VAT on Building Land:

Updated VAT Bill on the changes covering land taxation, commercial rents and loan restructuring

The Cyprus House of Parliament voted today, 3rd of November, to amend VAT legislation in relation to building land taxation at 19% to harmonise the national VAT legislation with the EU VAT Directive. Among the amendments, beyond the imposition of VAT on building land, commercial rents will be subject to VAT under certain circumstances and reverse charge will be applicable on acquisition of immovable property in settlement/restructuring of loans under certain conditions.

1. Amendments Summary

The major VAT amendments include:

- Introduction of 19% VAT on land intended for construction development. The building land definition will be finalised in a separate regulation with the expectation that roadway and miscellaneous utilities planning will result in VAT on such land;

- VAT on commercial leasing/letting where the immovable property is used for the tenant’s economic activity. A permanent option not to tax such letting can be exercised at the request of the lessor as it will be described in a separate Commissioner Notice;

- Reverse Charge Application for the recipient to account for VAT where property supply arises under the relevant restructuring laws or foreclosure procedures.

The above amendments have received approval by Parliament and further interpretational guidance is expected in due course. Informative updates will be published accordingly.

2. Implications for Businesses

The long-awaited changes are to be implemented on the 2nd of January 2018 and will significantly affect not only construction developers and banking institutions but individuals and entities letting property.

Determining which land is subject to VAT, increase in property prices post VAT application, cash outflow restriction in loan restructuring, letting-leasing agreements content of commercial buildings and the exercise of no tax option and input VAT recovery on development-construction-renovation costs are only some factors that should be considered by affected entities.

3. Preparing for VAT Changes: How EY Cyprus can help?

Our experienced team of multidisciplinary VAT specialists are ready to help you avoid VAT pitfalls in transactions related to immovable property as well as optimise your tax positions and minimise VAT costs.

We are ready to assist you with:

1. VAT efficient pre-planning;
2. Impact Assessment;
3. Contractual VAT Arrangement Structuring;
4. VAT Optimisation Advisory.
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