

VAT refund for acquisition of building land

October 2019

The Cyprus Council of Ministers has decided during its meeting on the 11th September 2019 to approve a scheme for a subsidy (VAT refund) to be granted for VAT imposed on the acquisition by individuals of undeveloped building land to be used for construction of qualifying primary residence. Following the Council's meeting, the Commissioner of Taxation issued Administrative Regulatory Act 302/2019, which contains the relevant application form for claiming the refund. In addition, the Cyprus Tax Office issued a relevant explanatory note on the subject.

It is noted that the EU VAT Directive, as well as the local VAT legislation, do not allow for a reduced rate on the supply of land. Therefore, the purchase of building land will continue to be subject to the standard rate of 19%, with a 14% refund being granted in cases where the land acquired will be used for construction of a qualifying primary residence; thus bringing the effective VAT rate down to 5%.

Through the above scheme, the effective VAT rate on undeveloped building land will be aligned with the 5% effective rate applying on the construction of qualifying primary residence.

In order to be eligible for the scheme and claim the refund, the land to be acquired must be destined for the construction of the applicant's main and primary residence in Cyprus (which must also be eligible for the reduced VAT rate).

It is further clarified that the scheme will apply for qualifying plots that have already been acquired on or after 2 January 2018 and were subject to VAT at the standard 19% rate.

To claim the refund, the relevant application form must be submitted with the Cyprus Tax Department, either during or after the submission of the application for the reduced VAT on the construction of the primary residence. The application must be accompanied by the sale purchase agreement (duly stamped), as well as the original invoice issued by the seller of the land.

In order to receive the refund, the applicant must submit, within 6 months from taking delivery of the residence, supporting documentation to prove that it is used as his main and primary residence (e.g. copies of utility bills such as phone, electricity, water supply etc).

It is yet to be clarified whether there will be any restrictions based on the size of the land (similar to the restrictions for the primary residence). Totalserve will be updating this document with developments as needed.

