

Government Support Program to tackle the effects of COVID-19



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Following the meeting of the Council of Ministers that took place on 15 March 2020, inter alia, the below tax related measures have been announced as part of the Support Program to tackle the effects of COVID-19.

- 1. Extension of the time-period for filing of objections with the Social Insurance Department by self-employed individuals by one month to 30 April 2020 (deadline was initially 31 March 2020).**
EY comment: The purpose of this measure is to grant an extension to self-employed individuals who wish to file an objection, where their request for payment of social insurance contributions based on their real income has been rejected by the Social Insurance Department.
- 2. Non-payment of the additional contributions to the General Healthcare System (GHS), which was planned to take place on 31 March 2020, for two months, by employers, employees and the government, in order to reinforce the health sector during the fight against the virus and not to affect the income of employees and businesses.**
EY comment: We understand that the intention of the Government is to amend relevant provisions in the legislation in such a way that for the months of April and May 2020 reduced contributions, as those applied during Phase A of GHS, will be due by all contributors. In effect this implies that during the month of March 2020 the increased contribution rates applicable for Phase B of GHS will apply.

3. **Temporary two-month deferral of payment of VAT, without the imposition of any penalties, to provide additional liquidity to businesses. This measure applies to companies with turnover of less than €1 million or where turnover has fallen by more than 25% with reference to tax returns submitted during 2019. It is noted that arrangements will be made so that VAT due amounts will be settled gradually by 11 November 2020. This measure will enhance the cash flow of businesses during the period in which liquidity issues are expected to arise.**

EY comment: With a view to safeguarding the liquidity of vulnerable businesses, this measure focuses on the two-month deferral of accounting for VAT by taxable persons affected along with the ability to gradually settle the VAT payable amount. This implies that these businesses will not have the obligation to account for VAT by 10 April (next period of return submission and accounting for VAT) but instead around 10 June. Also, the VAT payable amount that will arise for these businesses will be settled through instalments until 11 November 2020. Details for the application of the above and whether an extension for the submission of the VAT return itself will be granted are expected to be announced by the Tax Department shortly.

4. **Temporary Reduction of VAT on Goods and Services from 19% to 17% for a period of two months and from 9% to 7% for a period of three and a half months, to be effective from enactment of the relevant VAT law, in order to boost consumption through enhancing buying power.**

EY comment: The proposed two-month reduction by 2% to 17% aims at cheaper goods and services under the standard rate. Similarly, a reduction by 2% to 7% for three and a half months targets to strengthen the consumption of goods and services (Schedule 12) of the tourism, hotel and wider hospitality catering sector which is expected to be the most affected during the current period while facing COVID-19. It should be mentioned that the above VAT rate reductions are not effective immediately, but only after enactment by the House of Representatives, which is expected to occur in the following days. It is worth noting that in the case of a change of VAT rate, the time of supply rules continue to be applicable unless the taxable person chooses to use the basic tax point irrespective of the issue of invoice, payment or other special rules. The provisions around reductions in the VAT rate will be evaluated in a designated VAT Alert by EY Cyprus that will shortly follow.

5. **Special arrangements will be made for the ease of those taxpayers that entered the Overdue Taxes Settlement Scheme for the duration of this emergency situation.**

EY comment: This measure aims at not cancelling any agreement between taxpayers and the Tax Department in the context of the overdue taxes settlement scheme, in case the taxpayer fails to pay any instalment that falls due.

6. **A two-month extension to those that are obligated to submit a tax return by 31 March 2020 (new deadline is 31 May 2020).**

EY comment: Based on the Assessment and Collection of Taxes Law, the 2018 income tax return of companies and individuals that prepare audited accounts must be submitted by 31 March 2020. The purpose of this measure is to extend the submission deadline of the relevant tax returns by two months to 31 May 2020.

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