

VAT rates

The legislation provides for the following tax rates:

- □ zero rate
- □ reduced rate (5 percent) from 1 July 2000
- □ reduced rate (8 percent) from 1 August 2005
- □ standard rate (15 percent) from 1 January 2003

Zero rate

Supply of goods and services to other EU member states Exports to non-EU countries
Foodstuffs.

Commissions received from abroad for import-export of goods Certain medicines and vaccines

International air and sea transport Processing carried out on goods in Cyprus on behalf of a customer abroad provided that the goods will be exported outside the EU when the processing finishes.

Reduced rates

Hotel accommodation fees	(5%)
Supply of goods made in the course of catering (except alcoholic drinks)	(5%)
Rural and private taxi transport services	(8%)
Tourist excursions and long distance bus services	(8%)
Supply of fertilizers, animal feeding products and seeds	(5%)
Supply of live animals for human consumption	(5%)
Newspapers and magazines	(5%)
Books, magazines and newspapers	(5%)
Non-bottled water	(5%)

Liquid gas	(5%)
Transfer of persons on a rural or city bus	(5%)
Various goods for the use of handicapped persons	(5%)
Ice cream and similar products	(5%)
Funeral services and supply of coffins	(5%)
Road sweep, garbage collection and recycling	(5%)
Services of authors, composers and artists	(5%)

Exemptions

The following services are exempt from VAT:

- a. Rents
- b. Most medical services
- c. Most insurance and financial services
- d. Educational services
- e. Management services provided to mutual funds.

Registration

Registration is compulsory for businesses with turnover in excess of €15.600 in a year or with an expected turnover in excess of €15.600 in a thirty day period that follows.

Businesses with less than this turnover have the option to register only if they so elect.

An obligation for registration also arises for businesses which make acquisitions of goods and from other EU member states in excess of €10.252 during any calendar year.

A person who has a business establishment in Cyprus or the usual place or residence/place of incorporation is in Cyprus that provides supplies (goods or services) only

outside Cyprus, has the right to register for VAT and thus recover all the VAT incurred on his/her expenses, provided that these supplies would have been taxable in Cyprus had they been provided in Cyprus.

Exempt goods and services and transactions of capital nature are not taken into consideration when determining the annual turnover for registration purposes.

Grant for acquisition of first residence

The grant is given to entitled persons for the construction or purchase of a new house or the transfer of ownership of a building which is used as the main permanent residence.

The application for the grant is submitted to the Ministry of Finance, in relation to houses for which an application has been submitted for the issue of planning permission after 1 May 2004. Persons entitled to this grant are individuals who are citizens of the republic of Cyprus or of any other EU member state who resides permanently in the Republic of Cyprus and has reached the age of 18 at the time of application.

The grant is given for houses whose total area does not exceed 250 m² and the level of the grant is limited to 130 m² (extended for families with four and more children) and depends on the type of the property and on whether the house was constructed or purchased. The relevant legislation provides that the level of the grant will be adjusted annually for the increase in the Retail Price Index.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies, are not entitled to recover the VAT charged on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

acquisitions used for making exempt supplies purchase, import or hire of saloon cars
entertainment and hospitality expenses (except those relating to employees and directors)
housing expenses of directors

VAT declaration - Payment/return of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made within 10 days of the second month that follows the month in which the tax period ends.

VAT registered persons and companies have the right to request for a different filing period. Approval of the VAT Authorities is required. Where in a quarter input tax is higher than output tax, and therefore a repayment is due, the difference is refundable or is transferred to the next VAT quarter.