

Notional
Interest
Deduction



Notional Interest Deduction

The Notional Interest Deduction (NID) provides a very good alternative to debt finance for Cyprus companies to finance their operations using equity while still maintaining a benefit similar to interest deduction.

It also provides a potential solution to beneficial ownership of income issues that are increasingly the subject of double tax treaty anti-avoidance provisions.

This tool is available to Cyprus tax resident companies and Cyprus permanent establishments of non-Cyprus tax resident companies.

How it works

A tax deduction is allowed following the application of the NID rate to the amount of New Equity injected to Cyprus companies. The NID is deductible in a similar manner as actual interest expense.

Since this is a notional deduction, there is no need for an entry to be made in the accounting records of the company or for an exchange of funds to take place for the deduction to apply.

New Equity

For the purposes of the NID, New Equity is defined as equity contributed as from 1 January 2015 in the form of paid up share capital or share premium either in cash or in kind.

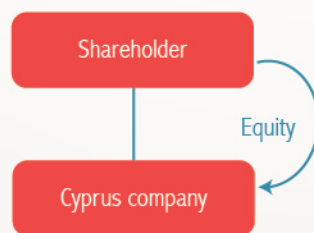
NID rate

The NID rate is defined as the yield on the 10 year government bonds of the country in which the new equity is invested plus a 3% premium (as at 31 December of the year preceding the tax year of the NID claim).

The minimum amount is the yield of the Cyprus 10 year government bonds (as at 31 December of the year preceding the tax year of the NID claim) plus a 3% premium.

Example

New Equity of	€2.000.000
NID rate is	9%
Taxable profit (before NID)	€300.000
NID (€2m x 9%)	€180.000
Taxable profit (after NID)	€120.000



Restrictions

- The deduction cannot exceed 80% of the taxable profit (calculated before NID).
- The deductibility of the NID is subject to the same rules as actual interest expense.
- New equity does not include amounts that have been capitalized as equity and which are the result of a revaluation of movable or immovable property.
- In the case of assets in kind, the amount of new equity may not exceed the market value of the assets which must be substantiated.

ABOUT US

Joannides + Co Ltd is a leading firm of accountants and management consultants established in Cyprus for over 30 years providing audit and assurance, taxation, business support services and management consulting to international companies and private clients.

The firm has offices in Nicosia, Limassol and Larnaca, and offers its services with the utmost integrity, independence and objectivity so as to add value to the business performance of its clients. The professional staff of the firm combines technical expertise and industry knowledge with an individualized, tailor-made service. We pride ourselves on constantly adopting a practical and proactive approach in offering services in a rapidly changing regulatory and business environment.

The firm is a member of the Institute of Certified Public Accountants of Cyprus and a member of AGN International Ltd since 1996, which is a worldwide association of separate and independent accounting and consulting firms operating in 87 countries.

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