



## **Cyprus amends its list of supplies under the 5% VAT reduced rate**

**17 December 2015 - Cyprus recently amended its list of supplies under the 5% VAT reduced rate.**

The Cypriot Council of Ministers retains the right as per the VAT legislation to issue regulations in order to make amendments to Schedule 5 of the Cyprus VAT laws, which deals with the supplies that are subject to the reduced rate of 5%.

The following Amendments to the reduced VAT rate of 5% in the Cyprus VAT legislation have recently been published:

### **1. Amendment to the definition of ‘dwelling’ for reduced rate for housing – amendment as of 4.12.2015 – Regulation ΚΔΠ 423/2015**

As of 19 October 2007, Cyprus had included the provision of services of renovation and repairs of private dwellings under the reduced rate of 5%. The reduced rate is restricted to specific types of services. The term ‘dwelling’ was defined as a specifically designed and shaped, covered building, used as the main and principal place of residence.


The amendment now deletes the words ‘main and principal’ rendering the possibility to apply the reduced rate to the maintenance and repairs of all dwellings, whether used as a main and principal residence or not.

### **2. Introduction of reduced rate to new types of services relating to repairs and maintenance of private dwellings – amendment as of 4.12.2015 – Regulation ΚΔΠ 423/2015**

With this amendment, the reduced rate can also be applied to renovations and repairs of private dwellings where the works carried out involve the upgrading of the static foundations of the building, or the improvement of the building’s energy efficiency. The reduced rate is restricted to specific types of dwellings either used by vulnerable consumers (defined in the regulation), or which are located in specific areas on the green line.

### **3. Amendment to the reduced rate on the supply of liquid petroleum gas (LPG) in cylinders – amendment as of 2.10.2015 – Regulation ΚΔΠ 324/2015**

Some of the provisions of the EU VAT Directive require Member States to consult the VAT Committee before they make use in their national legislation of options provided to them by the Directive. Cyprus was allowed, following consultation with the VAT Committee, to apply the 5% reduced rate of VAT to supplies of liquid petroleum gas (LPG) when supplied in cylinders. The national legislation however, up until the date of the amendment, incorrectly allowed the use of the 5% reduced rate on all supplies of LPG, whether in cylinder or not.



The Department of Taxation promoted an amendment through the Council of Ministers to correct this, with the words ‘in cylinders’ added to the Schedule 5 wording, thus harmonizing the national law with Article 104a of the VAT Directive.

Unfortunately, the timing of the amendment was when households and businesses would fill their tanks with LPG to heat their houses and businesses, resulting in a public outcry.

Given the forthcoming parliamentary elections in 2016, the political parties in opposition took advantage of the situation to criticize the amendment on social grounds, despite the fact that this was legally the correct course of action. This resulted in the Commissioner of Taxation issuing Interpretive Circular 196, explaining that if the vehicle carrying the LPG has a cylindrical shape, which most do, and if the gas tank which stores the LPG to heat homes and businesses was also of a cylindrical shape, which again is the case, then the reduced rate could also apply to these supplies (such as filling the home cylinder).

This has effectively resulted in the reduced rate once again being applied to most supplies of LPG in Cyprus, contrary to the provisions of Article 104a of the VAT Directive.

Interpretive Circular 196 also cancelled the previously issued Interpretive Circular 193 which had stated the legally correct position of when the reduced rate could apply, being only to LPG supplied in cylinders.

All Interpretive Circulars can be found at the following link:

<http://www.mof.gov.cy/mof/VAT/VAT.nsf/All/EB4F13A5B6603053C225723C002A8DDF?OpenDocument>