



**MINISTRY OF FINANCE  
DEPARTMENT OF CUSTOMS AND EXCISE  
VAT SERVICE**

# **International Business Entities (IBEs)**



**VAT  
SERVICE**

***INFORMATION LEAFLET 15 (EN)  
December 2008***



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VAT SERVICE

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### 1.1. What is this leaflet about

## 1. INTRODUCTION

This leaflet lays out the main provisions of the VAT Law No. 95(I)/2000 to 2008 and VAT Regulations of 2001 to 2008 which also apply to IBEs.

The VAT Legislation does not distinguish between IBEs and other registered businesses in Cyprus. In actual fact, there is no reference to IBEs in the new legislation. As a result, IBEs are treated equally for VAT purposes to any other business registered in Cyprus. Any reference to IBEs in this leaflet, also applies to any other business registered in Cyprus.

The provisions of VAT Regulations 154/92, regarding VAT relief on goods imported free of duty by IBEs and their expatriate personnel and the zero rating of telecommunication services to IBEs, seized to apply as from 1<sup>st</sup> February 2002, the date at which the new VAT legislation came into force.

## 2. REGISTRATION

### 2.1. Which IBEs belong in the Republic

IBEs which have a business establishment in Cyprus, that is those which maintain a fully fledged office in Cyprus (with necessary manpower equipment) or their management and control is exercised from Cyprus, belong in the Republic. Such IBEs, depending on the nature of their supplies could be liable for registration, could be entitled for registration or even they could be exempt from registration altogether.

In order to decide whether an IBE is liable or entitled for registration in the VAT Register, the place of supply of its transactions must first be determined.

## 2.2. Liability for Registration

IBEs which belong in the Republic and make taxable supplies whose place of supply is the Republic are liable to register if the value of their supplies exceeds the €15.600 registration threshold.

If such taxable supplies are taxed with the standard or reduced rate of VAT they must account for output tax on these supplies. Examples of such supplies made in the Republic include the following:

- supply of management services to other IBEs in the Republic,
- supply of management services to other businesses outside the Republic.

It must be emphasised however that, due to the fact that the term “management services” has a broad meaning, the tax treatment of the supply of such services, will be determined following a thorough examination of the exact nature of such services supplied.

Liability to register may also arise due to the reverse charge provisions for services received from abroad, described in the Third Schedule of the VAT Law No. 95(I)/2000 to 2008. For further details, see paragraph (3) below.

If an IBE makes supplies which are taxable under the zero rate of VAT, (Sixth Schedule of the VAT Law No. 95(I)/2000 to 2008), it becomes liable to register if the value of these supplies exceed €15.600 p.a., despite the fact that no output tax will have to be accounted for. Examples of such supplies made within the Republic include the following:



- Supply of goods intended to be placed in customs warehouses, bonded warehouses or free - zones or to subjected to a temporary importation, transit or transshipment regime.
- Services supplied by brokers and other intermediaries, acting in the name and for the account of another person, where the services form part of supplies taxed under the zero rate of VAT or supplies made outside the Republic (paragraph 9, Sixth Schedule of the VAT Law No. 95(I)/2000 to 2008).
- Supply of services to meet the direct needs of sea-going vessels in any port or outside the Republic. Details regarding such supplies are laid out in Circular 68 of the VAT Service.

### 2.3. Voluntary Registration

IBEs which belong in the Republic and make supplies whose place of supply is not in the Republic, have no liability to register.

However, under Section 10 of the First Schedule of the VAT Law No. 95(I)/2000 to 2008, when a person who is not liable to register under the VAT Law and is not already so registered, satisfies the Commissioner that he:

- (i) has a business establishment (including a branch or agency) in the Republic or his usual place of residence is in the Republic;
- (ii) does not make and does not intend to make taxable supplies within the Republic; and

(iii) makes supplies outside the Republic which would be taxable if made within the Republic or is carrying on a business and intends to make such supplies in the course or furtherance of that business;

the Commissioner shall, if the person so requests in writing, register him with effect from the day on which the request is made or from such earlier date as may be agreed with the Commissioner.

#### 2.4. What the term "supply" covers

It must be noted that the term "supply" covers both the supply of goods and the supply of services done for a consideration. Examples of such supplies made outside the Republic, are the following:

- Supply of goods which are not in the Republic (the place of supply is where the goods are at the time of supply).
- Supply of services, described in the Third Schedule of the VAT Law No. 95(I)/2000 to 2008, to a person which does not belong in the Republic (the place of supply is where the recipient of the services has his business establishment or permanent establishment or if it is a legal person who has neither a business establishment nor a permanent establishment then the place of supply is the place of his incorporation).
- Where the supply of services consists of the letting or hire of any means of transport or services described in paragraph 8 or 9 of the Third Schedule of the VAT Law No. 95(I)/2000 to 2008, they shall not be treated as supplied in the Republic to the extent that the effective use and enjoyment of services takes place outside the Republic.

