



**CHELCO  
VAT**



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# Cyprus

In Cyprus, the European Union (EU) VAT Directive has been implemented through the “Ο περί Φόρου Προστιθέμενης Αξίας Νόμος 95(Ι)/2000 όπως τροποποιήθηκε”. These will be referred to hereinafter as the 'VAT Law'. VAT is referred to in Cyprus as “Φόρος Προστιθέμενης Αξίας” or “ΦΠΑ”.

Throughout the Overview, reference is made to some of the more significant Interpretive Circulars and Implementing Orders issued by the Cyprus Tax Department. All circulars are in Greek and are referenced by the number and date of issue of the circular. All circulars can be found at the following links:

[www Interpretive Circulars: http://www.mof.gov.cy/mof/tax/taxdep.nsf/circulars2\\_gr/circulars2\\_gr?openform](http://www.mof.gov.cy/mof/tax/taxdep.nsf/circulars2_gr/circulars2_gr?openform)

[www Implementing Orders: http://www.mof.gov.cy/mof/tax/taxdep.nsf/guidance2\\_gr/guidance2\\_gr?openform](http://www.mof.gov.cy/mof/tax/taxdep.nsf/guidance2_gr/guidance2_gr?openform)

[www Information Leaflets: http://www.mof.gov.cy/mof/tax/taxdep.nsf/page06\\_gr/page06\\_gr?opendocument](http://www.mof.gov.cy/mof/tax/taxdep.nsf/page06_gr/page06_gr?opendocument)

## 1. Taxable Persons

A taxable person (υποκείμενο στο φόρο πρόσωπο) is defined in Articles 2 and 6 of the VAT Law as any person that is registered, or is required to be registered, under the VAT Law. It follows that a taxable person must be carrying out a business. A business is then defined in Article 3 of the VAT Law as ‘an economic activity carried out independently and in any place, whatever the purpose or the results of that activity’. It can be observed that the definition of ‘business’ follows the definition of taxable person as laid out in Article 9 of the EU VAT Directive. The additional requirement that the taxable person be registered or required to be registered is perhaps unnecessary. Its existence should not impede however, on the right of a foreign taxable person to claim back input VAT from the Cyprus Tax Department if such a right exists, even though that foreign taxable person may not meet the definition of a ‘taxable person’ under the Cyprus VAT Law.

### 1.1 VAT registration for domestic businesses

Registration for VAT purposes is obligatory in the following circumstances as regulated by Article 1 of the First Schedule of the VAT Law and Information Leaflet 3 dated November 2001. The format of the VAT registration number issued by the Cyprus Tax Department will be: CY 123456789X.

#### 1.1.1 Historic and future tests

Cyprus applies a special scheme for small enterprises, with the exemption limit set at €15.600. As such, a business, that is established in Cyprus, must register for VAT if the value of its taxable supplies (including zero rated supplies) exceeds the registration threshold of €15.600 when applying either the historic test or the future test (explained below).

##### Registration using historic test

The historic test states that registration is required when at the end of any month, the taxable supplies for the last 12 months exceeded the registration threshold. In this case, the application for registration must be made within 30 days from the end of the month in which the threshold is exceeded and registration will be effective as of the next day following this 30-day period. The following example is relevant:

##### Example 1:

Taxable supplies exceeded the registration threshold during the last 12 months from:	Registration application needs to be submitted by (within 30 days):	Date of registration is (next day after the 30 days have elapsed):
30 June	30 July	31 July

##### Registration using future test

The future test states that registration is required if there is reason to believe that the registration threshold will be surpassed at any point within the next 30 days. In this case, the application for registration must be made within 30 days from the relevant day and registration will be effective as of that same day. The following example is relevant:

##### Example 2:

Date on which taxable supplies are expected to exceed the registration threshold during the following 30 days:	Registration application needs to be submitted by (within 30 days):	Date of registration is (on the day threshold is expected to be exceeded):
20 January	19 February	20 January

### **1.1.2 Provision of intra-Community B2B services**

Where any person, established but not registered for VAT in Cyprus, makes intra-Community supplies of goods and/or services, to another person that is VAT registered in a different Member State (i.e. business-to-business (B2B)), then that person is obligated to register for VAT in Cyprus, regardless of the value of the supply. The reason is that the supply must be declared on the VAT Information Exchange System (VIES) and for this a VAT registration is firstly required to be activated. See **Section 13.3**.

### **1.1.3 Distance sales**

Where non-taxable legal persons, taxable persons exclusively engaged in exempt activities (such as universities) and flat-rate farmers, all of whom are not liable for payment of VAT on their intra-Community acquisition of goods, as well as private individuals, purchase goods, other than new means of transport, from a supplier established in another EU Member State, the supplier must apply the regime for distance selling if the goods are delivered by him or on his behalf. The distance selling threshold in Cyprus is €35.000 per calendar year.

A taxable person of another Member State may opt for voluntary registration in Cyprus for its distance sales before the threshold is exceeded. The Cyprus Tax Department must be notified at least 30 days before initiating distance sales with evidence of notification of the authorities in the home Member State. The option is applicable for the subsequent two calendar years from the date of exercising the option. Currently distance sales registrations are handled centrally in Nicosia. District offices cannot process distance sales registrations.

The Cyprus Tax Department has issued Information Leaflet 3A in the Greek language giving information regarding distance selling activities.

### **1.1.4 Acquisitions from other Member States**

Where a Cyprus established person is not obligated to register for VAT in Cyprus (for example non-taxable legal persons, taxable persons exclusively engaged in exempt activities (such as universities) and flat-rate farmers), that person becomes liable to register where within a calendar year, he/she acquires goods from VAT registered persons established in another EU Member State, which exceed the threshold of €10.251,61, and those goods are shipped to Cyprus. Registration is also necessary if there are reasonable grounds to believe that the value of acquisitions that person will be making in the following thirty days alone, will exceed this 'acquisitions registration threshold'.

The relevant information regarding this kind of acquisitions is also included in Information Leaflet 3A.

### **1.1.5 Registration for intra-Community supplies**

The Cyprus Tax Department does not distinguish VAT registrations between local and international business. There is no separate registration for intra-Community supplies i.e. to use the prefix 'CY'. This is done automatically following normal registration with the Tax Department.

### **1.1.6 Voluntary registration**

It is possible to voluntarily register for VAT in Cyprus before an obligation arises. In this case, the person would have to prove to the Tax Department that they are carrying out taxable supplies which grant the right to deduct input VAT. The Cyprus Tax Department is becoming increasingly stricter with the evidence it is willing to accept in order to effect a voluntary VAT registration.

### **1.1.7 Registration Forms**

A VAT registration is effected by submitting the relevant forms as required by the Tax Department. The relevant registration forms can be found at the below links:

[www https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/80566B0EED00738C225822C003550F3/\\$file/TF2001\\_2018%20\\_Engrafi\\_forologoumenou%20gr.pdf?OpenElement](https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/80566B0EED00738C225822C003550F3/$file/TF2001_2018%20_Engrafi_forologoumenou%20gr.pdf?OpenElement)

[www https://www.mof.gov.cy/mof/TAX/taxdep.nsf/All/4A47CCEDC95EAEAC225822C003550F5/\\$file/%CE%A4%CE%A61101\\_2015.pdf?OpenElement](https://www.mof.gov.cy/mof/TAX/taxdep.nsf/All/4A47CCEDC95EAEAC225822C003550F5/$file/%CE%A4%CE%A61101_2015.pdf?OpenElement)

All registration application forms are only available in Greek and only a hard copy of the application form with original signatures can be submitted at any of the District Offices of the Tax Department. The registration forms will need to be accompanied by the following supporting documentation for Cyprus established persons (for foreigners, alternative documentation may be required):

- certificate of incorporation;
- certificate of directors and secretary;
- certificate of registered office address;
- certificate of shareholders;
- copy of identity cards or passport of signatory;
- evidence supporting that the value of taxable supplies has exceeded the registration threshold (where the registration is not voluntary).

In the case of a voluntary registration, evidence that the person is carrying out taxable supplies (such as copy of agreement, invoices, details of contracting parties etc) is required.

The Tax Department usually assigns the VAT number on the same day of receiving all the required documents, or the latest within three working days. The VAT certificate is mailed within 30 days from the date of assigning the VAT number.

## 1.2 VAT registration for foreign businesses

Cyprus applies a special scheme for small enterprises, with the exemption limit set at €15.600, as explained in Section 1.1 above. However, Article 283(1)(c) of the VAT Directive provides that a taxable person without an establishment in Cyprus cannot benefit from the small enterprises exemption. Therefore, where a foreign business, with no establishment in Cyprus, undertakes taxable supplies for which the place of supply is Cyprus, and the recipient is not obliged to undertake the reverse charge, then the foreign business should register in Cyprus.

The Cyprus Tax Department has issued Interpretive Circular EE243, dated 01.09.2020, giving information regarding the registration obligations of a non-established taxable person.

Taxable persons established in other EU Member States with no establishment in Cyprus may register directly with the Tax Department. Non-EU taxable persons may register via the appointment of a fiscal representative (see Section 1.3. below).

## 1.3 VAT representative (Fiscal representative)

In Cyprus a fiscal representative is referred to as a VAT representative. The right to appoint a VAT representative is granted to taxable persons or persons carrying out taxable supplies, not established or resident in Cyprus, and which do not have a fixed establishment in Cyprus.

