



COVID-19 – Measures aiming to tackle the effects of the Coronavirus pandemic

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Tax Alert



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25% deduction in VAT – The Independent Authority for Public Revenue provides detailed guidance for its implementation

Pursuant to the new Circular issued by the Independent Authority for Public Revenue (“IAPR”) with ref.no. E.2056/23.04.2020, the provisions regarding the benefit of offsetting of the 25% of the amount of VAT debt promptly paid against any future tax liabilities (as regulated by article 3 of the Legislative Decree issued on 13.04.2020) are notified, while certain clarifications are provided with respect to the implementation of the said benefit.

In particular, the newly issued Circular provides inter alia for the following:

01 All businesses

- with their main active CPA code – as of 20.03.2020- included in the relevant list of CPA codes of affected business sectors, which has been attached in the Ministerial Decision with ref.no A.1054/21.03.2020 (as amended by Ministerial Decisions with ref.no. A.1063/26.3.2020, A.1073/2.4.2020 and A.1084/13.4.2020, and as it is currently in force);
- or whose gross revenue generated from their active CPA code of secondary activity –as of 20.03.2020- is higher than the gross revenue generated from their main active CPA code (as the gross revenue is reported in their annual income tax return of the FY2018), and those CPA codes are included in the relevant list of CPA codes of affected business sectors, which has been attached in aforementioned the Ministerial Decision

may benefit from the 25% deduction in the form of credit. To be noted that businesses of any legal form, as well as self-employed persons and free lancers may benefit from the above.

More specifically, all aforementioned beneficiaries may benefit from offsetting against any other liability or instalment in the context of a debt settlement scheme at a rate of 25% in case they fully discharge their VAT debts, as those debts incur from:

- VAT returns for the first quarter of 2020 for businesses that apply a single entry accounting books and
- monthly VAT return corresponding to tax period of March 2020 for businesses that apply double entry accounting books.

It is noted that the benefit of offsetting applies only to liabilities due after 01.05.2020.

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In particular, the newly issued Circular provides inter alia for the following:

01 All beneficiaries may benefit from the offsetting provided that their VAT debts are fully paid until 30.04.2020. That condition applies to both businesses that apply a single entry system and those applying double entry bookkeeping methods respectively. Further, in case the VAT debt is fully discharged by set-off carried out within the aforementioned timeframe, the benefit may also be granted. Additionally, should the taxpayer opts for the payment of VAT debt in two equal instalments by the time they file the relevant VAT return, the aforementioned benefit shall apply solely upon the total discharge of the VAT debt (tax code 511 of the VAT return) until 30.04.2020. That is to say, the prompt payment of the first instalment does not suffice for the application of the above measure.

For those liable to apply double entry bookkeeping methods, the grant of the benefit is conditioned upon the payment of the VAT debt, as it incurs from the VAT return corresponding to tax period of February 2020, until 30.04.2020. It is also clarified that in case the taxpayer opts for the payment of VAT debt in two equal instalments by the time they file the relevant VAT return corresponding to tax period of February 2020, the aforementioned benefit shall apply solely upon the total discharge of the VAT debt (tax code 511 of the VAT return) until 30.04.2020. No similar condition applies to those liable to apply the single entry system.

The benefit shall be granted regardless of the existence of any other debts, except for those incurred from the VAT return corresponding to tax period of February 2020, owed by those liable to apply double entry bookkeeping methods.

On another note, it is clarified that businesses whose operations were suspended on 26.03.2020, on the basis of the provisions of the Ministerial Decision with ref.no A.1054/21.3.2020 (as amended by the Ministerial Decision with ref.no. A.1063/26.3.2020) shall qualify for the aforementioned benefit, irrespective of whether they have fully paid their VAT debts corresponding to tax period of February 2020. That covers all businesses suffering an operating ban due to a State mandate, as well as affected businesses with CPA codes, which have been included in the relevant list on 26.03.2020.

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In particular, the newly issued Circular provides inter alia for the following:

01 In addition, as it is stated in the relevant provisions of the Legislative Decree issued on 13.04.2020, in case an amending VAT return has been filled and through that return the initial amount of VAT debt is reduced, the amount to be offset shall be reduced proportionately.

As a last remark, it shall be noted that the newly issued Circular provides clarifications on the method of carrying out the offsetting. That is to say, it is provided that the offsetting may be carried out:

- either through the submission of a relative request to the competent tax office via email (it is clarified that either the beneficiary or their legal representative may proceed with the submission), or
- automatically (without the submission of a request) by the competent tax office. In the latter case, the competent tax office may proceed to the offsetting against any other tax liabilities due after 01.05.202, provided that the taxpayer does not submit request for offsetting against other liabilities.

It is noted that the request for offsetting may refer to future liabilities, which have not been assessed by the time of the submission of the said request. The amount of the benefit cannot be offset against any liabilities or instalments in the context of a debt settlement scheme due before 01.05.2020.

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