

Additional Support Measures to mitigate the effects of COVID-19 in the Cyprus economy - Tourism Industry

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In brief

This newsletter concerns new measures adopted by the Government in relation to the economic impact of COVID-19 in the tourism industry.

As tourism is a vital sector for the economy of Cyprus and one of the most affected sectors in the unprecedented era of coronavirus, the following measures have been adopted:

- a) Reduction of VAT rate from 9% to 5%.
- b) Government guaranteed credit notes for any advances received by the Tourism Industry which are valid until 31 December 2021.

In detail

A. Reduction of VAT rate from 9% to 5%

The Council of Ministers issued a Decree (published on 23 June 2020 in the Official Government Gazette) to reduce the VAT rate from 9% to 5% for the following services:

- a) restaurant and catering
- b) hotel accommodation
- c) passenger transport

The reduced rate 5% will apply for the period from 01/07/2020 to 10/01/2021.

The purpose of the reduction in the VAT rate is to make the tourism sector's prices more attractive and boost consumers' demand.

Transitional provisions in relation to the change in the VAT rate

In accordance with the transitional provisions of the Law when there is a change in the VAT rate, any transactions effected before the date that this provision will come into force will be subject to VAT at the rate of 9% even if they actually relate to the period from 01/07/2020 to 10/01/2021, while any transactions that take place after the change in VAT rate will be subject to VAT at the rate of 5%.

Where the actual tax point and the basic tax points straddle the change in VAT rate the taxpayer has the option to choose which rate to apply to a particular transaction.

That is,

- for any advances received and invoices issued before the change in the VAT rate, the old rate will apply
- for any services supplied before the change in the VAT rate, but where an invoice is issued within 14 days from the date of the transaction there will be a choice to apply the old or new rate.

B. Credit notes for advances in the tourism industry

The purpose of this law is to help the tourism sector affected by travel cancellations, closing of hotel businesses, ban on flights to and from Cyprus as well as cruise cancellations.

Specifically, the right is given to travel organizers, tourism or hotel companies to issue credit notes on advances they have received, in cases of cancellations of contracts due to the pandemic COVID-19. Such credit notes will expire by 31 December 2021 and services for which the credit note will be used can also be received after this date with the exception of case (3) below.

Government will grant guarantees for the beneficiaries of credit notes, in cases where travel organizers, tourism or hotel businesses issued credit notes become insolvent. No guarantee will be provided to tourism or hotel business which was not considered a going concern and had financial difficulties as at 31 December 2019. Example of tables/charts.

More specifically,

1. In cases where the travel organiser or consumer proceeds with the cancellation of an organised travel agreement due to COVID-19, a total guarantee of €1.500.000 will be provided for credit notes issued to consumers, provided that the advance payment relates to 2020.
2. In cases where a hotel business or consumer proceeds with the cancellation of an accommodation agreement, that was made directly with the hotel, due to COVID-19, a total guarantee of €5.000.000 will be provided for credit notes issued to consumers, provided that the advance payment relates to 2020.
3. In cases where a hotel business or consumer proceeds with the cancellation of an accommodation agreement due to COVID-19, a total guarantee of €80.000.000 will be provided for credit notes issued to tour operators, provided that the advance payment relates to 2020.

The takeaway

The measures taken by the Government signify the importance placed on the support of businesses during these trying times. We, at PwC, are ready to support your business in availing of the benefits of the measures implemented.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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