A physical person residing in, or a legal person incorporated in, another Member State, does not have to appoint a VAT representative in Cyprus. No obligation to appoint a VAT representative arises for persons in a country with which Cyprus has entered into a mutual reciprocity agreement for tax registrations. Currently tax registration reciprocity agreements exist only with Israel and Norway. Such reciprocity allows for persons from Israel and Norway to VAT register directly with the Cyprus Tax Department without needing to appoint a VAT representative.

A non-EU company would normally be obliged to appoint a VAT representative; however, the Commissioner of Taxation may instead register the company directly and accept a bank guarantee. By appointing a VAT representative, no tax advantages arise, when compared to a direct VAT registration.

Where a VAT representative is appointed, this is done by virtue of Article 37 of the VAT Law, as well as of Regulation 10 of Reg. (K) K.Δ.Π.314/01 and the decree based on Regulation 10, via submission of the Form VAT 104, which can be accessed through the following link:

[http://www.mof.gov.cy/mof/tax/taxdep.nsf/All/52830EE5CFA7606CC225822C0035510A/\\$file/%CE%A6%CE%A0%CE%91%20104.pdf](http://www.mof.gov.cy/mof/tax/taxdep.nsf/All/52830EE5CFA7606CC225822C0035510A/$file/%CE%A6%CE%A0%CE%91%20104.pdf)

Where a VAT representative is appointed, the Commissioner of Taxation must be notified within 30 days. The name of the VAT representative, together with the name of the person being represented, appear on the VAT Register. The VAT representative is jointly and severally liable to the Tax Department for any transactions undertaken by the company that may give rise to a VAT liability although the law limits his/her liability to cases of fraud, misconduct or negligence by the VAT representative.

## 1.4 VAT grouping

VAT Grouping is possible under Article 32 of the VAT Law. Group registration is optional in Cyprus.

The wording of Article 32 of the VAT Law follows the exact wording of Article 11 of the EU VAT Directive, and includes definitions for financial, economic and organisational links as stated below. These criteria are interpreted strictly by the Tax Department, making it more difficult to prove the existence of a group for VAT grouping purposes.

- Financial links exist where one entity controls, either directly or indirectly, the other, or if all entities to be included in the group are controlled by a common third person.
- Economic links exist where the main economic activity of members are alike, or complementary, or mutually combined, or mutually beneficial.
- Organisational links exist where group members are under common management.

Although the VAT Law states that only taxable legal persons incorporated in Cyprus may be part of a VAT Group, the Tax Department issued on 12.01.2018 Interpretive Circular EE221 which clarifies that other establishments (such as fixed establishments) carrying out economic activity in Cyprus may form part of a VAT Group. "Pure" holding companies or companies exclusively involved in exempt supplies with no right of deduction of input VAT are not allowed to join VAT Groups, contrary to the judgment of the European Court of Justice in *Commission vs Ireland* (C-85/11 [2013]). Members of the group are jointly and severally liable for any VAT, interest and penalties that may be imposed. The supplies of goods or services between the members of a VAT group are ignored for VAT purposes.

Where two or more entities effect a group registration, their existing VAT numbers are cancelled and the group obtains a new common VAT number under the representative member's name. The representative member is responsible for filing a single VAT return on behalf of the group, and paying any VAT due. This will create a problem for validation purposes given that only the name of the representative member appears on the EU VAT number validation website. It will thus, not be possible to validate through the website the VAT registration number of the other members of the VAT group, given that their names do not appear on the validation confirmation. However, this obstacle can be overcome by producing documentary evidence that these companies form part of the VAT group.

## 1.5 VAT deregistration

A taxable person is obligated to deregister for VAT if he/she:

- ceases carrying out his/her economic activity;
- ceases to have any intention of carrying out taxable transactions;
- was never eligible to register in the first place.

A taxable person may voluntarily deregister for VAT if:

- his/her (taxable) turnover has been significantly reduced and is not expected to exceed €13.669 over the next 12 months.

The taxable person must notify the Tax Commissioner within 60 days from the date of termination of obligatory registration. Failure to apply for deregistration within the 60 days limit will attract a one off €85 penalty.

VAT Form 204 and the additional information questionnaire should be completed and submitted for the deregistration of a taxable person, which can be accessed through the following links:

[www http://www.mof.gov.cy/mof/tax/taxdep.nsf/All/645A94B7097C89DDC225825E0028A1FA/\\$file/%CE%A6%CE%A0%CE%91%20204.pdf](http://www.mof.gov.cy/mof/tax/taxdep.nsf/All/645A94B7097C89DDC225825E0028A1FA/$file/%CE%A6%CE%A0%CE%91%20204.pdf)

[www https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/3407FFC7F51E3ED3C225825E0027DA92/\\$file/%CE%95%CF%80%CE%B9%CF%80%CF%81%CF%8C%CF%83%CE%B8%CE%B5%CF%84%CE%B1%20%CE%A3%CF%84%CE%BF%CE%B9%CF%87%CE%B5%CE%AF%CE%B1%20%CE%B3%CE%B9%CE%B1%20%CE%91%CE%BA%CF%8D%CF%81%CF%89%CF%83%CE%B7%20%CF%84%CE%B7%CF%82%20%CE%95%CE%B3%CE%B3%CF%81%CE%B1%CF%86%CE%AE%CF%82%20%CE%A6%CE%A0%CE%91.pdf?OpenElement](https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/3407FFC7F51E3ED3C225825E0027DA92/$file/%CE%95%CF%80%CE%B9%CF%80%CF%81%CF%8C%CF%83%CE%B8%CE%B5%CF%84%CE%B1%20%CE%A3%CF%84%CE%BF%CE%B9%CF%87%CE%B5%CE%AF%CE%B1%20%CE%B3%CE%B9%CE%B1%20%CE%91%CE%BA%CF%8D%CF%81%CF%89%CF%83%CE%B7%20%CF%84%CE%B7%CF%82%20%CE%95%CE%B3%CE%B3%CF%81%CE%B1%CF%86%CE%AE%CF%82%20%CE%A6%CE%A0%CE%91.pdf?OpenElement)

## 2. Simplification Measures

### 2.1 Consignment stock

Consignment stocks (αποθέματα που βρίσκονται υπό την ευθύνη του αποστολέα) are stocks transferred to Cyprus by a supplier established in another EU Member State, which remain under his control, and from which supplies will be made by him or on his behalf, within Cyprus.

There is no simplification for consignment stock under the VAT Law. Where a non-established supplier transfers consignment stock to a Cyprus customer, i.e. to be placed in the consignee's care, the supplier will have to register in Cyprus in order to undertake an acquisition of own stock. The ensuing sale of goods to the customer under the consignment stock agreement will constitute a domestic sale of goods for the supplier, subject to VAT at the applicable VAT rate.

Where both the supplier and the customer are based in Cyprus, and goods are held on a consignment basis, the goods are deemed to be supplied when the goods are taken out of the stock under consignment and the right to dispose of the goods as owner is transferred to the customer. An automatic supply is deemed to take place if twelve months have passed from the date that the goods were transferred under consignment to the consignee.

### 2.2 Call-off stock (quick fixes)

Call-off stocks (αποθέματα ασφαλείας) are stocks used for and paid by one customer, for his own needs. This applies where the customer will use the stock for his own purposes, or will use the stock to effect further supplies to his own customers.

Before 01.01.2020, there was no simplification for call-off stock received by a customer in Cyprus, from a supplier established in another EU Member State. This meant that the supplier had to register in Cyprus and account for the acquisition on the movement of the goods. When the goods were called-off by the customer this would constitute a domestic supply of goods in Cyprus. The time of supply for call-off stocks was considered to be the earlier of the date of invoice or the 15th day of the month, following the month of delivery, despite the fact that ownership of the goods does not pass until the goods are used.

From 01.01.2020, the quick-fix for call-off stock also applies in Cyprus. In this case, the transfer of the goods by the non-established supplier to the Cyprus-established customer is no longer a deemed supply of goods (transfer of own goods). The transfer will be recorded in

the VIES of the supplier as a call-off stock movement. When the actual call-off occurs by the customer, the supplier will then have made the intra-community supply, and the customer the intra-community acquisition, in the normal way.

Both the supplier and the customer will have to maintain a register detailing any goods transferred under the call-off stock simplification.

We note that where the conditions are not met for the call-off stock simplification, or a period of 12 months passes from the arrival of the goods in Cyprus without the customer calling-off the stock, then to the extent of the stock not called off by the customer, the treatment that was in place before 01.01.2020, as explained above, will apply.

Where the supplier and the customer are based in Cyprus, and goods are held on a call-off basis, the goods are deemed to be supplied when the goods are taken out of the stock under call-off and the legal title is transferred to the customer. An automatic supply is deemed to take place if twelve months have passed from the date that the goods were transferred to the customer.

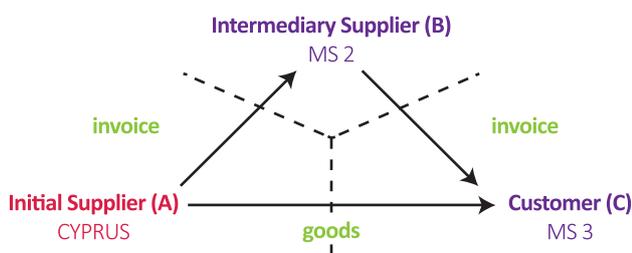
The Cyprus Tax Department has issued Informative Leaflet 17A dated January 2020 on the treatment of call-off stock.

No simplification applies in case of imports. If the importer/consignee is registered, he may recover VAT charged on importation as input tax.

## 2.3 Simplified triangulation rules

Triangulation is regulated by Article 12E of the VAT Law. The Tax Department has issued the following circulars, which are relevant: EE 88 (04.06.2004) and EE 88A (27.08.2004).

