

Tax update

Newsletter

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Legislation for special levy on credit institutions

On 14 April 2011 the House of Representatives enacted legislation introducing a special levy on credit institutions. The law will come into force on the day it is published in the official gazette of the government of Cyprus.

Key provisions

As from the year 2011, credit institutions operating in Cyprus are required to pay a levy of 0,095% on their customer deposits. The special levy will be applied on customer deposits held in Cyprus - in any currency - as at 31 December of the previous year.

Inter-bank deposits are explicitly excluded from the deposits on which the special levy will be applied.

The levy should not exceed 20% of the taxable profit of the year in which it is paid as this will be determined following a final assessment by the Income Tax Office.

The law explicitly brings under its scope:

- Cypriot banks (excluding their subsidiaries and branches abroad)
- Cypriot subsidiaries of foreign banks
- Branches of credit institutions from EU and non-E.U. countries
- Co-operatives

Other provisions

The special levy is not a deductible expense for corporate income tax purposes. However, it reduces the amount of profits subject to deemed dividend distribution.

An amount equal to 25/60 of the levy for the years 2011 and 2012 will be transferred to a special account named "Financial Stability Fund". From 2013 onwards, the whole amount of the levy will be transferred to the Financial Stability Fund.

The regulations concerning the set-up and operation of the Financial Stability Fund must be issued within six months from the date the law comes into force otherwise any special levy payments will have to be refunded to the credit institutions.

A penalty of €100.000 will be imposed on credit institutions which are found to have passed the cost of this special levy onto their customers.

Administration

The declaration of taxable deposits will be made on a special form which will have to be submitted by 31 March of each calendar year. The declaration may be revised by 31 December.

The special levy will be collected in four installments (31 March 2011, 30 June, 30 September, 31 December) through the method of self-assessment.

The declaration and first payment for the year 2011 will be made by 31 May 2011.

The Commissioner of Income Tax (CIT) is required under this law to issue final income tax assessments within six months from the date the corporate income tax return is submitted.

Any refunds of the special levy must be paid within a month from the date the final income tax assessments are issued.

The CIT may raise assessments for the special levy. The taxpayer has a right to object but the objection does not stop the CIT from collecting the special levy on the assessed amounts.

**Your contacts for Tax matters
in PwC Cyprus:**

Nicosia +357-22 555 000

Panikos N Tsiailis
Panicos Kaouris
Marios S Andreou
Nicos Chimarides
Chrysilios Pelekanos (VAT)
Eftychios Eftychiou
Stelios Violaris
Antonis Christodoulides
Florentia Teloni (VAT)
Ioanna Stylianidou
Christos Charalambides

Limassol +357-25 555 000

Cleo Papadopoulou
Vladimir Vinogradov
Constantinos L Kapsalis

Larnaca +357-24 555 000

Constantinos L Kapsalis

Paphos +357-26 555 000

Pantelis Evangelou

PwC Cyprus

Julia House
3 Themistocles Dervis Street
CY-1066 Nicosia, Cyprus
P O Box 21612
CY-1591 Nicosia, Cyprus

www.pwc.com/cy

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