



Tax Circular 1 September 2010

VAT CHANGES EFFECTIVE ON 1 JANUARY 2010

The following amendments to the VAT legislation have taken place:

1. Changes to the country of taxation of services provided between businesses (B2B). These changes are effected as from 1 January 2010.
2. Compliance obligations for persons who supply intra-community services and goods. These additional compliance obligations became effective as from 1 January 2010.
3. Changes in the time of receipt of services for which VAT is due by the recipient.
4. Changes in the VAT registration thresholds as from 1 January 2010.
5. Procedure for refund of VAT paid in another Member State (MS). This new procedure comes into effect as from 1 January 2010.
6. Changes to the country of taxation of services supplied to consumers (B2C). These changes became effective as from 1 January 2010. However, there will be changes that will have effect as from 2011, from 2012, from 2013 and as from 2015.

1. Services provided between businesses (B2B)

The European Council has approved changes with regard to the country of taxation of services for VAT purposes, which apply as from 1 January 2010.

The aim of the changes is to shift the place of taxation for VAT purposes of the services provided between businesses from the Member State at which the service provider is established to the Member State at which the recipient of the services is established.

These changes apply for all services except for the following:

- (a) Services which are directly related to immovable property
- (b) Passenger transport services
- (c) Short-term hiring of means of transport
- (d) Services and ancillary services relating to culture, educational, scientific, sporting, entertainment and similar events including the services of organisers
- (e) Restaurant services and catering services

The VAT legislation which became effective includes special rules for taxation of specific services according to their effective use and enjoyment. These rules aim to avoid double taxation or non taxation.

Appendix 1 relates to a diagrammatical representation of the place of supply rules for services as per the provisions of the new legislation.

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2. Compliance Obligations

As from 1 January 2010 businesses are required to complete and submit a declaration (VIES) for intra-Community supply of services for which the recipient is liable to account for VAT under the reverse charge provisions in another EU Member State.

Services which in the country of the recipient (a) are exempt from VAT or/and (b) are zero rated, must not be included in the declaration for intra-Community supply of services.

Consequently these rules require businesses to have a full understanding of the VAT treatment of the services in the Member State of the recipient.

The VIES form needs to be submitted on a monthly basis. The VIES form need to be submitted by the fifteenth day of the month following the month for which it relates.

From 1 January 2010 there is one VIES form for intra-Community supply of goods and services. The VIES form can only be submitted electronically.

3. Changes in the time of receipt of services from abroad on which Cypriot VAT must be self charged

The time of receipt of services which are subject to VAT by the recipient under the reverse charge rules (ie the time of application of the reverse charge rules) is as from 1 January 2010 the earlier of:

- (a) date in which the supply of the services was completed, or
- (b) date of payment for the receipt of the services.

For services which are received on a continuous basis, the time of supply (i.e. the time of application of the reverse charge rules) is as from 1 January 2010 the earlier of:

- (a) date of payment for these services, or
- (b) date of issue of an invoice, or
- (c) in case no payment is made and invoice is issued within the calendar year the end of the calendar year, for the amount due as at that date.

4. Changes in the VAT thresholds as from 1 January 2010

As from 1 January 2010 no VAT registration threshold exists for:

- (a) businesses which are engaged in the provision of intra-Community supply of services for which the recipient must account for VAT under the reverse charge provisions in another EU Member State and/or
- (b) from the receipt of services for which the recipient business must account for Cyprus VAT under the reverse charge rules. This applies for Cyprus businesses which are carrying out economic activities.



5. Refund of VAT paid in another Member State

As from 1 January 2010 the existing procedure for refund of VAT paid in another Member State is replaced with a new electronic procedure.

The aim of the new procedure is to achieve faster refund of the VAT to the claimants. In addition in case of delay in the refund of the VAT from any Member State, the Member State is liable to pay interest to the business for the period of the 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.

6. Services supplied to consumers (B2C)

The general rule will continue to be that the place of taxation of services is the place where the supplier has established its business. However, if the services are provided from a fixed establishment in a place other than the place where the supplier has established its business, the place of supply will be the place where that fixed establishment is located.