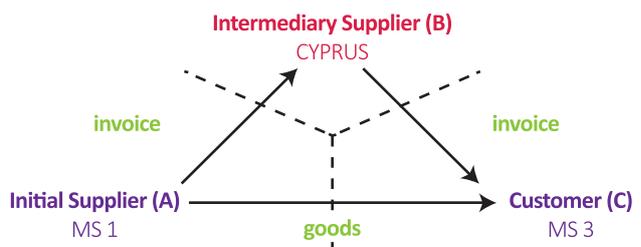
### Where the initial supplier is based in Cyprus, then:



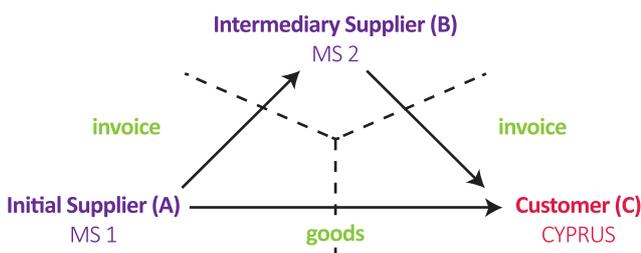
- Intra-Community (IC) supply made by A in Cyprus is exempt from VAT (subject to triangulation conditions being met);
- B must provide A with a valid VAT registration number in MS 2;
- B is reported as purchaser of goods on VIES completed by A, using B's VAT registration in MS 2;
- B cannot have a VAT registration number, or be established, in MS 1 (Cyprus);
- A can undertake the transport of goods.

### Where the taxable person who is the intermediary supplier is based in Cyprus, then:

- B supplies his Cyprus (MS 2) VAT registration to A;
- Simplification procedure applies if B proves it has made a subsequent supply to C in MS 3;
- B designates C as the person liable to pay VAT on local supply in MS 3;
- B reports the sale in column 10 and box 3 on its VIES
- Declaration (denoting triangular trade);
- No VAT is paid by B in Cyprus (MS 2);
- B can undertake the transport of goods.



### Where the taxable person who is the end customer is based in Cyprus, then:



- C is registered for VAT in Cyprus and is designated by B to apply the reverse charge procedure on the local supply made by B in Cyprus;
- Thus no IC acquisition is deemed to be made by B in Cyprus as this is deemed to be done by C (if simplification conditions are met);
- Under current interpretation by the Tax Department, B cannot have a VAT registration number, or be established, in MS 3 (Cyprus);
- In addition, under the current wording of the VAT Law, B cannot have a VAT registration number in MS1, although this is contrary to the judgment in *Hans Bühler*, (ECJ C-580/16);
- C cannot undertake the transport of the goods.

## 2.4 Transfer of business as a going concern

The exemption on the transfer of a business as a going concern has been implemented in Cyprus. The transfer of a business as a going concern is outside the scope of VAT, however, there are certain conditions that must be met:

- all, or an autonomous part, of a business (assets, stocks, goodwill) is transferred;
- the transferor is a taxable person;
- the transferee is or becomes a taxable person; and
- the transferee continues, without substantial differentiation, to carry out a business of the same nature.

In this case the transferor must not charge any VAT and the transferee is not allowed to deduct any VAT as input tax, even if the transferor has charged VAT by mistake. If, as a result of the transfer, the transferor terminates his/her taxable supplies, he/she must notify the Tax Department within sixty days by submitting an “Application for Cancellation of Registration” (Form VAT 204). See **Section 1.5**.

The transfer of a business as a going concern will trigger an obligation for the transferee to register, if not registered already. He has 30 days within which he would need to inform the Tax Department by submitting an “Application for Registration” (Form TD1001). See **Section 1.1.7** for a link to the form.

If both the transferor and the transferee wish, they may submit an “Application for the Transfer of VAT Rights and Obligations” (Form VAT 103), upon which, if approved, the transferor has to hand over his accounting books and records to the transferee and the transferee will take up all previous rights and obligations of the transferor. The form can be accessed through the following link:

[www https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/3151D74B83E0BD4FC225822C003550F8/\\$file/%CE%A6%CE%A0%CE%91%20103.pdf?OpenElement](https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/3151D74B83E0BD4FC225822C003550F8/$file/%CE%A6%CE%A0%CE%91%20103.pdf?OpenElement)

The transfer of rights and obligations is allowed if the whole of the business is transferred, the transferor’s registration is cancelled and the transferee is not already a registered person but becomes liable to be registered or is registered voluntarily.

## 3. Installation Supplies

VAT Directive Article 36 is not transposed word-for-word in the Cyprus legislation. The only reference to Article 36 is Article 12E(2) of the VAT Law making reference to an intra-Community supply of goods with installation/assembly.

Cyprus applies an extension of the reverse charge to the supply of goods with installation, as long as the supplier is VAT registered in another EU Member State, and is neither established nor VAT registered in Cyprus, and the customer is a taxable person, registered for VAT in Cyprus. In such a case, the customer will apply the reverse charge mechanism. The invoice from the supplier should make reference to ‘Reverse Charge’ and the supplier should notify the Cyprus Tax Department in writing.

## 4. Effective Use and Enjoyment

Use and enjoyment provisions can be found in the Thirteenth Schedule of the VAT Law. The Thirteenth Schedule is a result of Article 59a of the VAT Directive.

The use and enjoyment rule provides that:

- a. Art. 59a(a): where the supply of relevant services would otherwise be regarded as made in Cyprus, but the effective use and enjoyment of those services is outside the Community, the supply is deemed to be outside of the Community, and
- b. Art. 59a(b): where the supply of relevant services would otherwise be regarded as made outside the Community, but the effective use and enjoyment of the services is in Cyprus, the place of supply is deemed to be Cyprus.

*The special provisions for effective use and enjoyment as per (a) and (b) above, apply to:*

- hiring of means of transport, both short-term and long-term, B2C and B2B;
- short-term hiring of means of transport, B2B and B2C;
- hiring of movable goods, other than means of transport, B2B and B2C;
- telecommunications, radio and television broadcasting, B2B and B2C;
- transport of goods services, other than intra-Community transport of goods, B2B; and
- electronically supplied services, B2B.

*The special provisions for effective use and enjoyment as per (b) above only, apply to: electronically supplied services to non-taxable persons (B2C).*

The following table summarises the use and enjoyment provisions with specific reference to the VAT Law and EU legislation.

	B2B	B2C	Art. 59a(a)	Art. 59a(b)	VAT Law Article	EU Directive Article
Hiring of means of transport Short- Term	✓	✓	✓	✓	Sch. 13(3)	56(1)
Hiring of means of transport Long - Term	✓	✓	✓	✓	Sch. 13(3), (14A)	56(2)
Hiring of movable goods (except means of transport)	✓	✓	✓	✓	Sch. 13(7)	44 (B2B) / 45(B2C)
Telecommunications, radio, TV and broadcasting	✓	✓	✓	✓	Sch. 13(8)[for 59a(a) and 59a(b)] / Sch. 13(18) [for 59a(b) B2C only]	44 (B2B) / 58(B2C)
Transport of goods	✓		✓	✓	Sch. 13(9)	44
Electronically supplied services B2B	✓		✓	✓	Sch. 13(10)	44
Electronically supplied services B2C		✓		✓	Sch. 13(18)	58

## 5. Bad Debt Relief

In Cyprus, bad-debt relief is available to taxable persons, provided that they can substantiate to the Tax Department that the amount not yet paid by the customer became a bad debt within the, prescribed by the law, relevant period.

When claiming bad debt relief, the following conditions must be met:

- the taxable person has supplied goods or services and has accounted for and paid the relevant output VAT on that transaction;
- the amount has been written-off in the accounting books of the taxable person, as a bad debt;
- a period of 12 months (beginning by reference to the chargeable event of the supply) must have elapsed;
- the claim for bad debt relief must be made within four years from the later of:
  - i. the date when the supply was due and payable to the supplier, or,
  - ii. the date the chargeable event had taken place;
- the taxable person must demonstrate that he/she has taken all the necessary measures to collect the amount due; and
- if the customer is a taxable person, the supplier must notify the customer of making the claim within a seven-day period from the date the claim is made. A copy of the notification must be kept in the records of the applicant.

The claim is via the quarterly VAT return, shown as an increase in the input VAT claimed for that period. The Cyprus Tax Department has issued Information Leaflet 14 dated January 2002 and Circular 234 (13.06.2019) on the subject of bad debt relief.

## 6. Special Rules

### 6.1 Importation followed by an intra-community supply

The Cyprus VAT Law applies the exemption for the intra-community supply which follows an importation, with the following formalities:

- the intra-community supply is carried out by a taxable person and is subject to the zero rate as per article 25 of the Cyprus VAT Law,
- the imported goods are the ones which will be the subject of the intra-Community supply, and
- the Commissioner is satisfied that the taxable person intends to move the goods to another EU Member State, and the taxable person is importing the goods for the onward intra-Community supply under article 25 of the Cyprus VAT Law.

It is at the discretion of the Commissioner when granting this exemption to request a bank guarantee for an amount which will not exceed the VAT amount that would have been due on the importation of the goods. In practise this is rarely requested. The exemption applies when the goods are moved to the other EU Member State within one month from their arrival in Cyprus (or such other period as may be agreed with the Commissioner).

### 6.2 Postponed accounting on import

Import VAT must be (pre)paid upon the importation of any goods from places outside of the EU, regardless of whether it is undertaken:

- by a taxable or a private person;
- for business or private purposes; or
- for a consideration or not.

