



VAT to the Rescue - Penalties and interest waived

Further to our VAT Updates [v.7 i.1](#) and [v.7 i.2](#), Cyprus has eventually decided to waive penalties and interest on Value Added Tax (VAT) for a period of time but did not reduce its rate.

The VAT measures the Cyprus government recruited to help curtail the adverse effects of the coronavirus pandemic on the local economy were enacted by the House of Representatives on 27 March 2020.

The Measures

The actual amendments to the legislation are made to the articles that impose penalties and interest. Specifically, the imposition of penalties and interest (including penal penalties) are waived with regards to the payment of any due VAT for the VAT quarters ending:

- 29 February 2020 (due 10 April 2020)
- 31 March 2020 (due 10 May 2020)
- 30 April 2020 (due 10 June 2020)

but only if

- (i) The VAT declaration is submitted by the due date, and
- (ii) Any VAT payable is paid by 10 November 2020.

We note that the penalty for the late *submission* of the VAT return will continue to apply and will continue to constitute a penal offence.

The application of the amendments does not apply to certain categories of businesses as follows:

- Producers of electricity
- Collection and distribution of water (for water supply)
- Groceries and supermarkets that are mainly for food
- Convenience stores and mini markets
- Retailing of a variety of goods in department stores where food, beverages and tobacco are not predominant
- Retail of fruit and vegetables - fruit shops
- Retail sale of meat and meat products including poultry
- Retail sale of fish and seafood-fish and molluscs
- Retail sale of bread, other bakery and confectionery products
- Retail sales of fuel
- Retail sale of computers, peripherals and software
- Retail sale of books

- Retail sales of newspapers and stationary
- Retail sales of toys of all kinds except video games
- Pharmacies
- The Cyprus Telecommunications Authority (CYTA)
- Internet services
- Satellite telecommunications services
- Other telecommunication services, besides CYTA

Opinion

This is a very positive step for the businesses that will benefit and that will have strains on their cash flow. The previous announced limit of such measures to businesses with a turnover of less than €1m or businesses that have suffered a reduction in turnover of more than 25%, have been removed. A reduction in VAT rates that had been initially announced have also been abandoned for now.

There are certain inherent problems present, as follows:

- (1) There is a delay for the payment of the VAT but not for the submission of the VAT declaration. The problem here is that the accountancy departments are understaffed and sub-working. The accuracy and completeness of the books and records will suffer meaning that the VAT declarations that will be submitted may be incomplete. Where the net of the corrections (output less input VAT) exceeds €1,7k, a taxable person has to apply for the correction in writing to the Tax Department and await the reply in writing. In such a case, were the reply of the Tax Department comes after the 10 November, it is not clear that the penalties and interest will not be imposed. One solution is to pay the VAT that is due before the 10 November regardless of the procedure for effecting corrections.
- (2) The way the legislation has been drafted, it appears to exclude, by making reference to Article 20 of the Cyprus VAT law, and not also to Article 20A, taxable persons that supply goods subject to special excise duties, such as tobacco products, fuels, alcohol and new motor vehicles. This will need to be clarified.

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

Note:

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