VALUE ADDED TAX (VAT)

Introduction

VAT is an indirect form of taxation imposed on goods and services sold in Cyprus, as well as the acquisition of goods from the EU and the import of goods into the Republic.

Important definitions

**Taxable persons** are those persons, either physical or legal entities, registered in the VAT Registry.

**Taxable supplies** represent the sale of goods or services that are subject to VAT, in accordance to the VAT legislation.

**Output VAT** is the VAT that is charged by a business to its customers via the sale of Taxable supplies.

**Input VAT** is the VAT that is charged to a business via the acquisition of taxable supplies from its suppliers.

The general mechanism under which VAT is collected by the Government is summarised below:

Taxable persons charge output VAT, using applicable rates, on the sale of taxable supplies on the invoices they issue to their customers. At the same time Taxable persons pay input VAT to their suppliers via the corresponding purchase invoices. On quarterly basis Taxable persons prepare VAT returns showing total output VAT from which the total input VAT is deducted. The excess of the output VAT over the input VAT for a given quarter is payable by the 10th of the second month following the end of the quarter under review (e.g. VAT for the quarter 1st March – 31st May is payable by 10th July).

If input VAT is higher than output VAT then the difference is carried forward and set off against future output VAT. As a general principle excess input VAT can be refunded after a period of 3 years, although in some special cases excess VAT can be refunded earlier.

**VAT Rates**

There are four VAT rates:

i. **Zero rate (0%)**

ii. **Reduced rate of 5%**

iii. **Reduced rate of 8%**

iv. **Standard rate of 18%** (17% up to 14 January 2013 and 19% from 13 January 2014 onwards)
In addition to the above some supplies are **exempt** from VAT. The difference between zero rated supplies and exempt supplies is that if a business makes zero rated supplies then (provided it exceeds the limits for registration) it has to register for VAT and it may claim back input VAT, whereas a business making exempt supplies cannot claim back input VAT.

**Zero rated supplies**
The main supplies that are charged with zero VAT are the following:

- Export of goods
- Supply, importation and rental of qualifying aircrafts and ships

**Reduced rate of 5%**
The main supplies that are charged with VAT at the reduced rate of 5% are the following:

- Most food and drink products for human consumption (excluding alcoholic drinks which are charged at the standard rate)
- Most pharmaceutical products and vaccines
- Live animals for human consumption
- Animal food products
- Books, magazines and newspapers
- Bottled water, soft drinks and juices
- Confectionery products
- Transportation by bus

**Reduced rate of 8%**
The main supplies that are charged with VAT at the reduced rate of 8% are the following:

- Restaurants and catering services
- Hotel accommodation
- Transportation by taxis

**Exempt supplies**
The main supplies that are exempt from VAT are:

- Rent of immovable property
- Financial and insurance services
- Most medical and dental services
- Sale of land and second hand buildings
- Certain cultural, educational and sport activities
- Gambling & Lottery
Standard rate
Any supply not falling under any other category is charged with VAT at the standard rate which currently is 18%.

Registration
VAT registration is compulsory when:

a. The taxable supplies of a business exceed €15.600 during the previous 12 months.
b. The taxable supplies of a business are expected to exceed the €15.600 threshold within the next 30 days.
c. Provides services to VAT registered persons in other EU Member States.
d. Offers distant sales with registration threshold €35.000.

Businesses can voluntarily register for VAT even if the above criteria are not met, provided that they are making taxable supplies (i.e. not exempt). A business can also register voluntarily for VAT if it makes supplies that are outside the scope of VAT, with the right to claim input VAT. These are supplies that their place of supply is not Cyprus, but if it was Cyprus they would have been considered as taxable.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be claimed on a number of cases including the following:

- Acquisitions for making exempt supplies
- Purchase or import of saloon cars
- Entertainment and hospitality expenses for customers
- Housing expenses of directors

VAT on services

Basic Rule

The basic rule up to 31 December 2009 was that the place of supply of services is the place where the provider of the service belongs to.

As of 1 January 2010 a distinction is made in regards to the recipient of the service:

- **B2C** *(Business to Consumer)*
- **B2B** *(Business to Business)*

For B2C services the basic rule remains the same as before. Therefore the service is still considered to take place where the provider of the service belongs to.

For B2B services the basic rule is that the place of supply of a service is the place where the recipient of the service belongs to.
There are exemptions in the application of the basic rule including the following:

- **Land related** – the place where the property is located
- **Passenger transport** – the place where the transport takes place in accordance to the distance covered
- **Short term hiring of means of transport** – the place where the vehicle is put to the disposal of the customer
- **Cultural, sporting, scientific entertainment and similar services** – the place where the activity takes place
- **Restaurant and catering services** - the place where the services are physically carried out
- **Telecommunication, broadcasting and electronic services**- From 1 January 2015 the place of supply of B2C supplies of telecom services will be the place where the customer is established or usually resides.

**B2C Services**

Services provided by a VAT registered provider in one member state to a non VAT registered customer (company or individual) in another member state will be considered as B2C. In this case the provider will have to charge and account for VAT in accordance to the VAT rates applicable in its own member state.

**B2B Services**

Services provided by a VAT registered provider in one member state to a VAT registered customer in another member state will be considered as B2B. In this case the customer will have to account for VAT, using the reverse charge mechanism, in accordance to the VAT rates applicable in its own member state.

**VIES (VAT Information Exchange System)**

In order for a service provider to be able not to charge VAT when invoicing customers in other member states, the customers must communicate to the provider their VAT registration numbers, in their respective countries. The provider on a monthly basis will need to file a VIES return electronically to the VAT authorities where it is registered, totalling the value of the services provided to each customer registered in other member states. In that way, the EU aims to combat tax avoidance, by cross referencing information from all member states.

The VIES returns must be filed before the 15th of the month following the end of the month under review.

All providers providing services to other Member States must register for VAT and file VIES returns irrespective of the VAT registration threshold.

**Changes in the time of supply of services**
From 1 January 2010 the time of supply (tax point) of a service is the earliest of the date that the service has been provided and the date of payment.

For continuous supplies of services, the time of supply is the end of each billing or payment period. For example for services billed on a monthly basis, the tax point is the end of each month. Again if payment is done before then, the tax point is the date of payment. For continuous supplies for which no invoices or payments are done during a calendar year, the tax point is the end of that calendar year.

**Reverse Charge Mechanism**

A business receiving services, falling under the basic rule, from a provider in another EU member state or from a third country must account for VAT as if it is itself the provider of the service. Therefore the recipient of the service must be registered for VAT once the registration thresholds are exceeded.

The recipient of the service will have the right to claim the VAT charged by this procedure, except in the cases where businesses are not entitled to claim input VAT (e.g. businesses making exempt supplies).

The reasoning behind this procedure is to make it indifferent, in respect of VAT, for a business to decide from which member state, including its own, will acquire services and hence eliminate any competitive advantages or disadvantages between providers from member states having different VAT rates.

**Obtaining VAT refunds**

Businesses wishing to claim VAT refunds from other member states must electronically submit claims to the VAT authorities they are registered with. The VAT will be refunded to the extent that the goods or services were used for making taxable supplies (i.e. for business purposes).

The VAT authorities of the claimant will check the details of the claim and pass it to the VAT authorities of the member state responsible for the refund, which in turn will have 4 months to process the claim and notify whether they intend to approve the claim or whether they need further information (in which case period is extended). In the event of late payment interest is applicable.