VAT chargeable on importation is paid to the Customs Authorities as if it were a customs duty; normal rules then apply for the right of deduction for taxable persons.

There are certain exceptions to the payment of VAT on importation in the VAT Law. The main exceptions are the following:

- for gas and electricity imported through a specific distribution system. For these kinds of importations self-billing will apply;
- for importation of non-commercial aircraft or pleasure yachts to be used for business purposes by a taxable person (a bank guarantee may be requested by the Commissioner). Self-billing will also apply;
- in certain cases, deferral of the VAT payable may be granted by the Commissioner for 30 days, upon request by the taxable person and written approval, and upon receipt by the Commissioner of a bank guarantee for the amount of VAT due. This exception emanates not from the VAT Law but from the Customs legislation (*Customs Regulation K.Δ.Π. 329/2005, under Article 40 of the Customs Code Law 94(I)/2004*);
- for personal belongings:
  - following migration to Cyprus;
  - on return to Cyprus following studies; or
  - obtained through procedures of a will.
- for certain goods received by charitable organisations;
- for commercial samples;
- for wedding gifts on return to Cyprus following an overseas wedding.

## 6.3 VAT warehouse

Cyprus implements EU VAT Directive Article 157, with regards to VAT warehousing regime, through Articles 13A-13E of the VAT Law. Goods that can be placed in a VAT warehouse include:

- products listed in Annex V of the EU VAT Directive;
- all imported goods for which the relevant VAT has been paid or suspended; and
- goods that are subject to special excise duties for which the relevant duty has been paid or suspended.

A taxable person not established in Cyprus can also place goods in a VAT warehouse. Where required, a taxable person can register or appoint a VAT representative (See **Section 1.3**) to store goods in, or remove goods from, the warehouse. A supply of goods, intended to be placed within a VAT warehouse, is, if certain conditions are met, not subject to VAT and thus no VAT registration is required. The buyer must provide the supplier with a certificate that he/she intends to place the goods in a VAT warehouse. This must be done not later than the time of acquisition or supply, and the certificates should be kept in the records of the taxable person.

The VAT warehouse keeper must record all receipts of goods into the warehouse and maintain a detailed record of all stock kept in the warehouse. There are detailed requirements relating to the movement of the stock. The services of the warehouse keeper relating to the safeguarding of goods, as well as any maintenance or repackaging services on those goods, are zero rated.

VAT becomes chargeable at the moment when the goods are withdrawn from the warehouse regime. Certain withdrawals are not subject to VAT such as exports, or the temporary removal for the purpose of repair, processing or treatment, but in such instances prior authorisation is required.

## 6.4 Bonded (customs) warehouse

Cyprus has the following customs warehouse schemes:

- bonded warehouse: Suspension of import duties and VAT for all goods imported from 3rd territories.
- tax warehouse: Suspension of excise duties and VAT for intra-community acquisitions of excise goods (i.e. alcohol, tobacco, energy products).

# 7. Reverse Charge

The reverse charge is governed by Articles 11, 11A-E of the VAT Law.

## 7.1 Reverse charge mechanism – B2B services

Cross-border services supplied to a person that is engaged in an economic activity will be, as a general rule, subject to reverse charge, as long as the place of supply of the service is Cyprus, and such services are not zero-rated or exempt as per the Sixth, Seventh or Eighth Schedules of the VAT Law. The reverse charge mechanism applies even if the customer also carries out non-economic activities or exempt supplies. The registration threshold limit applies (see **Section 1.1** above) for registration due to the reverse charge mechanism. The customer will be regarded as a taxable person in respect of all services rendered to him/her, unless, he/she does not carry out an economic activity, such as in the case of a pure holding company. See also **Section 12.1** regarding what reference is required on the invoice when applying reverse charge.

## 7.2 Reverse charge mechanism – non-resident suppliers

In Cyprus the reverse charge applies on supplies of goods and/or services by non-established entrepreneurs if the recipient is a taxable person resident or established in Cyprus, and the transaction is not exempt or zero-rated in Cyprus (Article 11 of the VAT Law). The application of this reverse charge is obligatory. Where the non-resident supplier is registered for VAT in Cyprus no reverse charge will apply, unless the transaction falls within the scope of those described in **Section 7.4** below.

However, in addition to B2B services mentioned above, the reverse charge may be extended to the following supplies, which Cyprus has opted for under Article 194 of the EU VAT Directive:

(1) to all services not covered by the general rule. In this case, the supplier should not be established in Cyprus, and the recipient should be a taxable person, identified for VAT purposes in Cyprus;

(2) to the supply of goods with installation (see **Section 3**). In this case, the supplier should neither be established nor identified for VAT purposes in Cyprus, including not having appointed a VAT representative, and the recipient should be a taxable person, registered for VAT in Cyprus.

## 7.3 Reverse charge mechanism – supply of natural gas and electricity

The reverse charge mechanism applies to B2B supplies of natural gas and electrical energy from a provider situated outside of the Republic (Article 11A of the VAT Law). The natural gas or electricity must be supplied through the existing grid system. Currently there are no such grids for either electricity or gas in Cyprus.

## 7.4 Reverse charge mechanism – specific domestic rules

### 7.4.1 Reverse charge on local construction services

From 21.03.2012, the reverse charge applies to services, or services with a supply of goods, supplied for the construction, alteration, demolition, repair or maintenance of a building or of any civil engineering project (Article 11B of the VAT Law, in accordance with Article 199(1)(a) of the EU VAT Directive).

For Article 11B to apply, the supplier can be any person, whether taxable person or not, and the customer is a taxable person, and receives the services for the purpose of his economic activity.

The Tax Department has issued extensive guidance over which services, or services with goods, are included within the meaning of Article 11B. This guidance is included in the following Interpretive Circulars: EE 164 (21.03.2012), 165 (06.04.2012), 166 (14.05.2012), 169 (16.07.2012), 174 (30.01.2013) and 184 (12.03.2014).

### 7.4.2 Reverse charge on supplies of used metals and scrap

From 11.10.13, when a taxable person supplies scrap metals or waste to another taxable person which is allocated a specific economic transaction code (issued by the Customs office) and the supply is a domestic one, then the buyer must apply the reverse charge (Article 11C of the VAT Law, in accordance with Article 199a(1)(j) of the EU VAT Directive).

The Tax Department has issued interpretive circular 179 (29.10.2013) explaining the reverse charge application on scrap metals and other waste.

### 7.4.3 Reverse charge on the supply of immovable property and land in case of loan default

This provision was enacted in order to facilitate the payment of VAT in cases where the taxpayer is no longer in a sustainable financial position, with a bank having to take possession of the property which was held as a guarantee against the loans provided. In such cases, the bank would purchase the property from the person but would take possession as part of the loan default proceedings. This would still qualify as a taxable supply of goods from the defaulting owner to the bank but clearly the defaulting owner would not be in a position to pay any VAT. For this purpose, the obligation to discharge the VAT is transferred to the recipient (being the bank), through this provision.

Specifically, the amending law introduces article 11D to the VAT Law (in accordance with Article 199a(1)(e) of the EU VAT Directive) which imposes the reverse charge mechanism for transactions whereby ownership of new buildings or land subject to VAT, is transferred from the borrower to the lender as part of a loan restructuring or under forced transfer conditions. The provisions enacted go beyond what is permissible by the VAT Directive which through Article 199a(1)(e) only permits the use of the reverse charge on the supply of immovable property sold by a judgment debtor in a compulsory sale procedure. However, the provisions are considered beneficial under the current climate that has seen the banking sector come through one of the worst periods in its history, following the 2013 banking crisis imposed on Cyprus by the EU.

The conditions for article 11D to apply are:

- a. Taxable person supplies goods to recipient;
- b. Goods fall under the scope of paragraph (1) of article 11D (i.e. new buildings, building land intended for erection of one or more fixed structures);
- c. Recipient at the time of the supply is a taxable person acquiring the goods as part of its taxable activities.

When the above conditions are met, the recipient of the goods is obliged to apply the reverse charge mechanism and discharge the VAT due on the transaction as if it was its own supply. Always bear in mind that reverse charge is not an option but a downright obligation that determines which party discharges the VAT for a specific transaction.

This provision came into force on 2 January 2018 and will remain in force for a limited period of time, currently being until 31 December 2020.

#### **7.4.4 Reverse charge on certain domestic supplies of IT and telecommunications equipment**

From 01.10.2020, the reverse charge applies to the any supply of goods of: **(i)** mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use; **(ii)** integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products; **(iii)** game consoles, tablet PCs and laptops (Article 11E of the VAT Law, in accordance with Articles 199a(1)(c), (d) and (h) of the EU VAT Directive). There is no threshold under which Article 11E does not apply.

For Article 11E to apply, the supplier can be any person, whether taxable person or not, and the customer is a taxable person, and receives the goods for the purpose of his economic activity.

The Tax Department has issued Implementing Order 1 (29.09.2020) providing detailed explanations on the application of Article 11E.

## **8. Taxable Amount**

### **8.1 Open market value**

The VAT Law has implemented only Article 80(1)(a) of the VAT Directive in determining the open market value for supplies between closely connected persons.

To this effect, the Tax Department may consider the taxable amount to be the open market value where the consideration is lower than the open market value and the recipient of the supply does not have a full right of deduction.

The above applies only where the consideration is expressed in monetary terms. The Tax Department has the right to adjust the taxable amount within 3 (three) years from the time of the supply.

