



VAT TO THE RESCUE – VAT PAYMENTS ON ACCOUNT

On 2 April 2020, the Council of Ministers issued a decree based on powers afforded to them in the VAT legislation with regards to effecting VAT payments on account.

The powers, as per the law, can be used “for the benefit of the national economy.”

The decree, which can be found [here](#), refers to the categories of businesses that were excluded from the right to defer VAT payments. Please refer to our VAT Update [v7. i.4](#) for the list of these categories of businesses and on how the postponement works.

The decree states that those categories of businesses, should effect a payment of 30% of the payable VAT within 15 days from the end of each month, for all VAT periods falling within the 1 January 2020 until 31 May 2020. The method of payment is expected to be issued through a separate decree by the Ministry of Finance.

Opinion

If one examines the Cyprus budget income during the months of April, May and June last year, VAT accounted for over 50% of the total income received. As such, the Ministry of Finance was sceptical about allowing all businesses to delay their VAT payments during the same period this year, especially given that income from direct taxes will be lower due to the effects of Covid-19, coupled with the fact that government expenses, notably the public sector salaries, remain intact.

As such, the Covid-19 economic measures initially were to allow the postponement of payment of VAT based on microeconomic criteria, i.e. businesses with a turnover under €1m or businesses that had a 25% fall in turnover. This was later abandoned. Instead, the criterion became one of business categories. Those businesses that were considered to be cash flow positive, regardless of turnover, were not afforded any delay in paying their VAT. The rest were allowed to defer the VAT payment until 10 November 2020.

To make up the shortfall in monthly cash flow, the Cyprus government now demands from the same categories that are considered to be least impacted by the Covid-19, to pay 30% of the VAT payable every month, rather than pay the total amount within 40 days of the end of the VAT quarter, which is the current practice.

The decree could have benefited from clearer wording. The reference to the months of January to May 2020 is at first glance nonsensical given that the decree is issued in April. We must await the new decree from the Ministry of Finance, which will include the forms and methodology to understand how the VAT will be paid.

Chelco VAT Ltd will notify you of any updates as they are made available.

**Note:**

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