

INTRODUCTION OF BANK LEVY INTO CYPRUS TAX LAW

On the 14th of April 2011, the Cyprus Parliament unanimously passed the Bank Levy Legislation in order to combat financial crisis and launch an Independent Financial Stability Fund and associated bank levy for financial institutions. The introduction of a permanent bank levy to banks and other financial institutions is part of measures aiming to combat financial crisis and cover part of the Governmental costs.

It should be noted that even though the draft legislation was introducing the bank levy as a provisional measure for two years, the final legislation imposes the permanency of the measure.



Under the law, a financial institution is a bank operating under the Banking Law. This description contains Cypriot Banks, excluding their subsidiaries and branches abroad, Cypriot subsidiaries of foreign banks, branches of credit institutions from EU and non-EU countries and Co-operatives

KEY PROVISIONS



Deposits from overseas financial institution and domestic interbank deposits will not be included in this calculation. Payment is to be made in four installments, at the last day of each quarter, with a final payment on December 31 of each year. The levy must 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 Parliament approved a levy on banks to be calculated at the rate of 0.095 per cent on aggregate deposits held by each bank. The levy will impose a tax amounting to 0.095% on deposits of Cypriot banks (excluding foreign deposits), Cypriot subsidiaries of foreign banks, co-operatives, and branches of credit institutions. Based on a bank's total deposits as at December 31 each year, it will be calculated.

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KEY BENEFITS

Under the draft law the Bank Levy is not deductible for corporate income tax purposes. On the other hand, it reduces the amount of profits issue to considered dividend distribution.

The legislation grants that the bank levy will be imposed on the total amount of deposits (local and cross-border) on 31 December each year. The law describes deposits as 'an amount of money, expressed in any currency, paid or received on terms under which such amount will be

repaid with or without interest, or at a premium, either on demand, or at a fixed date, or under conditions agreed between the payer and the recipient of the amount, but where these terms are not related to the supply of goods, or property, services or to the issuing of shares or debentures'. Nevertheless the word deposit excludes interbank deposits between banks operating in Cyprus and deposits from overseas financial institutions. It should be take in consideration that the levy is imposed on the banks themselves and not on deposits or depositors.

The Cyprus Parliament also approved an adjustment to the draft law deleting the condition that the levy be a temporary one of two years and making it permanent. An additional amendment to the draft bill foresees a 100,000 euro fine on any bank deemed to have passed the tax onto customers.



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