### **8.2 Cash discounts**

The Cyprus VAT legislation provides that in cases where the supplier offers a discount for early settlement, the taxable amount shall be the amount after the discount is applied, regardless of whether the payment is made within the said time limits or not, as the following example shows:

<b>Supply of goods with a cash discount if due amount paid within 14 days</b>	
Net Value:	€1.000
Discount @ 2%	€20
Net amount after discount:	€980
VAT @ 19%	€186,20
Gross amount	€1.186,20 [€1.000 + €186,20]

Regardless of whether payment is made within the 14 days and the discount is granted, the taxable basis and relevant VAT amount will be the amounts after the discount is applied. Should the payment be made within the 14 days a credit note for the correction of the value needs to be issued, although this is not a credit note for VAT purposes but a corrective accounting document for the value of the supply.

## **9. VAT Rates**

### **9.1 History of and changes in VAT rates in Cyprus**

The standard rate is applicable on all taxable transactions for which either of the reduced rates do not apply, and the transaction is not zero rated (i.e. exempt with right of deduction – **Section 9.3** below) or exempted (without right of deduction – **Section 9.4** below). The table below summarises the rates and their history.

Date	Reduced rate (1) %	Reduced rate (2) %	Standard rate %
01/07/1992	-	-	5
01/10/1993	-	-	8
01/07/2000	5	-	10
01/07/2002	5	-	13
01/01/2003	5	-	15
01/08/2005	5	8	15
01/03/2012	5	8	17
14/01/2013	5	8	18
13/01/2014 onwards	5	9	19

## 9.2 Reduced rates

Cyprus applies two reduced rates, of 5% and 9%.

### 9.2.1 Reduced rate of 5%

The first reduced rate is subject to the provisions of the Fifth Schedule of the VAT Law and applies mainly to:

- the supply of food and beverages when sold as take-away or with delivery, except soft-drinks and alcoholic beverages;
- construction, erection or supply of housing used as a permanent residence before first occupation. There are criteria regarding the size of the property as well as the person who may apply for the reduced rate. The Tax Department has issued the following interpretive circulars on this topic: EE 155 (07.10.2011), EE 158 (14.11.2011), EE 167 (12.06.2012), EE 168 (10.07.2012), EE 210 (06.02.2017) and EE 212 (22.03.2017);
- renovation, extension and repairing of private dwellings, excluding materials which account for more than 50% of the value of the services supplied. The Tax Department has issued the following circulars on this topic: EE 118 (18.10.2007), EE 119 (19.11.2007), EE 132 (23.01.2009), EE 192 (14.06.2015) and EE 199 (29.12.2015);
- admission to theatrical performances, circuses, cinemas, cultural and sporting events;
- use of sporting facilities. The Tax Department has issued EE 231 (21.02.2019) on this topic;
- performances by performing artists, services of composers, artists and writers;
- books, magazines and newspapers;
- supply of gas in cylinders. The Tax Department has issued the following circular on this topic: EE 196 (21.10.2015);
- supply of water;
- certain food and medicines;
- certain animal foodstuffs;
- hairdressing services;
- equipment used by disabled persons (i.e. Braille typewriter, wheelchairs);
- children's car seats when adapted for use in land bound vehicles for persons up to 12 years of age;
- medical and dental care (if not exempted). Operations of purely cosmetic and aesthetic nature are standard rated; and
- works of art wholly executed by the artist.

### 9.2.2 Reduced rate of 9%

The second reduced rate is subject to the provisions of the Twelfth Schedule of the VAT Law and applies mainly to:

- domestic transport of passengers by sea vessel and their accompanying luggage;
- accommodation provided by hotels and similar establishments, including the provision of holiday accommodation. The Tax Department has issued the following circular on this topic: EE 134 (23.04.2009) - *reduced to 5% for the period 01.07.2020 – 10.01.2021 as a Covid-19 measure;*
- restaurant and catering services, including alcoholic beverages. The Tax Department has issued the following circulars on this topic: EE 138 (12.01.2010) and EE 146A (10.01.2011) - *reduced to 5% for the period 01.07.2020 – 10.01.2021 as a Covid-19 measure;* and
- domestic transport of passengers, by taxi or bus, and their accompanying luggage - *reduced to 5% for the period 01.07.2020 – 10.01.2021 as a Covid-19 measure.*

## 9.3 Exemptions with right to deduction (zero rate)

The zero rate is subject to the provisions of Article 25 as well as the Sixth Schedule of the VAT Law and applies mainly to:

- intra-community supply of goods (B2B);
- services relating to imports of goods;
- exports of goods;
- services in the framework of inward processing on behalf of principals resident outside the EU;

- certain supplies of, services and ancillary services relating to qualifying sea vessels and aircrafts;
- supply of gold to the Central Bank of Cyprus;
- supply of goods to non-profit organisations which subsequently export the goods for humanitarian, educational or charitable reasons;
- transport of goods to and from Madeira and the Azores;
- services of intermediaries relating to transactions carried out outside the EU;
- goods under customs control or VAT warehousing arrangements;
- services to goods under customs control;
- supply of travel package which is enjoyed outside of the EU; and
- any supplies of goods for the provisioning of commercial sea vessels and warships.

Given that Cyprus is an island, proving a zero-rated supply (export or intra-Community supply) is normally not a problematic issue. The following combination of documents would suffice for proving the transaction:

- original VAT invoice;
- transport documentation (bill of lading / CMR);
- validated VAT number of customer for intra-Community supply;
- purchase order;
- copy of export declaration; and
- correspondence with the contracting party.

## 9.4 Exemptions without right to deduction

Exemptions without right to deduction are found in the Seventh and Eighth Schedules of the VAT Law.

The Seventh Schedule is divided into Table A and Table B. Table A lists supplies which are generally in the public interest. Table B lists exempt financial services. However, a right to deduction exists for most of the Table B services where the recipient of the service is based outside of the EU, in accordance with Article 169(c) of the EU VAT Directive (and Article 21(2)(c) of the VAT Law).

The Eighth Schedule details exemptions without the right to deduction relating to immovable property.

### 9.4.1 Exemptions for supplies in the public interest

Exemptions without the right of deduction are mainly provided for the following supplies (the list is not exhaustive but covers the main supplies):

- services of the Postal Service;
- certain hospital services, including medical, paramedical and services of registered doctors (medical examinations and operations purely of a cosmetic or aesthetic nature are standard rated);
- ambulance services;
- supply of human organs, blood and human milk;
- services relating to the protection of children;
- education offered by registered public or private schools, universities, music schools, ballet schools or examination centres, including private tuition;
- services by non-profit organizations to their members relating to cultural, religious, union, philosophical or charitable purposes, provided that this does not result in any distortion of competition;
- cultural services (e.g. libraries, museums, theatres) by non-profit organizations provided that this does not result in any distortion of competition; and
- the transactions of the Cyprus Broadcasting Corporation except those of a business nature.

### 9.4.2 Other exemptions

Other exemptions include services of insurance, financial and management of mutual funds. The Cyprus Tax Department has issued for insurance and financial services circulars EE 14 (27.11.1996), EE 72 (19.03.2002), EE 92 (12.08.2004), EE 203 (16.05.2016) and for mutual funds EE 124 (22.08.2008) and EE 143 (19.11.2010).

### 9.4.3 Letting of immovable property and the option for non-taxation

Cyprus applies Article 135(1)(l) of the EU VAT Directive, regarding exempting leasing and letting of immovable property, without any exceptions allowed under Article 135(2).

However, as of 13.11.2017, Cyprus VAT legislation has made use of the option provided in Article 137(1)(d) of the EU VAT Directive in offering an option to tax the leasing and letting of immovable property. Paradoxically the provisions of the legislation provide that all such leases are subject to VAT by default where certain conditions are met, and affords the landlord with an option not to tax (i.e. to opt-out) which binds the landlord for the remainder of his/her ownership. The conditions include that the property is for commercial use and that the tenant does not have exempt VAT supplies, without a right of deduction, that constitute more than 10% of the gross turnover of the business. Old leasing agreements that roll over for new periods may not come within the scope of the new law, unless substantial amendments to their terms are made

Therefore, the rental of immovable property would be exempt in the following cases:

- i. The property at hand is a residential property to be used for residence purposes of the tenant.
- ii. The rental of immovable property, other than residential, when the tenant engages in exempt activities without the right to deduction in excess of 10% of its gross turnover.
- iii. The rental of immovable property, other than residential, where the owner has opted for exemption of the said property.

The Tax Department has issued Interpretive Circular EE220 on 02.01.2018 concerning this matter.

#### **9.4.4 Supply of land and buildings (freehold)**

As of 02.01.2018, article 12(1)(b) of the EU VAT Directive was implemented for the sale of building land, which encompasses all land sold by a taxable person, except agricultural land and land that is in planning zones that do not permit development (such as environmentally or archeologically protected zones). The Tax Department has issued Interpretive Circular EE219 on 29 December 2017 with regards to VAT on building land.

The sale of buildings is also exempt if the first occupation of the property has passed, or if the application for the issue of a building permit was submitted, duly completed, before 1 May 2004.

#### **9.4.5 Supply of land and buildings (long-term leasehold)**

As of 1 January 2019, long-term leases are considered to be a supply of goods, and subject to VAT if they are sold before first occupancy (i.e. only applies to new developments sold under long-term leases). A long-term lease is defined as a lease running for at least 15 years, and which has been deposited with the Department of Land Registry. The Tax Department has issued interpretive circular EE229 on 27 December 2018 on this topic.

