

Cyprus Tax Department issues Circular 235 to clarify VAT treatment of vouchers

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Further to the amending Value Added Tax (VAT) legislation on the VAT treatment of vouchers (effective from 1 January 2019 and addressed in the [EY Cyprus June VAT Newsletter](#)), the Cyprus Tax Department (CTD) has released Circular 235 to clarify a number of significant aspects, among others, regarding (i) the categories of vouchers affected; (ii) coupons not constituting vouchers; (iii) single and multi-purpose voucher distinctions; (iv) timing of VAT accounting; and (v) implications for intermediary sellers and purchasers.

Circular Overview

Applicability: The law is applicable to vouchers issued for the purchase of goods/services after 1 January 2019. Also, there is an express reference that the amending VAT legislation is applicable even for vouchers issued up to 21 May 2019 prior to the enactment of the law.

Types of vouchers covered in new legislation: The new legislation covers 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 the scope of the legislation: The new legislation does not cover 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, and SIM cards.

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

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

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

Impact on businesses

It is apparent that entities involved in the issuance, redemption, handling, 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 determine the compliance treatment with key considerations being:

- ▶ For vouchers issued from 1 January 2019 until the Law enactment date (21 May) where no transitional provisions existed. The CTD explicitly invites comments on the 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

Next steps

Impacted businesses should work with their local tax professional to examine the company's voucher specifics and address:

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

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