

BRIEF NOTES ON THE NEW VAT LEGISLATION

1. Changes to the place of supply

As from 1 January 2010 the basic rule is that all supplies of services are taxable at the place of the recipient of the service through the reverse charge mechanism. However, certain exemptions apply where the services are taxable at the place of the provider. The main categories of services that are exempt are:

1. Services relating to immovable property
2. Cultural, artistic, entertainment, etc
3. Passenger transportation
4. Scientific and educational services
5. Restaurant/catering services

2. Changes to VIES reporting

In addition to the above, all companies that provide services to EU business persons that do not fall into any of the above exemptions should report for these services via the VIES II return on a monthly basis and the submission of the VIES II return will be done only electronically by the 10th day of the month following the month it relates to. Therefore, the January 2010 declaration must be submitted electronically the latest by February 10, 2010.

The services which must be included in this new declaration which should specify the EU country to which they are rendered along with the EU VAT number of the recipient, are solely services which will be taxed for VAT purposes in the other member state. Services which are supplied to persons established outside the EU must not be included.

3. Businesses affected by the new legislation

With the implementation of the new legislation all businesses which (a) provide services to EU member states (b) receive services from EU member states or (c) receive services from Non EU member states must register with the VAT authorities regardless of their turnover and treat such services as taxable by applying the provisions of the reverse charge mechanism.

4. Application of the reverse charge

The reverse charge applies where a person who belongs outside Cyprus supplies services to a person in Cyprus for business purposes. The place of supply for those services is therefore Cyprus and the reverse charge must be applied by the Cypriot business on the relevant VAT return.

From 1 January 2010 the time of supply for reverse charge services will be based on when the service is performed. From singles, this means that the tax point will occur when the service is completed or when it is paid for, whichever is the earliest.

5. VAT Refunds

As from 1 January 2010, the existing procedure for refund of VAT paid in another member state will be replaced with an electronic procedure. Moreover, in case of a delay in the refund of the VAT by a member state, interest will be paid to the business for the period of delay.

The deadline for the submission of the claim for VAT refund is extended by 3 months from 30 June of the next year to 30 September.

For more information, please contact our tax partner at +357 22667734.