## **10. Recovery of Input VAT**

Cyprus applies the general principle that a taxable person has an immediate right to deduct input VAT.

A taxable person has the right to deduct input VAT through the VAT return for the period in which the right to deduct has arisen. However, input VAT is only deductible when the necessary documentation is available, including:

- original VAT invoice for supply of goods or services;
- copy of import declaration and original Customs teller's ribbon;
- any other documents approved by the Commissioner of Taxation.

VAT expenditure is only deductible up to the proportion of the asset's use for business purposes. Cyprus applies this principle to immovable, movable property, as well as to intangible assets.

The Tax Department is allowed, as per the VAT Law, to suspend the examination of any request for a VAT refund, where the taxable person has not submitted all declarations that are required for direct tax legislation. Any examination will recommence where such obligations have been met. To this effect, it has issued Implementing Order 2, dated 05.10.2020. See also **Section 10.2** below.

Input VAT is also available for recovery for the period before registration:

- three years for goods (unless the goods were consumed before the date of registration);
- six months for services.

The Tax Department has issued interpretive circular EE 114 (09.05.2007) on this topic.

### **10.1 Non-recoverable input VAT**

Input VAT is not recoverable in the cases noted below. More guidance can be found in Information Leaflet 10 of November 2001.

- entertainment expenses, except where these are solely for employees or business representatives;
- purchase of saloon car unless used for qualifying purposes (i.e. resale, passenger transport for reward (taxi, bus), rental, or for driver instruction);
  - however, input VAT on running and maintenance expenses of saloon cars is allowable, to the extent the saloon car is used for business purposes;
- accommodation and subsistence expenses for entertainment purposes other than for employees and business representatives;
- remuneration-in-kind, as well as on fringe benefits for staff (provision of food and drink, accommodation, sporting and recreational facilities, salaries, transport for personal use, etc.);
- corporate gifts exceeding €17 in value per gift;
- input VAT not in the name of the taxable person;
- input VAT which was incorrectly charged to the taxable person;

- input VAT on any goods forming part of supplies taxed under one of the margin schemes; and
- input VAT that is directly or indirectly attributable to insurance services or financial transactions, unless the recipient is based outside of the EU, or unless the entire input VAT is covered by the de minimis rules.

## 10.2 Excess input VAT

Excess input VAT shows up as a credit balance on the quarterly statements, automatically sent by the Tax Department to the taxable person. In order to obtain a refund, the taxable person must submit a refund request for each quarter separately, using Form VAT 4B. A taxable person has a 6-year period from the end of the VAT quarter in which excess input VAT arose, to effect a request for a refund. The form is submitted electronically via Taxisnet and is activated following submission of a VAT return showing a refundable balance.

VAT refunds are regulated by Article 20 of the VAT Law. A refund is provided in cases where:

- the taxable person is not likely to cover excess input VAT with output VAT; or
- excess input VAT relates to zero rated supplies or supplies made outside of Cyprus (with right to deduct) or fixed assets.

Where excess input VAT has existed for more than eight months, this should be reclaimed immediately upon submission of Form VAT 4B. The Cyprus Tax Department has been known to delay several months any VAT refund. One of the main reasons was that there were no penalties for delaying, such as interest on the refund in favour of the taxable person. This was corrected with an amendment to the VAT Law on 19 February 2013.

From 19 February 2013, refunds are returned with interest based on the Unified Public Interest Rate for Overdue Payments (see **Section 14.2**). The law provides that interest is calculated from the 4th month following the date of application of the refund (using Form VAT 4B – see link above), and only if the Tax Department is not to blame for any delay. The four-month period is extended to eight months if the Tax Department instigates an investigation.

## 10.3 Capital goods – adjustment periods

Movable goods and immovable property are subject to the capital goods scheme. Intangible assets such as copyrights, patents, licenses, trademarks and similar rights, including goodwill, are also subject to the capital goods scheme provided that:

- they are used for more than one accounting period; and
- their value exceeds €17.086

Adjustment periods are 5 (five) years for movable goods and intangible assets and 10 (ten) years for immovable property. The Tax Department has issued the following circulars on this topic: EE 107 (02.05.2006) and EE 170 (01.11.2012).

## 10.4 VAT refund for foreigners

The Tax Department has issued in English, Information Leaflet 8, dated December 2008, on the topic of VAT refunds to EU and non-EU businesses.

### 10.4.1 VAT refund to EU businesses

The refund application must be submitted electronically through the portal of the Tax Authorities of the country in which the claimant is established. The relevant portal for Cyprus exists in English and can be found at the following link:

[www https://refund-eu.vat.mof.gov.cy/VATiSee/index\\_cyprus\\_vat\\_en.html](https://refund-eu.vat.mof.gov.cy/VATiSee/index_cyprus_vat_en.html)

Annual minimum limit (for claims that are made for a calendar year or the remainder of a calendar year) is €50. Interim minimum limit (for claims that are made for less than a calendar year but at least three months) is €400.

Minimum period for making a claim is three consecutive calendar months in one calendar year, unless it is a remainder of the year. Maximum period for making a claim is one calendar year. The deadline for making the claim is 30 September of the year following the year for which a claim is made. It is possible to submit a claim within five calendar years from the end of the calendar year in which the VAT was incurred, but if the claim is filed after the deadline of 30 September then no appeal can be filed.

Supporting documents (e.g. the original invoices / copies of invoices) are generally not required, although the Commissioner of Taxation has the right to request original documentation in examining a refund request.

The Tax Department must issue a decision on the refund claim within four months of receipt of the claim. The period in which the authorities must make a decision will be extended to six months or eight months where the authorities request additional information. If a refund is granted, it will be processed within ten business days and paid to the bank account provided to the Tax Department. If the applicant disagrees with the decision of the Commissioner of Taxation, he/she can appeal as per the procedure explained in **Section 11** below with the exception that the process of objecting to the Commissioner is not available for such cases.

The input VAT is not recoverable in cases discussed in **Section 10.1** above.

### 10.4.2 VAT refund to non-EU businesses

It is possible for businesses outside of the EU to reclaim input VAT on the purchase of goods and services in Cyprus, or VAT that was imposed on imports in Cyprus, provided that the business:

- does not have a residence in any EU Member State;
- is not registered, liable or eligible to be registered for VAT in Cyprus;
- has no place of business or other residence in Cyprus; and
- does not make any supplies in Cyprus, other than those subject to reverse charge by the recipient, including international transportation of goods services.

Cyprus will only allow claims of input VAT if there are tax refund reciprocity arrangements in place, i.e. that country has similar concessions to Cyprus traders. Currently, tax refund reciprocity arrangements are in place only with Israel, Norway and Switzerland.

The non-EU business must have proof of the VAT that it paid, notably correctly completed VAT invoices from the supplier, or import documents. In order to effect the refund application, originals of all invoices and/or import documents are required to be provided. Copies or photocopies are not acceptable.

Claims for refund must be submitted no later than six months after the end of the 'prescribed year' in which the input VAT was incurred. Prescribed year means the 12-month period beginning with the 1st July and ending the 30 June of the following calendar year. As such claims must be made by 31 December. In no case can a claim for VAT be made outside of the prescribed year dates.

Claims can be made by the businesses themselves or through an agent / VAT representative. The Cyprus Tax Department may request the nomination of a VAT representative.

The claim is made by submitting form VAT 109. The form can be accessed through the following link:

[www http://www.mof.gov.cy/mof/TAX/taxdep.nsf/All/9BEE52D67118CF26C225822C003550F7/\\$file/%CE%A6%CE%A0%CE%91%20109.pdf](http://www.mof.gov.cy/mof/TAX/taxdep.nsf/All/9BEE52D67118CF26C225822C003550F7/$file/%CE%A6%CE%A0%CE%91%20109.pdf)

Documentary evidence should be attached to the form. For the first claim, the business should include a certificate from the official authority of the business's country, showing that it is registered for business purposes in that country. Such certificates are valid for 12 months from their date of issue. Once a certificate expires, a new one will need to be furnished with future claims.

Once a claim has been submitted, it will be examined, and if approved, a credit transfer to a nominated account will be made. If the claim is refused, the Tax Department will state this in writing, along with the reasons of refusal.

The minimum claim is €205 if it covers a period of less than 12 months. This minimum becomes €25 in the following situations:

- where that period represents the final part of the prescribed year; or
- where the claim covers the period of a prescribed year.

The following VAT suffered in Cyprus cannot be reclaimed:

- non business supplies (but, if the supply covers business and non-business purposes, then it is possible to reclaim VAT on the business part of the supply);
- any supply or import of ordinary passenger cars;
- certain second hand goods, e.g. cars and antiques, for which the VAT margin scheme is used;
- all business entertainment/hospitality expenses, but does not include the provision of entertainment to (a) employees of the business, (b) if the business is a body corporate, to its directors or persons otherwise engaged in the management, unless the provision of entertainment to persons such as those mentioned in sub-paragraph (a) and (b) above is incidental to its provision to others;
- any goods or services used or to be used to make a supply in Cyprus; and
- goods and services, such as hotel accommodation, that the business bought for resale and which are for the direct benefit of travellers.

## 11. Objections and Procedures Against Administrative Decisions

Where the Tax Department issues an assessment, with which the taxable person disagrees, an objection to the Commissioner of Taxation may be filed within 60 days from the date that the decision was notified to him/her. The objection must clearly state the reason for objection, the amounts contested, and provide any and all documents and evidence to support the assertions made.

A taxable person has the option not to effect an objection to the Commissioner and proceed directly with a recourse to the Tax Tribunal or the Administrative Court.

