

COVID-19: Ways to manage cash flow

Issue N-5-2020, 24 March 2020

In brief

The coronavirus (COVID-19), and the measures taken by the governments to avoid the spreading of the virus, have already affected many businesses worldwide, including Cyprus. Although the full impact of the pandemic is still unknown, it is expected that it will significantly affect the global economy. Many businesses and especially small and medium sized enterprises will experience a hit not only on their profitability but more importantly, on their liquidity. Among other areas that could be addressed for managing cash flow, businesses need to consider VAT and Customs Duties as these can be their largest outflows.

Below we outline certain measures in relation to indirect taxes (VAT and Customs) that you can consider, in order to avoid business disruption but also reshape your business model and plan for recovery.

In detail

VAT

Timing of invoices

Consider timing of invoices as when invoices are issued at the beginning of the month, the payment (including VAT) will often have been received before the filing due date of the VAT return. This means that you don't have to pre-finance output VAT.

If your current cash-flow level allows it, you may wish to invoice for your goods/services at a later stage to take into account seasonality of business (if applicable).

Electronic Invoicing

Consider the possibility of issuing electronic invoices as this will allow savings on producing, posting and storing paper invoices.

Self-billing

Consider self-billing as this will ensure prompt VAT recovery following the payment to a supplier (in case invoices are issued after the payment).

VAT and bad debts

A thorough check on your outstanding receivables might enhance your VAT position as the Cypriot VAT law prescribes that all receivables outstanding for more than one year from the date of the transaction, can be treated as bad debts and VAT charged and paid to the Tax Authority can be reclaimed via the VAT return, subject to other conditions being cumulatively met.

Foreign VAT reclaims

The deadline for reclaiming VAT for the fiscal year 2019 from other EU territories is by 30 September 2020. If you have incurred significant expenses abroad for which you have incurred VAT, it may be worthwhile to bring 2020 claims forward.

Partial Exemption and business/non-business allocation

Companies engaged in exempt activities not granting the right for recovery may be able to achieve cashflow advantage by reviewing the pro-rata percentage applied, as this might be incorrectly calculated.

The same applies to companies which are engaged in non-business activities (i.e. holding of investments).

The method of allocation should be reviewed as the method already used might not lead to fair results and thus impact negatively the cash flow position.

Damages/Compensation payments

These payments might be considered as an out of scope of VAT payments or as a reduction in the value of the supply thus reducing the amount of VAT due.

Cancellation Fees

In situations where money was received in advance, but the contractual obligation was not fulfilled (e.g. hotels and other businesses engaged in the tourist accommodation industry, tour operators, retailers), it should be examined whether the VAT charged is indeed payable. There might be cases where the VAT is no longer due and could be reclaimed.

Validity of interest and penalties

Scrutinise the interest and penalties imposed by the Tax Authority on assessments issued or the interest calculated on refundable amounts, as these might be incorrectly calculated.

Ariadne payment plans

Consider whether outstanding tax liabilities, including VAT liabilities can be included in the Ariadne system for settlement in instalments.

Set-off of refundable VAT with other payable taxes

Consider whether you can utilise your VAT refundable balance against any other payable taxes such as income tax, social insurance or GHS deductions.

VAT return filing period

The VAT return filing period in Cyprus is quarterly. In case you are currently filing VAT returns on a monthly basis, it is possible to switch to quarterly VAT returns upon request in order to better manage cash-flow for VAT payable or from quarterly to monthly in case you are in a VAT receivable position.

VAT Grouping

Under conditions it is possible to form a VAT group between companies which meet the required economic, financial and organisational links. This enables the companies to file one combined VAT return and charges between entities in the VAT group are outside the scope of VAT. Hence these charges will not impact the cash-flow of the group.

Customs

Raw Materials or Goods Sourcing

For businesses that source their materials/goods from outside Cyprus, their origin might have a significant impact on the duties paid upon their arrival in Cyprus. Many eligible goods under the EU preferential agreements, bear reduced or zero customs duty.

Use of Customs regimes

Consider whether non-Union goods arriving in Cyprus can be placed under any of the available Customs regimes. These include the inward processing relief (goods imported for processing and then re-exported), end use relief or placing them in a customs warehouse whereby the payment of duty and import VAT are deferred until the goods leave the warehouse regime.

The takeaway

As the situation is moving rapidly, it is imperative for businesses to consider promptly their liquidity position and how this can be managed. This is applicable to all businesses even for those that have not been negatively affected yet.

Let's talk

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

Theo C Parperis, Nicosia
Partner
Head of Tax & Legal
theo.parperis@pwc.com

Marios S Andreou, Nicosia
Partner
In charge of Tax Advisory
marios.andreou@pwc.com

Chrysilios Pelekanos, Nicosia
Partner
In charge of Tax Reporting Strategy
chrysilios.pelekanos@pwc.com

Martha Lambrou, Limassol
Director
Tax Advisory
martha.lambrou@pwc.com

Michael Michael, Nicosia
Director
Tax Advisory
michael.michael@pwc.com

Or your usual PwC contact

PwC Cyprus
PwC Central
43 Demostheni Severi Avenue
CY-1080 Nicosia, Cyprus
P O Box 21612
CY-1591 Nicosia, Cyprus

www.pwc.com.cy