

VAT on Commercial Property Leasing in Cyprus: What Landlords Should Know

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Understanding the VAT Implications for Landlords Leasing Commercial Property in Cyprus

The introduction of VAT on the rental of immovable property in Cyprus marked an important shift in the country's tax landscape. Since the amendment of the VAT Law (*Law 95(I)/2000*, as amended by *Law 157(I)/2017*) and the issuance of Interpretative Circular 218 by the Cyprus Tax Department, the leasing of commercial property may now fall within the scope of VAT, provided certain conditions are met.

This development directly affects both individual and corporate landlords, particularly those who have paid VAT on the purchase or construction of their property and wish to recover it through the imposition of VAT on their rental income.

Below, we break down what this means in practice, who it applies to, and how landlords can benefit.

1. Background and Legal Framework

Until 2017, the leasing of immovable property in Cyprus was generally exempt from VAT, regardless of whether the tenant used the property for business or private purposes. This meant that landlords could not recover VAT paid on the purchase or development of such properties.

With the amending *Law 157(I)/2017*, effective from 13 November 2017, the VAT landscape changed significantly. The new provisions, as explained in Circular 218, allow landlords to elect to charge VAT on the rental of immovable property used for business purposes.

This election is optional, but once exercised, it is irrevocable for that property.

2. When Is VAT Applicable?

VAT applies when:

- The property being rented is commercial in nature (e.g., offices, shops, warehouses, business premises); and
- The tenant (lessee) uses it for taxable business activities (not for residential or exempt purposes).

In such cases, the landlord may opt to charge VAT at 19% on the rental payments. This option must be exercised at or before the signing of the lease agreement—it cannot be applied retrospectively.

If the landlord does not opt to charge VAT, the rent remains exempt, and consequently, no VAT recovery is allowed on any related expenses or acquisition costs.

3. How the Election Works

The election to apply VAT on rent is made by the landlord, irrespective of whether they are a company or an individual.

Once the election is made:

- The landlord must register for VAT (if not already registered);
- Charge VAT on all rents relating to that specific property;
- Issue proper tax invoices;
- File VAT returns; and
- Recover input VAT previously incurred on the purchase, construction, or renovation of the property, subject to the usual 10-year adjustment period under Cyprus VAT Law.

This mechanism enables landlords who previously bore significant VAT costs at the time of acquisition to offset and reclaim part or all of that VAT over time.

4. Who Can Benefit

The option is particularly beneficial for:

- Developers and investors who purchased new commercial buildings and intend to lease them to VAT-registered tenants.

- Individual landlords who purchased property with VAT and lease it to businesses operating in taxable sectors (e.g., retail shops, offices, or logistics facilities).
- Property-holding companies within larger groups seeking VAT efficiency between group entities.

However, landlords should ensure that the tenant's business activities are taxable under VAT. If the tenant operates in exempt sectors (such as banking, insurance, healthcare, or education), then the lease cannot be subject to VAT, and the landlord will not be entitled to input VAT recovery.

5. Timing and the 10-Year Adjustment Period

One of the most critical aspects under Circular 218 is timing.

The election to charge VAT must be made at the time the lease is signed or before any right of use is granted. It cannot be made later or applied retroactively to a lease that was previously exempt.

Once the election is in place, it remains binding for that property and cannot be withdrawn.

In addition, landlords should be aware of the 10-year capital goods adjustment period under the VAT Law. This rule provides that input VAT on a capital asset (such as a building) is recoverable and adjustable over 10 years. If the use of the property changes during this period for example, from taxable to exempt use part of the previously recovered VAT may need to be repaid.

6. Example: Individual Landlord Leasing to a Company

Consider an individual who purchased a new commercial office with VAT in 2020 and now leases it to a VAT-registered company that uses the space for its taxable consulting business.

If the landlord opts to apply VAT to the rental, they can:

- Register for VAT as a taxable person;
- Charge 19% VAT on monthly rent invoices; and
- Recover the VAT paid upon acquisition of the property (subject to the 10-year adjustment rules).

This structure is often advantageous because the tenant can claim the VAT charged on rent as input VAT, while the landlord recovers previously paid VAT — resulting in a neutral VAT position overall.

However, if the landlord does not make this election, the rent remains exempt, and the VAT paid on purchase cannot be reclaimed.

7. Practical Steps for Landlords

For landlords considering this option, the following steps are key:

1. Confirm tenant eligibility: ensure that the tenant is VAT-registered and that their activities are taxable (not exempt).
2. Submit election to the Tax Department at or before the signing of the lease agreement.
3. Register for VAT if not already registered.
4. Charge VAT on all rental invoices.
5. Keep proper VAT records and file returns quarterly.
6. Monitor the 10-year adjustment period to ensure compliance and optimise recoveries.

It is also advisable to maintain clear contractual wording in the lease agreement, expressly stating that VAT will be charged on rent and identifying the parties' VAT registration numbers.

8. What if the Landlord is Already VAT Registered?

If the landlord is already VAT-registered for other business activities, the same registration can be used for the rental. The property will simply become an additional taxable activity. Care must be taken, however, to ensure that VAT returns reflect all transactions accurately and that any exempt activities are properly segregated.

9. Is the Circular Still in Force?

As of today, Interpretative Circular 218 (dated 1 January 2018) remains the most recent and authoritative guidance on this matter. No newer circular has been issued that alters these principles.

10. AGPLAW's Comment

The introduction of optional VAT on commercial property leasing aligns Cyprus with broader EU VAT practices and offers flexibility to property owners who wish to recover previously paid VAT.

Nevertheless, the decision to opt for VAT should be taken strategically and only after a full analysis of the landlord's circumstances, the tenant's activities, and the overall VAT impact on both sides. Once the election is made, it is irrevocable, and errors in timing or procedure may lead to significant VAT exposure.



How AGPLAW Can Help

At AGPLAW, our VAT and Real Estate teams assist both individual and corporate landlords in evaluating the benefits and implications of electing for VAT on commercial leases. We handle:

- Registration and VAT election filings
- Lease agreement review and drafting
- Recovery calculations and adjustment mechanisms
- Ongoing compliance and reporting
- Tax, accounting, and legal support

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