

# VAT Update

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## VAT Treatment of Vouchers and Updates relating to Telecom/Electronic Services

### Significant Amendments affecting a number of Cypriot businesses



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The Cyprus House of Representatives passed amendments to the VAT Law as well as issued Regulations which set out the changes in the VAT treatment of vouchers as well as telecommunication and electronically-supplied services to end users.

As per the law and in line with the EU VAT Directive, the changes appear to come into force with retrospective effect as of 1 January 2019.

#### 1. Summary of Changes

##### 1.1. Vouchers

As from 1 January 2019, VAT treatment on vouchers is determined in line with the EU VAT Directive. In essence, the amending VAT law provides definitions of what constitutes a voucher separating single-purpose and multi-purpose vouchers according to their contractual terms and conditions.

**Single-purpose vouchers** are defined as vouchers where the place of supply of goods or services to be supplied and the VAT to be charged are known at the time of issuance.

**Multi-purpose vouchers** are defined as all other kinds of vouchers not within the single-purpose definition.

The relevant distinction between the two types of voucher affects the timing that VAT will become due either the time of transfer sale or when the voucher is redeemed.

##### 1.2. Telecommunication and Electronic services

Additionally, there are changes in the place of supply rules for telecommunication and electronic services now foreseeing that as long as the services provider:

- (1) Is established in only one-member state, and;
- (2) Provides such services to end users residing in another member state, and;
- (3) The value of such services to the users as per point (2) during the respective, as well as the prior calendar year, does not exceed €10.000;

The provider may choose to tax such supplies either according to the rules of the member state of residence of the end users or the member state of establishment of the provider.

#### 2. Impact on Businesses - Considerations

Harmonisation of the Cyprus VAT legislation with the EU VAT Directive results in additional compliance implications for affected businesses.

Entities particularly engaged in promotional initiatives inclusive vouchers offerings and loyalty schemes will need to consider VAT treatment in relation to terms and conditions attached.

Depending on the vouchers specifics, updates in accounting systems may be needed to reflect VAT reporting time and potential cash flow consequences.

An important area for immediate action relates to the retrospective effect from 01.01.2019. Businesses need to act towards protecting their interests, depending on the specifics of the case.

#### 3. How EY Cyprus can help

At EY Cyprus we are ready to help you establish how the changes will affect your entity as well as assist you in implementing the necessary VAT amendments.

We can help you:

- ✓ Determine VAT treatment of your voucher transactions in your contractual relations.
- ✓ Update your accounting and ERP systems to reflect the necessary changes.
- ✓ Liaise with the authorities to ensure the optimal and compliant treatment of your entity transactions in relation to vouchers.
- ✓ Decide VAT obligations regarding electronically-supplied services.

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