

VAT and real estate

ELENI DRAKOU DESCRIBES RECENT CHANGES TO THE CYPRIOT VALUE-ADDED TAX REGIME

After more than a year of discussion and deliberation, Cyprus' parliament has approved an amendment to the provisions of the value-added tax (VAT) law for the acquisition of real estate. The amendment refers to the VAT imposed on the purchase or the construction of new residential properties that will be used by individuals as their primary permanent residence in Cyprus.

On 16 June 2023, the amending *Law 42(I)/2023* (the Law) was published in the *Official Gazette of the Republic of Cyprus*, so becoming enforceable from that date onwards.

The standard VAT rate imposed on the acquisition or construction of new real estate properties is 19 per cent. A reduced VAT rate of 5 per cent can be granted by the Cyprus Tax Department following the submission of an application by an adult, natural person to that end, before taking possession of the property, provided that the applicant has not acquired any other residence in Cyprus with the reduced VAT rate.

The application must be submitted for properties being purchased or constructed in order to be used as the primary permanent residence of the applicant in Cyprus for a period of at least ten years. Nevertheless, it is possible for the applicant to apply for the reduced VAT rate for a (second) property, before the lapse of the ten-year period. This is possible provided that the applicant refunds the Tax Department the difference between the standard VAT rate (19 per cent) and the reduced VAT rate (5 per cent) on the first property's value, proportionately, for the remaining time of the ten-year period.

THE AMENDMENT

The changes introduced by the Law set certain limitations to applications for the reduced VAT rate. Such limitations are based on the property's size and value. As per the provisions of the amending law, the reduced VAT rate of 5 per cent shall apply for the first 130sqm of the

buildable area of the residence, as per the building coefficient, provided that the total buildable area does not exceed 190sqm. Moreover, the reduced VAT rate shall apply for properties up to a value of EUR350,000, provided that the total value of the transaction does not exceed the amount of EUR475,000.

If the property's buildable area is less than 190sqm but more than 130sqm, the reduced VAT rate of 5 per cent shall apply for the first 130sqm, while for the remaining buildable area the standard VAT rate of 19 per cent shall apply, provided that the property's cost is up to EUR475,000.

The Law has taken into consideration persons with disabilities.¹ The application for the reduced VAT rate can be submitted by a person with disabilities for the first 190sqm of the property's buildable area, independent of the total buildable area of the residence.

In cases of families with more than three children, the total buildable area of the residence shall be extended by 15sqm per each additional child, once a minimum threshold of three children is met. For example, for a family of four children, the total buildable area shall be 205sqm instead of 190sqm.

PREVIOUS PROVISIONS

Prior to the changes introduced by the Law, the reduced VAT rate of 5 per cent was applicable for the first 200sqm of the residence's buildable area, without having any limitation to the property's total buildable area or to the property's cost.

GRACE PERIOD

A grace period has been provided by law for applications that were close to submission before the enforcement of the Law. New applications for the reduced VAT rate of 5 per cent shall be subject to the new criteria, unless the building has secured a planning permit or an application for a planning permit was submitted before 31 October 2023. Further, the application for the reduced VAT rate must be duly submitted within three years from the enforcement date of the Law (i.e., by 16 June 2026).

#CYPRUS #LAND AND PROPERTY
#RESIDENCY OR DOMICILE #TAXATION

¹ As recognised as such by the System for the Assessment of Disability of the Ministry of Labour and Social Insurance.



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