If the objection is rejected, wholly or partly, the taxable person may then undertake one of the following:

- I. File an objection with the Tax Tribunal within forty-five days from the date that the decision was notified to the applicant. The final decision of the Tax Tribunal can also be appealed to the Cyprus Administrative Court within seventy-five days by the taxpayer, but is considered as binding for the Tax Department which is not afforded a right of appeal; or
- II. File an objection with the Cyprus Administrative Court within seventy-five days.

Any decision of the Administrative Court can then be appealed by either party to the Cyprus Supreme Court, within 42 days.

## 12. Invoicing

### 12.1 Invoice content

The content of a VAT invoice is governed by Regulation 12(1) of (Κ)ΚΔΠ 314/01. A VAT invoice must contain:

- unique sequential identification number;
- time of supply of transaction or date of cash receipt;
- date of issue;
- name, address and VAT registration number of supplier;
- name and address of customer;
- sufficient description to identify goods or services;
- for each description, the unit price or quantity, as well as the VAT rate, and the net payable in Euro;
- the gross total amount payable, net of VAT;
- the amount of any cash discount provided;
- each VAT rate and the total VAT amount for each different rate, in Euro;
- the total VAT amount in Euro;
- name, address and VAT registration number of VAT representative where applicable;
- reference to self-billing or “αυτοτιμολόγηση” where this is the case;
- reference to reverse charge or “αντίστροφη χρέωση” if the VAT is payable by the recipient;
- reference to triangular transaction or “τριγωνική συναλλαγή” where the invoice is issued as an intermediary in triangulation;
- where a special scheme is used, reference to that scheme should be included. Specifically, where applicable, reference should be made to:
  - cash accounting or “καθεστώς ταμειακής λογιστικής”;
  - Travel agents margin scheme or “καθεστώς περιθωρίου – ταξιδιωτικά πρακτορεία”;
  - Second-hand goods margin scheme or “καθεστώς περιθωρίου κέρδους – μεταχειρισμένα αγαθά”;
  - Works of art margin scheme or “καθεστώς περιθωρίου κέρδους – έργα τέχνης”; and
  - Collector’s items and antiques margin scheme or “καθεστώς περιθωρίου κέρδους – αντικείμενα συλλεκτικής και αρχαιολογικής αξίας”.

### 12.2 Time limits

An invoice must be issued within thirty days of the time of the supply.

However, with regards to transactions for the intra-Community supply of goods as well as for transactions for the supply of services for which the VAT is due by the recipient, invoices must be issued by the fifteenth day of the month, following the month of supply as required by Article 222 of the VAT Directive.

### 12.3 Currency

Invoices can be issued in foreign currencies. However, the total amount of VAT must also be stated in Euros.

### 12.4 Conversion and exchange rate

Given that VAT declarations are completed in Euros, where the value of a supply is denominated in a foreign currency, the taxable person must convert that value to Euros. Depending on the transaction, such a conversion can only be made using the exchange spot rate as per the European Central Bank (“ECB”), or the Customs legislation, which provides for using the exchange rate of the Department of Customs and Excise (see EE 189 (01.12.2014)). The table below summarises when to use which rate:

Type of transaction	Rate to be used
Amounts reported in VIES returns	Customs rates
Output VAT reported in VAT returns	Customs rates
Services received from abroad which are subject to the reverse charge provisions in Cyprus	Customs rates
Intra-community acquisitions	ECB

**www** **ECB rates:** <http://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html>

**www** **Customs rates:** <https://www.mof.gov.cy/mof/Customs/customs.nsf/All/8D4A06CC3E78B1A9C22572C10039CB3D?OpenDocument>

The use of ECB reference rates was introduced following the implementation of the Invoicing Directive (Directive 2010/45/EC) into the VAT Law, which occurred on 20 December 2013. Prior to this date only the rates published by the Department of Customs and Excise could be used. Currently the VAT Law contains the following provisions, with the first two contradicting each other:

- Article 8(1), Part (I), Fourth Schedule, VAT Law – Provides that all supplies of goods and services are translated using Customs & Excise Department rates;
- Paragraph 4, Regulation 12, ΚΔΠ 314/2001 – Regulates invoice contents and provides that for purposes of calculating the excise value, the translation is made using ECB published rates;
- Paragraph 3(1), Part II, Fourth Schedule – Provides that intra-community acquisition transactions are translated using the ECB published rates.

## 12.5 Self-billing

Self-billing is permitted where there is an agreement in writing between the supplier and the customer and notification has been provided to the Tax Department. Paragraphs 3-3E of Regulation 11, ΚΔΠ 314/2001 regulate the provisions and requirements to apply self-billing.

## 12.6 Storage of invoices

Invoices, and other relevant documents for VAT compliance, must be stored for the minimum period of six years, unless otherwise stated in the law.

Invoices should be stored in the same form as they were received or issued i.e. invoices received in paper must be stored in paper form and invoices received electronically must be stored in electronic form. For electronic invoices, the authenticity of origin, integrity of content and readability must be guaranteed during the storage period.

Original paper invoices must be stored at the premises of the business. Electronic invoices can be stored elsewhere, even overseas. However, in such cases, the Tax Authorities must have the right to access those invoices, and to download them in a legible format, and within a reasonable period of time.

## 12.7 Electronic invoicing

The taxable person can choose any form of electronic invoicing as long as the authenticity of origin, integrity of content and readability are guaranteed. A client is allowed to refuse to accept an electronic invoice.

# 13. VAT Compliance

## 13.1 VAT return period

A VAT return period covers three calendar months i.e. four quarterly periods in a year. Which quarters will apply will depend on the type of business carried out by the taxable person, i.e. all businesses involved in the construction industry will have the same VAT quarters, as will all businesses providing audit services. The applicable VAT periods are made known to the taxable person at the stage of registration and will fall under one of the following stackers.

Stacker code / Category 1 VAT Period	Submission Date
01/01 – 31/03	10/05
01/04 – 30/06	10/08
01/07 – 30/09	10/11
01/10 – 31/12	10/02

Stacker code / Category 2 VAT Period	Submission Date
01/02 – 30/04	10/06
01/05 – 31/07	10/09
01/08 – 31/10	10/12
01/11 – 31/01	10/03

Stacker code / Category 3 VAT Period	Submission Date
01/03 – 31/05	10/07
01/06 – 31/08	10/10
01/09 – 30/11	10/01
01/12 – 28(29)/02	10/04

Traders may apply for monthly or yearly returns if they are in a position of continuous refunds or limited transactions.

## 13.2 Filing of VAT return and payment

Every taxable person is obliged to submit a tax declaration, being the VAT return Form TD1004, and pay the tax that may be due. Form TD1004 only exists in the Greek language.

VAT returns must be submitted, and any VAT that is due must be paid, within 1 (one) month and 10 (ten) days following the end of the reporting period. If the due date falls on a weekend, or on a public holiday, then the due date for filing and payment is moved to the next working day.

As of May 2017 electronic filing of VAT returns via the Taxisnet system is mandatory for all taxable persons VAT registered in Cyprus with the exception of those registered under the special scheme of taxis and farmers. Registration to Taxisnet may only be effected electronically through the relevant website as per below:

[www https://taxisnetreg.mof.gov.cy/Account/VerifyVatNumber](https://taxisnetreg.mof.gov.cy/Account/VerifyVatNumber)

The Tax Department no longer mails tax declarations in paper format. Instead reminders are sent via e-mail to the registered e-mail address of each taxable person. The liability to submit tax declarations lies with the taxable person regardless of whether a reminder is received or not. Thus, as the Tax Department is moving to a fully digital environment it is important to ensure that the e-mail address registered with them is valid and any electronic correspondence is not blocked by server/e-mail filters as spam or junk.

Payment can be made at approved credit institutions (banks), either electronically using certain local bank's e-banking or physically, or through a direct wire-transfer to the account of the Tax Department with the Central Bank of Cyprus, the latter being normally the only option for non-Cyprus established taxable persons. Where there is VAT to be paid, payment must be effected first, and then the form can be submitted electronically (or at the District VAT Office for taxable persons under the special scheme of taxis and farmers).

## 13.3 VAT Information and Exchange System (VIES) (European sales listing)

The European sales listing is referred to in Cyprus as the VAT Information and Exchange System or VIES.

In order to register for VIES, a VAT registration with the Tax Department is firstly required. Registration with the VIES system may either be effected automatically with a company's VAT registration or via submission of form TAXISnet 01 after a VAT registration has been effected. This registration can only be effected electronically.

A VIES declaration must be submitted by the 15th day of the month, following the reporting month. If the due date falls during a weekend or on a public holiday, it can be submitted on the next working day. It can only be submitted electronically. There is no threshold for VIES meaning that if a Cyprus-based supplier who is not VAT registered, supplies a service to a taxable person in another Member State, and the VAT is due in that Member State, then the Cyprus supplier must register with the Cyprus Tax Department in order to further register for VIES and declare the transaction therein. The Tax Department has issued Information Leaflet 17, dated July 2013, on VIES.

## 13.4 National recapitulative statement

Cyprus has no national recapitulative statements.

## 13.5 Tax assessment period

The Tax Department has the right to issue a VAT assessment within six years from the end of the VAT period, or the date of importation or acquisition, under review. In the case of fraud or purposeful omission, the period of assessment can be extended to twelve years.

# 14. Penalties

Penalties for non-compliance are governed by Articles 45-48 of the VAT Law.