The above provisions allow IBEs which belong in the Republic, to register for VAT, even though, they will not have to account for any output tax. As a result, they will be eligible to recover VAT charged on taxable supplies received and on the importation of goods.

It must be noted that IBEs whose taxable turnover does not exceed the €15.600 annual registration threshold, i.e. they make taxable supplies which are subject to the standard, reduced or zero rate of VAT of an annual value of less than €15.600, can apply for voluntary registration. In such a case, the registered IBE must account for VAT for all taxable supplies but at the same time is entitled to a credit for the input tax which is allowable to be deducted from any output tax that is due from the IBE.

## 2.5. Exemption from Registration

The supply of services described in the Seventh Schedule of the VAT Law No. 95(I)/2000 to 2008 are exempted from VAT, regardless whether they are supplied in the Republic or outside the Republic.

IBEs, which belong in the Republic and make such supplies are not liable or entitled for registration. Examples of such supplies include the following:

- The supply of financial services;
- Insurance and reinsurance transactions including those performed by insurance agents, brokers and brokers' agents;
- Interest receivable;
- Rents receivable, regarding leasing or letting of immovable property.

### 3.1. Services falling under the Third Schedule

## 3. REVERSE CHARGE

IBEs which belong in the Republic and are registered with the VAT register and receive services described in the Third Schedule of the VAT Law No. 95(I)/2000 to 2008, must treat such supplies as if they had been supplied by them in the Republic in the course of their business, and account for VAT. Such VAT, if attributable to taxable supplies, will give rise to the right of deduction as input tax.

However, if this is the sole type of “supplies” of an IBE in Cyprus which is not registered and their value exceeds €15.600 p.a. then liability to register for VAT purposes is born.

### 4.1. Right of deduction of input tax

## 4. RECOVERY OF INPUT TAX

Section 21 of the VAT Law No. 95(I)/2000 to 2008 allows IBEs which are registered for VAT in the Republic, to recover VAT charged on supplies of goods and services received from local providers and on goods imported.

Of course, the normal provisions regarding the right for input tax deduction apply, which means that no input tax can be claimed for the purchase or importation of a saloon car or for any entertainment expenses. Moreover, no input tax can be claimed which is attributable to exempt supplies. For example, IBEs whose activities include supplies of financial or insurance services, can not recover VAT paid on goods and services received which are attributable to such exempt supplies.

**5.1. Which IBEs  
can apply for  
VAT refund**

**5.2. How VAT  
is refunded to  
foreign traders**

**6.1. Conditions  
for group  
registration**

## 5. VAT REFUNDS TO OVERSEAS TRADERS

IBEs, which do not belong (including a branch or agency) in the Republic can not register for VAT in the Republic. However, they may claim VAT incurred in the Republic regarding supplies for business purposes, subject to rules for claiming input tax, under the provisions of the Regulations for VAT Refunds to overseas traders.

### 6.2. Transactions made by a group

If an IBE is registered for VAT in any Member State of the European Union or is registered for business purposes in a country which is not a Member State but allows similar concessions to Cypriot traders in respect of its own turnover taxes, it may claim a refund of VAT incurred in the Republic, regarding goods and services used in the course of its business. For example, it may claim VAT refund for goods bought and used in the Republic during its participation in a trade fair as well as VAT charged on its participation. However, it can not claim VAT for any business entertainment expenses in the Republic.

## 6. GROUP REGISTRATION

The VAT Law No. 95(I)/2000 provides for group registration. According to section 32 of the Law, two or more bodies corporate are eligible to be treated as members of a group if each one has been established in the Republic and:

- one of them controls each of the others, or
- one person (whether a body corporate or an individual) controls all of them, or

- two or more individuals carrying on a business in partnership, control all of them.

An application can be made to the VAT Service for two or more eligible bodies corporate to be treated as members of a group. The application must be made by one of the bodies corporate involved (called “the representative member”) or by the person controlling them and must be made not less than 90 days before the date from which it is to take effect.

Any business carried on by a member of the group shall be treated as carried on by the representative member and any supply of goods or services by a member of the group to another member of the group is disregarded for VAT purposes. Thus, as far as management services are concerned (see example in paragraph 2.1 above), where a group registration exists, such supplies between the members of a group, are disregarded for VAT purposes.

In addition to the group registration, the new VAT legislation provides the option, under certain circumstances, for a separate registration of each business department of an enterprise.

**For further information regarding VAT Legislation and administrative procedures of the VAT Service, you may contact the Local VAT Office of your District.**



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