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Cyprus VAT on Property: New 18-Month “First Occupation” Test

Circular 6/2026 | November 2026

The Cyprus Tax Department has issued Circular 6/2026, dated 11 November 2026, providing important guidance on the concepts of “first occupation” and “first use” of buildings for VAT purposes. The new rules, which apply from 1 September 2026, materially affect the VAT treatment of property sales, as well as the application of the reduced 5% VAT rate in certain cases.

What has changed?

Under the new framework, “first occupation” is linked to the first systematic use of a building following its delivery or construction. Such use may include occupation by the owner, self-use, leasing or another form of genuine exploitation of the property.

Importantly, “first use” requires systematic use or exploitation for at least 18 months. The 18-month period begins when the systematic use or exploitation of the property actually starts, rather than on the date on which construction is completed or the property is delivered.

The mere passage of time following completion of a building is therefore no longer sufficient to establish that first occupation has taken place. A property which remains vacant, or is used only occasionally, will generally not satisfy the new test.

What constitutes “systematic use”?

The Tax Department describes systematic use or exploitation as real, stable and substantial use of the property, taking into account its intended purpose.

Continuous or daily occupation is not necessarily required. Temporary periods during which a property remains unused, a change of tenant, or a change in the manner of exploitation do not automatically interrupt the relevant period, provided that there has been no substantive abandonment of the property.

Evidence demonstrating genuine use may include electricity consumption, tenancy agreements and other supporting documentation. Artificial or merely technical arrangements which do not reflect the property’s genuine economic or functional use will not qualify.

Why is this important for property sales?

From 1 September 2026, the supply of a building before its first occupation is generally treated as a taxable supply for VAT purposes, subject to the remaining provisions of the VAT Law.

As a result, the VAT position of a property can no longer be determined simply by looking at its construction or completion date. A newly constructed property that has remained vacant for a substantial period may still be regarded as being before first occupation if it has not undergone systematic use or exploitation for the required 18-month period.

Conversely, where a building has been genuinely and systematically used for at least 18 months, first occupation may have occurred, with corresponding consequences for the VAT treatment of a subsequent sale.

What about a residence used for less than 18 months?

The Circular specifically clarifies that where a residence is sold or transferred after having been used for less than 18 months, first occupation is not considered to have occurred.

Accordingly, an eligible purchaser may still be able to submit the relevant declaration for the reduced 5% VAT rate, provided that the other statutory requirements are satisfied.

Seasonal and tourist accommodation

The Circular also recognises that the nature and intended purpose of a property must be considered when determining whether its use is systematic.

In one example, a properly registered self-catering tourist accommodation used exclusively during the summer season is treated as being systematically exploited, notwithstanding that its actual periods of occupation are seasonal. Similarly, seasonal operation of a hotel may constitute systematic use despite the hotel remaining closed during the winter period.

This is particularly relevant to investors and operators of holiday residences, self-catering accommodation and other tourism properties in Cyprus.

Renovations and the reduced 5% VAT rate

The Circular also provides clarification concerning the application of the reduced 5% VAT rate to qualifying renovation and repair works on private residences.

For the relevant provisions, a residence is considered “old” where at least three years have elapsed from first occupation. Importantly, the required 18-month period of systematic use runs concurrently with the three-year period rather than being added to it.

Transitional arrangements

Specific transitional provisions also apply to transactions affected by the change in VAT treatment from 1 September 2026.

Depending on the circumstances, the timing of when a property is placed at the purchaser’s disposal, as well as invoices and payments made before or after the change, may affect the applicable VAT treatment. Existing transactions which commenced before 1 September 2026 should therefore be reviewed individually.

Practical implications

The changes are particularly relevant for property developers, investors, purchasers and owners of recently constructed properties.

Going forward, determining the VAT treatment of a property transaction will require consideration not only of when the property was constructed, but also when its actual use commenced, the nature of that use and whether it has continued systematically for the required 18-month period.

Appropriate records demonstrating the property’s use or exploitation should therefore be maintained, particularly where its VAT status may become relevant upon a subsequent sale or transfer.

How we can assist

Stelios Americanos & Co LLC can advise property developers, investors and purchasers on the implications of the new rules for property acquisitions, disposals and development transactions, including their interaction with contractual arrangements and the application of the reduced VAT rate.

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