

19 May, 2003

To all Assessing Staff,

- a) Article 8(19) of the Income Tax Law No.118(I)/2002 and**  
**b) Article 3(2)(b)(i) of the Special Contribution for the Defence of the Republic Law No.117(I)/2002**

According to the first article, the whole income of an individual in the form of interest as well as fifty percent (50%) of such income derived by companies is exempt from tax. According to the second article, every person resident in the Republic who, subject to certain exceptions prescribed by law, receives or is credited with interest, is liable to pay Special Contribution for Defence of the Republic at the rate of ten percent (10%).

According to a proviso relating to both of the above mentioned articles interest earned by a person from the usual activities of business, including interest which is closely connected to the usual activities of business, is not deemed to be interest but income from trading activities.

For the purpose of the correct and uniform enforcement of these provisions it is determined that:

**A. Interest earned in “the usual activities of business”** is considered to be the interest derived by:

1. Banking Enterprises. This category includes all the banks and co-operatives and businesses that have as their main purpose the provision of loans, such as the Housing Finance Corporation.
2. Businesses that provide finance via hire purchase or leasing or other types of financing (finance companies).

**B. Interest which is “closely connected to the usual activities of business”** is considered to be interest derived from:

1. trade debtors, e.g. relating to businesses whose normal trading activity is the buying and selling of land or relating to the business of sale of cars or other vehicles.
2. insurance companies
3. retail banking accounts (current accounts) and
4. companies that act as an agent via which companies of a group are financed. For example a company, parent or subsidiary or associate

company borrows money and then lends such money to other companies in the group.

C. It is noted that interest described in the following cases, which do not fall within the categories already mentioned, is not deemed to be interest earned from the usual activities of the business nor interest closely relate to the usual activities of business, therefore it is subject to Special Contribution for the defence.

1. interest derived from the provision of loans by a company to third parties.
2. interest from deposits or bonds.

D. Any other cases which do not fall within any of the above categories mentioned must be submitted to supervising officers with a relevant report.

(G. Poufos)  
Director of the Department of Inland Revenue

C.C.: Governor of Central Bank  
Auditor General  
Ombudsman  
Permanent Secretary of the Ministry of Finance  
Accountant General  
President of the Tax Tribunal  
Permanent Secretary of the Cyprus Development Bank  
Permanent Secretary of the Central Cooperative Bank  
Chairman of the Association of Cyprus Commercial Banks  
Permanent Secretary of the Housing Finance Corporation  
President of the Association of International Business Units (IBU)  
Institute of Certified Public Accountants of Cyprus  
Institute of Approved Accounts of America (CPA)  
Institute of Approved Graduate Accountants of Cyprus  
The Institute of Finance Accountants  
Institute of Independent Accountants