



VAT to the rescue

Value Added Tax (VAT) has been recruited by the Cyprus government to help curtail the adverse effects of the coronavirus pandemic on the local economy.

In light of the grave consequences of coronavirus (Covid-19), Cyprus announced on 15 March 2020 a national fiscal package of measures to boost the soon to be cash-starved economy. The support package includes, among other measures, a temporary suspension of the obligation to pay VAT for two months and a reduction of VAT from 19% to 17% and from 9% to 7%.

The VAT-related support measures are:

- 1. Temporary extension of the VAT payment obligation for two months** for business liquidity purposes, without the imposition of any penalties. The next deadline for the VAT quarter ending 29 February 2020 was the 10th of April 2020.

This concerns companies with a turnover of not more than €1 million, according to their tax declarations submitted in 2019, as well as companies the turnover of which will have been reduced by more than 25%. Arrangements will be made for tax dues to be paid progressively by 11 November 2020. This means that payments will not be due in full at the new due date, and perhaps later due payments will also be postponed.

The deadlines for the submission of the VAT returns are not affected.

The measure is expected to benefit the cash flow of impacted businesses and create liquidity of €240m.

- 2. Temporary reduction of VAT from 19% to 17% for a period of two months.** It is not clear whether the reduction will apply in general or will it not include supplies that have been effected but not yet invoiced.
- 3. In addition, there will be a temporary reduced rate cut from 9% to 7% for a period of three and a half months.** The rate applies to mainly hotels and similar accommodation as well as to domestic passenger transport. The three-and-a-half-month period aims at benefiting the hospitality industry which has essentially been paralyzed, with hotels having been ordered to suspend operations until 30 April 2020.

The effect of the VAT reductions on the Cyprus budget is estimated at €70m.

The measures above will be implemented as soon as the relevant legislation is enacted, which is expected in the following few days. Further clarifications, especially on the details, are anticipated in the wording of the legislation.

Chelco VAT Ltd will keep monitoring the developments and will notify you of any updates as they are made available.



Note:

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