

INTRODUCTION OF A LEVY ON DEPOSITS TAKEN BY CREDIT INSTITUTIONS

On 14 April 2011 the House of Representatives enacted a law which provides for the imposition of a levy on all banks and cooperative credit institutions operating within the Republic of Cyprus.

Who is liable to the levy?

- ▶ All banks licensed under the Cyprus Banking Law (excluding their subsidiaries and branches established outside Cyprus).
- ▶ Branches in Cyprus of banks established in other EU member states or third countries.
- ▶ Cooperative credit institutions licensed under the Cooperative Societies Law of Cyprus.

Taxable deposits and rate of levy

The levy is imposed **at the rate of 0.095%** on all customer deposits as at 31 December of the previous year e.g. 31 December 2010 for the levy due in 2011. Interbank deposits (including deposits by a bank operating outside Cyprus and any deposits by the Central Bank of Cyprus) are excluded from the calculation of the deposits on which the levy is imposed. The levy is restricted to the maximum of 20% of the sum of the taxable income, as computed for Income tax purposes, for the two years 2011 and 2012.

Payment of the levy

A declaration of the levy payable on deposits as at 31 December 2010 should be submitted to the Director of Inland Revenue by 31 May 2011. The levy is payable in four equal instalments on 31 May, 30 June, 30 September and 31 December of the year 2011.

The declaration of the levy payable on deposits at 31 December 2011 should be submitted by 31 March 2012, and is payable in four equal instalments on 31 March, 30 June, 30 September and 31 December 2012. If after filing the Income Tax return for the year 2012, the total levy paid for the two years 2011 and 2012, exceeds 20% of the total taxable income for these two years, the excess will be refunded within six months from the filing of the Tax return for 2012.

Overdue instalments carry interest at the rate of interest for late taxes published from time to time by the Ministry of Finance (currently 5%).

Use of the proceeds from the levy for the years 2011 and 2012

The law provides that 25/60ths of the levy for the year 2011 and 2012 will be deposited in a special account with the Central Bank of Cyprus, as a contribution to the Fund for Financial Stability (“the Fund”).

The Fund will be used to provide financial support to credit institutions. The set up and operation of the Fund will be governed by Regulations to be published by the Council of Ministers and submitted for approval by the House of Representatives, within six months from the enactment of the law. If the Regulations are not submitted within six months, any levy collected will be refunded and no further payments will be required.

Levy after 2012

The law provides that the levy will continue to be imposed after 2012, calculated on the same basis as for 2011 and 2012, however all proceeds subsequent to 2012 will be deposited directly to the Fund. The rate of levy is subject to change.

Other provisions

- ▶ The levy is not deductible for income tax purposes, however it is taken into account in calculating the profits subject to the deemed distribution rules.

The law requires that levy should not be passed on to the customers of the credit institution. Breach of this rule could result in a penalty of up to €100.000.

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For additional information, please contact:

Neophytos Neophytou
Phone: +357 2520 9999
E-mail:
Neophytos.Neophytou@cy.ey.com

Maarten Koper
Phone: +357 2520 9999
E-mail:
Maarten.Koper@cy.ey.com

Petros Liassides
Phone: +357 2220 9999
E-mail:
Petros.Liassides@cy.ey.com

Philippos Raptopoulos
Phone: +357 2520 9999
E-mail:
Philippos.Raptopoulos@cy.ey.com

www.ey.com

© 2011 Ernst & Young
All Rights Reserved.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

This document contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.