 2019, long-term leases are either subject to 19% or 5% depending on the purchaser status.
- ▶ The long-term lease of premises after the first occupation is not subject to VAT and not impacted by the legislative amendment.
- ▶ The transfer of an interest of immovable property through an initial payment of at least 90% of property value followed by a low annual rent for a duration of over 99 years (for instance) comprises a VAT-able long-term lease.
- ▶ VAT applicability on long-term leases will depend on the timing of the supply and the conclusion of the contractual sale of the relevant right to dispose as owner.

- ▶ Lease duration does not affect the VAT treatment of the transaction.
- ▶ Time of supply rules need to be observed prior to determining the VAT treatment of a long-term lease.

Business considerations

Entities involved in long-term leasing transactions of immovable property, as from 1 January 2019, will need to cover among others:

- ▶ VAT treatment evaluation together with input VAT recovery implications.
- ▶ Contractual review from a VAT perspective prior to agreement conclusion.
- ▶ Compliance in accounting for output VAT via quarterly returns.

Next Steps

Taxpayers should consider taking action with their local tax professionals in the following areas:

- ▶ Determining the VAT treatment of lease agreements
- ▶ Reviewing contractual VAT arrangement - drafting of clauses
- ▶ Liaising with the Cyprus Tax Department on pre-agreement of VAT treatment applicability
- ▶ Executing VAT compliance

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