



## Tax News - VAT

### VAT rate reduced to support tourism industry

On 23 June 2020, the Cyprus Council of Ministers issued a new decree, according to which the reduced VAT rate of 9% will be decreased to 5% for specific services provided within the Republic of Cyprus from 1 July 2020 to 10 January 2021.

The reduction in the VAT rate will apply only to the following services:

- Accommodation in hotels, tourist lodging and similar lodging, including the provision of holiday accommodation;
- Restaurant and catering services; and
- Transportation of passengers and their accompanied luggage within the Republic of Cyprus by urban, intercity, and rural taxis and by tourist and intercity buses.

Based on the general rules, the VAT rate to be applied to each transaction is the one that applies on the date the invoice is issued or the payment is received (whichever is earlier).

However, the transitional provisions of Article 55 of the VAT law may be applied as follows:

- Where the service is provided before the VAT rate change and the invoice is issued after the change (but within 14 days from the completion of the service), the new VAT rate should be imposed unless the supplier opts to use the previous rate.
- Where the service is provided after the VAT rate change but the invoice was issued or the payment was received before the change, the new 5% VAT rate may be applied.
- If an advance payment was made before the VAT rate change and the service was provided and/or the invoice was issued after the change, the supplier should impose and pay VAT on the advance payment at the previous rate.

However, the transitional rules will allow the taxpayer, upon issuing an invoice (after the rate change), to impose the new VAT rate on the entire amount (including the amount of the advance) and issue a credit note for the advance payment for which VAT was charged at the previous rate.

### Existing Contracts

If the conclusion of a contract for a transaction precedes the change in VAT rate, but the transaction takes place after the change, then the amount of the consideration should be reduced by an amount equal to the change (i.e. the new reduced VAT rate of 5% should be imposed) unless otherwise provided by the terms of the contract.

### Credit Notes

The VAT rate applicable to credit notes is the rate that originally was charged on the invoice for which the credit note is issued.

### How can the Indirect Taxation Team of Deloitte help you?

We are at your disposal to discuss the above and assist you to meet your tax obligations on time.



#### Christos Papamarkides

Partner | Tax & Legal Services | Indirect Tax Services

Email: [cpapamarkides@deloitte.com](mailto:cpapamarkides@deloitte.com)

Direct line: +357 22 360420

#### Chrystalla Michael

Director | Tax & Legal Services | Indirect Tax Services

Email: [chmichael@deloitte.com](mailto:chmichael@deloitte.com)

Direct line: +357 22 360861

#### Christakis Economou

Director | Tax & Legal Services | Indirect Tax Services

Email: [ceconomou@deloitte.com](mailto:ceconomou@deloitte.com)

Direct line: +357 25 868891

#### Elli Iosif

Director | Tax & Legal Services | Indirect Tax Services

Email: [eliosif@DELOITTE.com](mailto:eliosif@DELOITTE.com)

Direct line: +357 22 360616



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