

VAT RULES FOR PLACE OF SUPPLY & REPORTING FOR VIES (EU SALES)

New VAT legislation was introduced in 2010 across the European Union (EU) which revised the 'place of supply' rules for services and implemented monthly reporting of **sales for both goods and services**.

All companies registered in Cyprus selling goods and services to other VAT registered businesses or individuals in the EU must register for VAT and VIES (EU Sales Reporting).

For Cyprus only sales and /or purchases of services from EU or Non EU persons the turnover threshold within a twelve month period for VAT registration is €15,600. For sales to EU a business must register with the first transaction.

The most important impact of the rules for the 'place of supply' is on businesses supplying and receiving "Business to Business" (B2B) services.

The three main issues that affect most businesses are:

1. Place of Supply for Services

The 'place of supply' determines in which place VAT should be applied to a transaction. For most business to business services this is where the customer is located and not the supplier.

What does this mean for your business?

VAT on services will be paid (or accounted for under the reverse charge provisions) in the country where the buyer is located. **All services** with limited exceptions (such as transport, real estate property services, entertainment and cultural events and hospitality) come under the 'place of supply rules'.

2. Reverse Charging VAT for place of Supply of Services

How the reverse charge mechanism works:

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If the customer is a business and belongs in another EU country, the supplier does not charge local VAT. Instead the customer accounts for VAT on their VAT return in their own country using the 'reverse charge' mechanism.

The customer includes as output tax on their VAT return VAT on the cost of the services at the rate they would have paid if the services had been obtained from a local business. The customer can also treat this VAT as input tax and claim it back in the same way.

So if the customer is 'fully taxable' and can claim back all of the input tax, they will account for output tax and recover input tax of the same amount on the same return resulting in no additional VAT payable.

By reverse charging VAT the place of supply has been 'shifted' to the customer's country

3. EC Sales Lists (VIES) – businesses have to report intracommunity sales of both goods and services on a monthly basis.

What does this mean for your business?

If an EU registered business supplies goods and/or services to other EU business they must register for VAT and VIES from the first transaction regardless of the value of the supply and report their sales monthly to the VAT Authorities.

Note that services include but are not limited to services such as intergroup management services, intellectual property services, accounting, marketing, administration, legal, consulting, professional services and advertising, the supply of personal and electronic services.

Action required:

1. Please review your trading activities regularly to see whether your business may have an obligation to register for VAT. If you need to register for VAT or require any assistance to review your business activities please contact our office as soon as possible.

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2. Note that the majority of companies trading in services within the EU or receiving services from EU or Non EU persons should register for VAT if they have not already done so.
3. Please ensure that all sales invoices include the recipient's valid VAT number (this can be checked on following Internet site) as penalties are applied for incorrect reporting of buyers' details.
http://ec.europa.eu/taxation_customs/vies/vieshome.do?selectedLanguage=EN

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.