Corporate Tax - Cyprus

New levy for credit institutions' deposits enters into force

Contributed by **Andreas Neocleous & Co LLC**

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From 2011 credit institutions operating in Cyprus will be required to pay a levy of 0.095% on customer deposits. For the first two years, seven-twelfths of the amount raised by the levy will be used to reduce the government deficit and the remaining five-twelfths will be used to fund a financial stability fund. From January 1 2013 the entire amount raised by the levy will be credited to the financial stability fund.

Each year's levy will be calculated on the basis of customer deposits as at December 31 of the preceding year. No levy will be imposed on inter-bank deposits. The levy will be payable by:

- Cyprus banks in respect of their banking activities in Cyprus (overseas branches and subsidiaries will not be subject to the levy);
- the Cyprus operations of foreign (EU and third-country) banks and credit institutions; and
- cooperative credit institutions.

The levy will not be deductible for the purpose of calculating taxable profits. However, it will reduce the amount of profits subject to deemed dividend distribution. The levy will be limited to 20% of the taxable profit for the year in which it is paid. The declaration of taxable deposits on the preceding December 31 must be made by March 31 each year, and the levy will be collected in four equal instalments at the end of each quarter, starting on March 31. The declaration of taxable deposits may be revised up to December 31. For 2011, the declaration must be submitted and the first instalment paid by May 31 2011.

The commissioner of income taxes has the power to raise assessments for the levy and to collect it from banks.

The tax authorities are required to issue final income tax assessments within six months of the date on which the corporate income tax return is submitted; any overpayment above the 20% limit must be refunded within one month of the issue of the final income tax assessment.

The regulations for the establishment and operation of the financial stability fund have not yet been finalised. They must be issued within six months of the law coming into force, failing which any levy collected must be returned to the credit institutions concerned.

The cost of the levy is intended to fall on banks, rather than their customers, and the law introducing the levy provides for a fine of up to €100,000 to be imposed on credit institutions that are found to have passed on the cost to their customers.

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