Exceptions to this general rule continue to exist. These are based largely on existing criteria and reflect the principle of taxation at the place of consumption. For example, exceptions include:

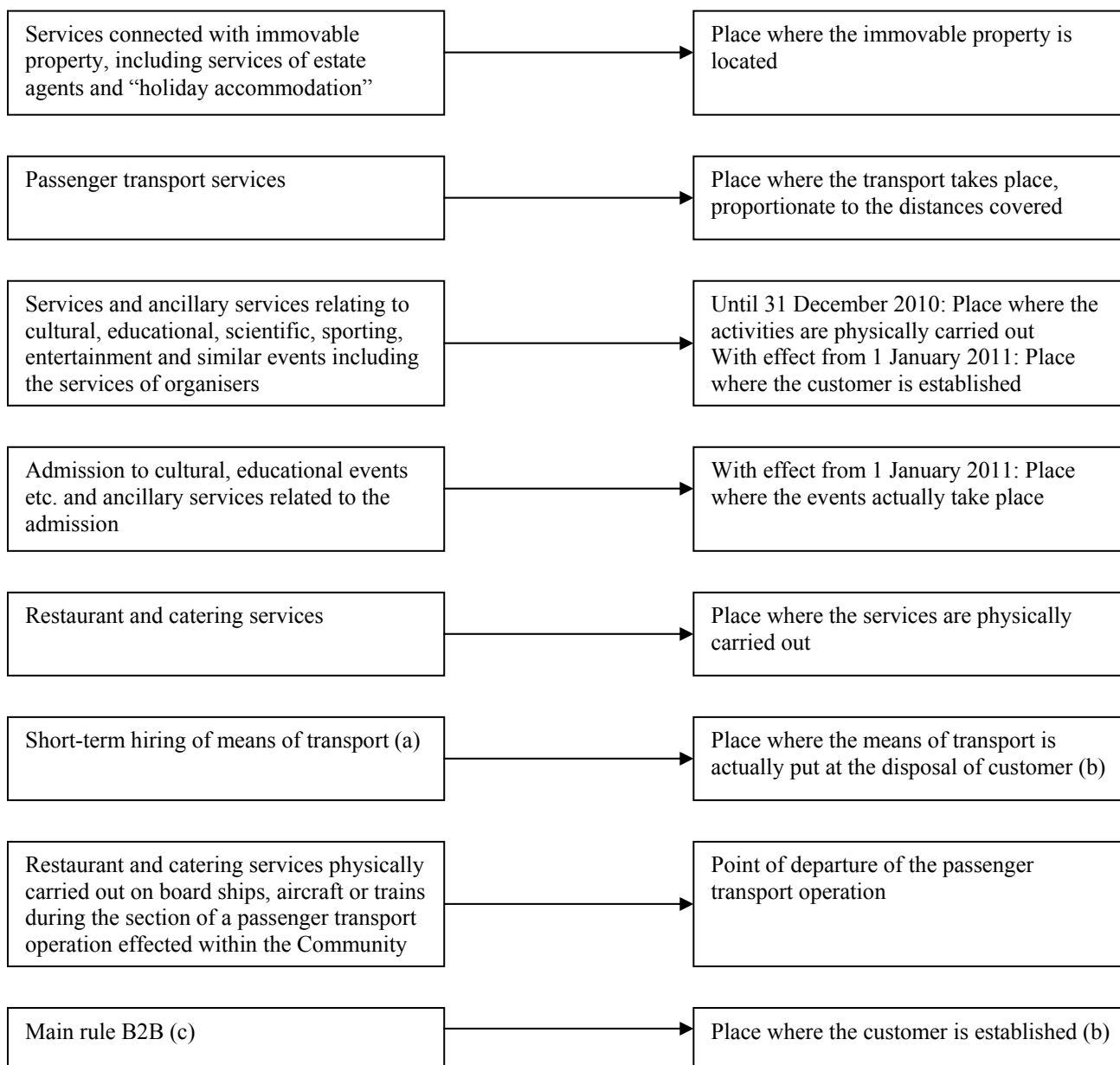
- (a) Short-term hiring of a means of transport (place of supply is the place where the means of transport is actually put at the disposal of the customer – subject to optional “use and enjoyment” rules)
- (b) Intermediary services (the place of supply of the underlying transaction)
- (c) Electronically Supplied Services received from outside the EU (the place where the customer is established)

Appendix 2 relates to a diagrammatical representation of the place of supply rules for services as per the provisions of the new legislation.