## 14.1 Penalties for failure to meet VAT compliance obligations

The following table summarises the main compliance penalties imposed under the VAT Law:

Non compliance	Penalty
Late registration	€85 per month
Late deregistration	€85 one off
Late submission of VAT return	€100 per return
Late submission of VIES return	€50 per return
Late submission of Intrastat return	€15 per return
Late correction of mistake on VIES return	€15 per return
Failure to issue a lawful receipt	20% of the value of the supply
Failure to correctly apply reverse charge mechanism (from 1 July 2021)	€200 per return, to a maximum of €4.000

## 14.2 Penalties for not paying VAT on time to the Tax Department

Failure to settle the VAT payable amount by the due date will incur a one off penalty of additional tax equal to 10% on the VAT payable amount not duly settled. Interest will also be charged at the rates noted below for each complete month the outstanding VAT amount is not settled. The rate of interest on unpaid taxes, contributions or charges payable to the Government is interest based on the Unified Public Interest Rate for Overdue Payments which is fixed annually by the Minister of Finance by virtue of section 4(1) of the Unified Public Interest Rate for Overdue Payments Law of 2006, Law 167(I)/06. The historic rates of interest on unpaid taxes are as follows:

Date	Interest Rate
2006 and prior years:	9,00% p.a.
2007-2009:	8,00% p.a.
2010:	5,35% p.a.
2011-2012:	5,00% p.a.
2013:	4,75% p.a.
2014:	4,50% p.a.
2015-2016:	4,00% p.a.
2017-2018:	3,50% p.a.
2019	2,00% p.a.
2020	1,75% p.a.

## 14.3 Penalties on VAT assessments when VAT is not reported correctly

The following penalties can be imposed:

- additional VAT of 10% on the output VAT due but not accounted for;
- annual interest (see **Section 14.2** above) calculated on both the output VAT due and the 10% additional tax; and
- criminal penalties of up to 300% of the output VAT if tax evasion is detected.

In case of fraudulent evasion of VAT, the penalty is up to three years' imprisonment and/or a fine up to three times the amount of VAT payable. In case of receipt of goods on which VAT was evaded, the penalty is up to twelve months' imprisonment and/or a fine of €8.543. If VAT shown in an assessment issued by the Commissioner of Taxation is not paid, the penalty is up to twelve months' imprisonment and/or a fine of €8.543.

Directors and officers, including secretary, of a legal entity are considered liable for any criminal obligations of the company.

# 15. Intrastat

In Cyprus a separate monthly Intrastat return must be submitted to the Cyprus Tax Department by the tenth day of the month, following the reporting month. It can only be submitted electronically.

## 15.1 Intrastat threshold

The 2020 reporting thresholds are provided below. Readers can refer to the Cyprus Tax Department website for updated information using the following link:

[http://www.mof.gov.cy/mof/tax/taxdep.nsf/page91\\_gr/page91\\_gr?opendocument](http://www.mof.gov.cy/mof/tax/taxdep.nsf/page91_gr/page91_gr?opendocument)

For both arrivals and dispatches, there are two reporting thresholds to bear in mind. The exemption threshold is the threshold under which no declaration is required. There is also the simplification threshold. If the total value of the relevant commercial transactions since 1st of January falls between the two thresholds, then only limited information is required on the Intrastat form. If the value of the transactions exceeds the simplification threshold, then all the information is required.

For the calendar year 2020, the following thresholds apply for Intrastat:

For arrivals:	For dispatches:
Exemption threshold is € 180.000	Exemption threshold is € 55.000
Simplification threshold is €2.700.000	Simplification threshold is € 5.800.000

A trader may appoint an agent to file Intrastat returns on its behalf.

## 15.2 Intrastat data to be reported

The information which needs to be reported for both the arrivals and the dispatches is the following:

- the Member State of dispatch or destination;
- VAT number;
- the reference period (i.e. the reporting month);
- the nature of the movement of the goods (i.e. arrival or dispatch);
- the HS Code (eight-digit harmonised commodity code according to Combined Nomenclature (CN));
- the invoice value of the goods;
- the statistical value;
- the quantity of the goods (i.e. net weight in kilograms);
- other measure for certain goods (e.g. litres, m<sup>2</sup>, or number of pieces);
- the country of origin (e.g. where the goods are produced or made or processed);
- the nature of the transaction (e.g. purchase, sale, return of goods, reparation etc.); and
- mode of transport, for instance “by road” or “by sea”.



## About Chelco VAT Ltd

**Chelco VAT Ltd** was formed in 2012 by highly accomplished indirect tax professionals with a combined 35 years of experience in the field.

Based in the business capital of Cyprus, Limassol, Chelco VAT is now considered one of the foremost authorities on indirect tax matters in Cyprus. It has founded its success on the provision of specialised, highly customised and practical VAT solutions that are based on years of experience, knowledge and expertise in the field of VAT.

Moreover, Chelco VAT is also a leader in the organisation of training seminars and workshops for businesses and professionals alike. The firm's professional development program includes general conferences, specialised training seminars and in-house technical courses and workshops.

The firm maintains strong and durable relationships with the island's key public and private organisations, including the Cyprus Tax Department, as well as professional bodies and decision makers and is frequently consulted on VAT and other industry policy-making decisions.

Chelco VAT also works closely with an alliance of like-minded indirect tax specialists in jurisdictions around the world, allowing it to offer a wide range of VAT solutions to a local and international clientele.

Chelco VAT is a founding member of the Cyprus VAT Association (CYVA).

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Alexis sits on various committees charged with VAT matters and has authored a number of tax syllabuses. He advises domestic and international clients, as well as reputable international professional bodies on EU VAT.

He lectures extensively on VAT and has written a number of tax syllabuses, chapters and articles on matters pertaining to Cyprus and EU indirect tax. He is the author of the book "An in-depth analysis of the Fixed Establishment concept and a comparison with the Permanent Establishment concept".



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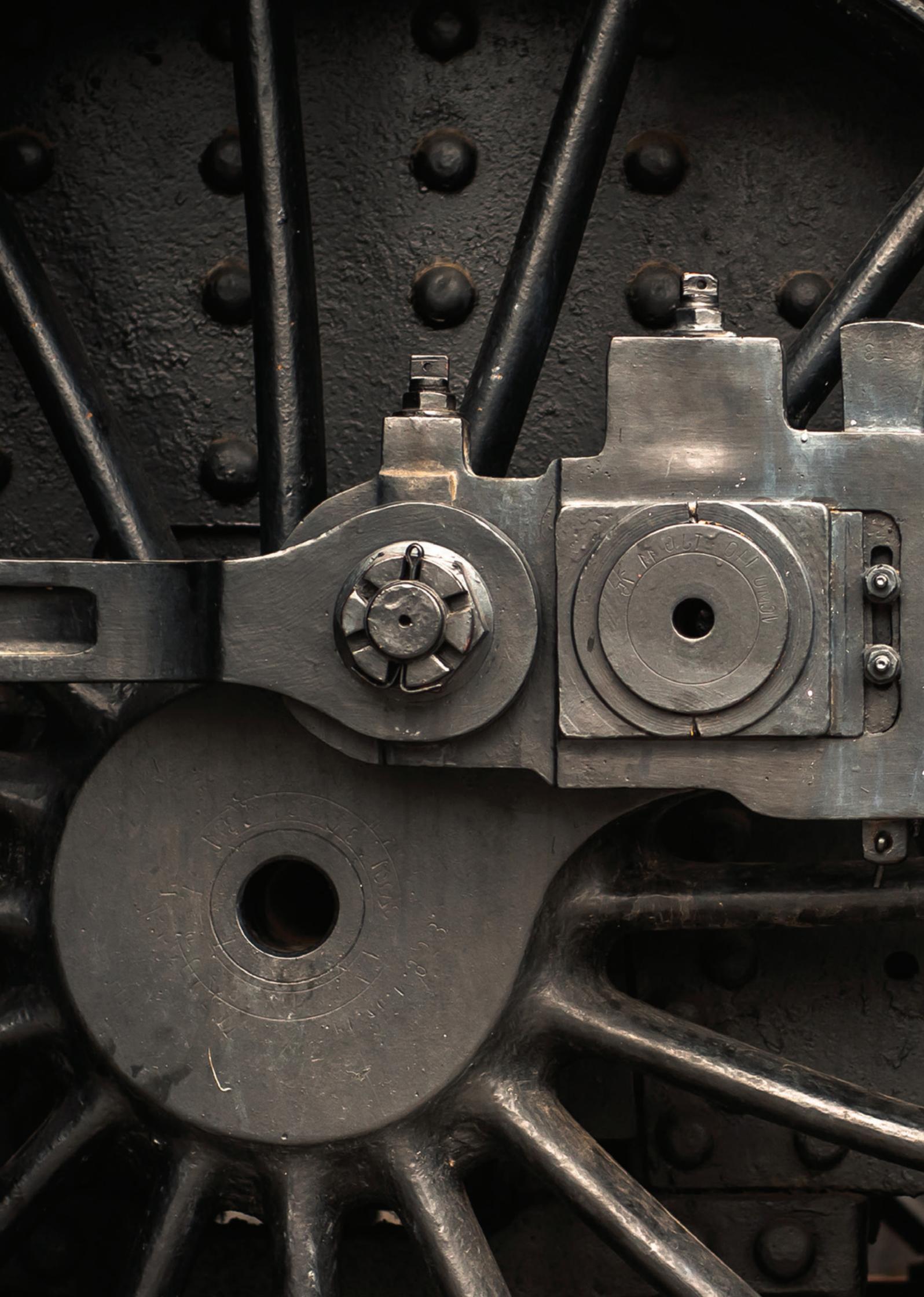
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