

VAT Newsletter

July 2019



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Key Update from Cyprus Tax Department:

Circular 235 clarifies VAT treatment of vouchers

What is the impact on your business - What are the next steps?

Further to the amending VAT legislation (effective from 1 January 2019 & covered in our [June VAT Newsletter](#)) on the VAT treatment of vouchers, the Cyprus Tax Department (CTD) has released Circular 235 to provide clarity on a number of significant aspects among others categories of vouchers affected, coupons not constituting vouchers, single and multi-purpose voucher distinctions, timing of VAT accounting and implications for intermediary sellers and purchasers.

1. Circular Overview

Applicability: On vouchers issued for the purchase of goods/services after 1 January 2019. There is express reference that amending VAT legislation is applicable even for vouchers issued up to 21 May 2019 before law enactment.

Types of Vouchers covered in new legislation: gift cards, vouchers including digital - electronic instruments that can be accepted according to their terms as consideration (even if given for remuneration/promotional purposes) for the supply of goods/ services.

Outside Scope of legislation: Discount vouchers upon issue (for free supplies or price reductions), admission - transport tickets, virtual currencies, credit - prepayment cards, software access passwords, online payment/credit systems, SIM cards.

Single-purpose voucher (SPV): Voucher for which country of supply is known at the time of the issue and the goods/services that can be redeemed are subject to one VAT rate (one of 5% or 9% or 19%). VAT is accounted at the **time of issue or subsequent transfer** (sale) of SPV.

Multi-purpose voucher (MPV): Voucher for which at the time of its payment, the nature of goods/services that will be delivered is **not known**. VAT is accounted at the **redemption time**, issue and subsequent transfer are not subject to VAT.

Intermediaries' involvement: Depending on whether an intermediary sells SPV (output VAT to be accounted) or MPV (no VAT due), VAT treatment of voucher transfer will differ. Treatment of input VAT recovery on associated costs and commissions on voucher sale will need to be also considered.

2. Impact on Businesses

It is apparent that entities involved in the issue, redemption, handing, resale, promotion, administration and marketing of vouchers need to consider the implications of the amending VAT legislation. A case-by-case evaluation of the contractual circumstances of the voucher will direct towards compliant treatment with major points lying on:

- Vouchers issued from 1 January 2019 till the Law issue date (21 May) where no transitional provisions existed. The CTD explicitly invites raising queries on treatment adopted;
- Timing of VAT accounting in return submissions;
- Output VAT accounting and where input VAT recovery is applicable;
- Classification and Valuation considerations for vouchers;
- Invoicing requirements, voucher corporate policies, books and records reflection.

3. How EY Cyprus can assist

Our VAT specialist team is at your disposal to examine your voucher specifics and provide assistance with:

- ✓ Protecting companies that issued/traded vouchers up to 21 May 2019.
- ✓ Structuring your entity voucher initiatives in a VAT efficient and compliant manner;
- ✓ Supporting VAT treatment in voucher terms, contractual agreements, internal policies and software systems;
- ✓ Liaison with VAT authorities and documentation in VAT Rulings or Opinions.

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