

# HOUSE OF REPRESENTATIVES APPROVED THE AMENDMENT OF THE LAW FOR 5% VAT ON FIRST HOMES



On 08 June 2023, the House of Representatives passed a bill amending the current legislative framework allowing for a reduced VAT rate of 5% levied on first homes on the Value Added Tax Law 119(I) of 2016 (the "**Law**"). The new amendment of the Law is subject now to the European Commission's approval to come into force.

## The previous version of the Law:

As from the 1st of October 2011, a reduced rate of 5% could be imposed on purchasing or construction of a dwelling (house or apartment) in Cyprus, as long as the dwelling is used as the principal and permanent residence in the Republic by the beneficiary, meaning the owner cannot rent the property and benefited with 5% VAT. The beneficiary is obliged to use the property as his/her main and permanent residence.

**The reduced VAT rate of 5% applied on the first 200 square meters** of the buildable area of the dwelling. In cases of large families (minimum of four children) the total area of the dwelling is enhanced by 15 square meters per each additional child (over three children).

## The new version of the Law:

The basic legislation is amended so that **the reduced rate of Value Added Tax (VAT) of 5%**, imposed upon the delivery or construction of a house, **covers the first 130 sq.m.** of buildable area of a house, **worth up to €350,000** and provided that the total value of the transaction does not exceed €475,000 and the total buildable area of 190 sq.m., which as explained above, is used from the beneficiary as main residence.

For example if a house is 175 sq.m., its buildable area is valued €320,000 and its total transaction value is €420,000, the first 130 sq.m. are charged with 5% VAT and the rest 45 sq.m. are charged with 19% VAT. On another example, if the house is more than 190 sq.m. of buildable area or its value exceeds €475,000, then the VAT is 19% for the total purchase price with no deductions.

The bill approved by the House of Representatives, also provides for a summary of provision, so that in the case of people with disabilities the reduced VAT rate (5%) will apply to the first 190 sq. m. of buildable residential area.

There is also a transitional period so that the proposed regulations do not apply in cases where planning permission has been obtained or an application for planning permission has been submitted within four months of the entry into force of the proposed law. In such cases the previous regime applies.

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