



VAT on building land reduced to 5%

The Cyprus Council of Ministers decided earlier this month to reduce the VAT rate on building land from 19% to 5% in the form of a refund, under certain conditions.

In its meeting on 11 September 2019, the cabinet decided to lower the effective VAT rate on the acquisition of building land to 5%, so as to match the applicable VAT rate on the acquisition/construction of a qualifying primary residence in Cyprus.

Both the VAT Directive, Directive 2006/112/EC and the national VAT Law, N.95(I)/2000, do not allow for a reduced rate on the supply of land, therefore this action will be effected via a refund to reduce the effective rate to 5%.

From the limited information currently available the mechanics of this will be as follows:

- The purchase of a plot of land will continue to be subject to VAT at the standard rate of 19%.
- Where the plot of land will be used for the construction of a permanent residence which qualifies for the reduced rate of 5%, then the buyer will be eligible to apply for a refund of the VAT paid for the purchase of the land to reduce it to an effective rate of 5% matching the rate applicable for the construction of the primary residence.

The Commissioner of Taxation issued on 20 September 2019 Notification ΚΔΠ 302/2019 whereby the relevant application for this refund process is communicated. This application must be submitted together with, or following, the application for the reduced 5% VAT rate on the construction of a primary residence. The refund will be made once the applicant has submitted evidence to the Department of Taxation, within 6 months of taking delivery of the residence, that it constitutes his/her permanent and main residence in Cyprus.

More details and clarifications are expected soon on the issue but at this point it is understood that the process is open to anyone who bought a qualifying plot of land since the imposition of VAT on the sale of land, i.e. as of 2 January 2018. As per the notification communicated presently it would also appear that there are no restrictions based on the size of the land but it is expected that the effective VAT rate would match that to be approved for the construction of the house. For example, if the house is over 200sq.m. the reduced VAT rate of 5% applies only for the first 200sq.m. which results in an effective VAT rate between 5% and 19% depending on the size of the house.

It is further understood that the scheme will be in line with the existing provisions and limitations applicable for the reduced rate on the acquisition/construction of a primary residence. Further guidance from the Tax Department is imminent as queries will start flowing from affected individuals.

Chelco VAT will keep monitoring the matter and will notify you of updates as they come through.



Note:

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