APPENDIX 1

Overview B2B rules as of 1 January 2010

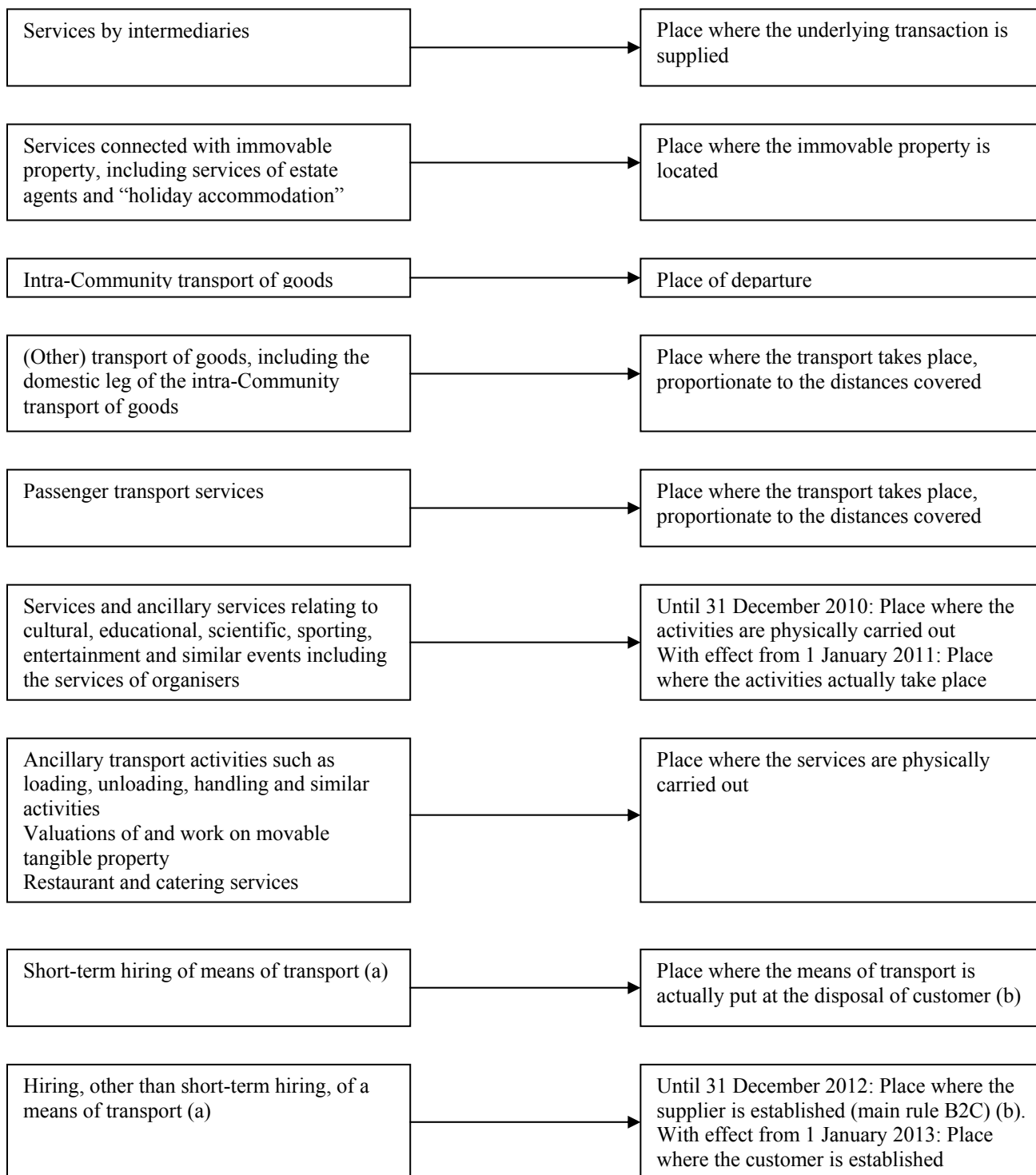


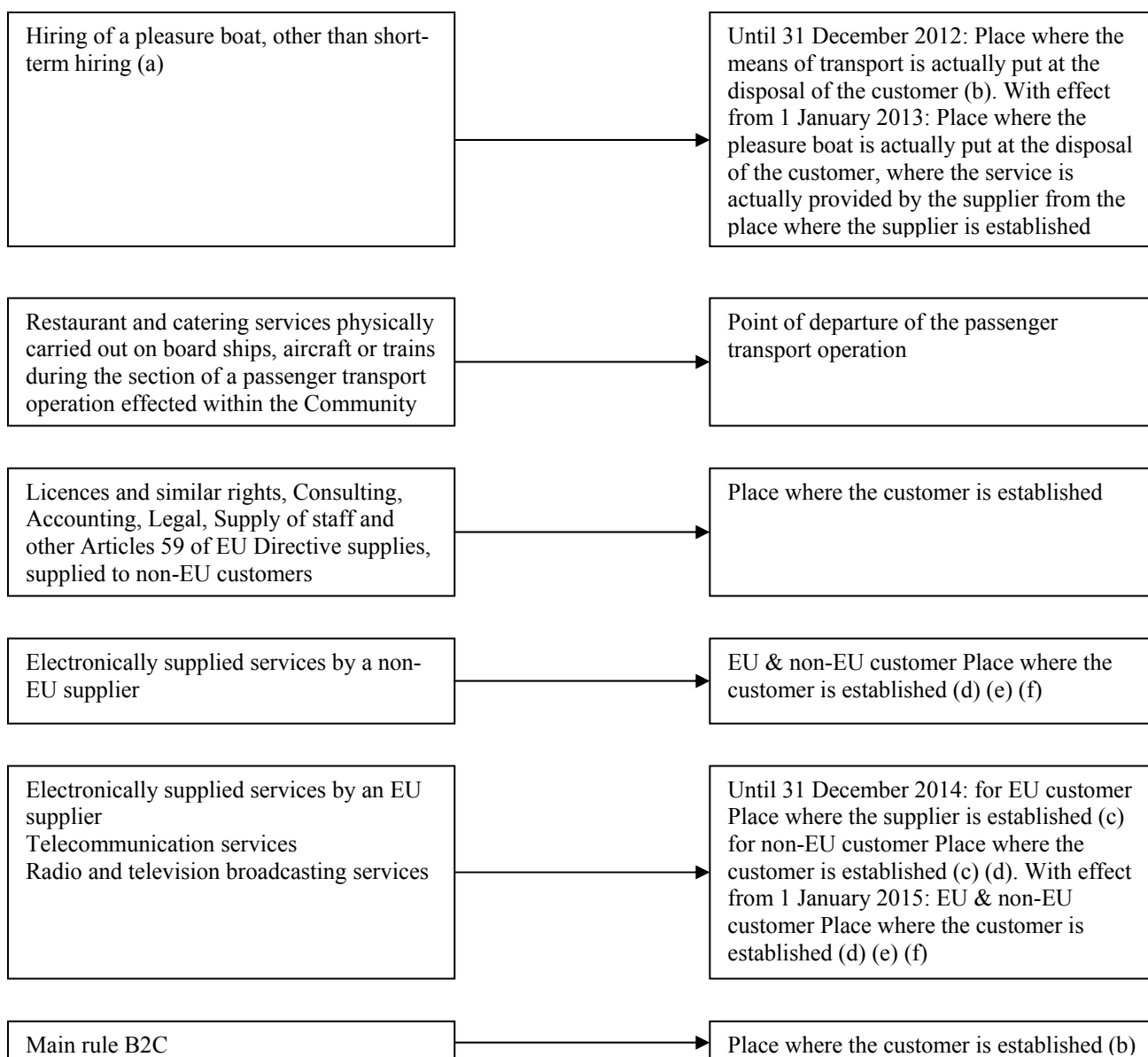
- (a) Short-term hiring of a means of transport means the continuous possession or use of the means of transport throughout a period of not more than thirty days (ninety days for vessels).
- (b) Subject to application of use and enjoyment rules. As per the VAT legislation applicable from 1 January 2010 use and enjoyment rules exist for the following services:
- (1) Telecommunication services
 - (2) Radio and television broadcasting services
 - (3) Electronically supplied services
 - (4) Leasing of movable goods
 - (5) Leasing of means of transport
 - (6) Services of transportation of goods (other than intra-Community transport)
- (c) The reverse charge rules apply. For services to which the reverse charge rules apply, there is a requirement to file the VIÉS Form.



APPENDIX 2

Overview B2C rules as of 1 January 2010





- (a) Short-term hiring of a means of transport means the continuous possession or use of the means of transport throughout a period of not more than thirty days (ninety days for vessels).
- (b) Subject to application of use and enjoyment rules.
- (c) Until 31 December 2014, the application of the effective use and enjoyment rules is mandatory in situations where, on the basis of the normal place of supply rules, the place of supply of the service is outside the EU.
- (d) Until 31 December 2014, the effective use and enjoyment rules cannot be applied to electronically supplied services to customers outside the EU.
- (e) With effect from 1 January 2015, the implementation of the effective use and enjoyment rules is optional for all electronically supplied services that are regarded to take place outside the EU on the basis of the normal place of supply rules.
- (f) For EU and non-EU suppliers, the mini-one-stop-shop regime will apply.