

Notional Interest Deduction

Joannides + Co Ltd

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

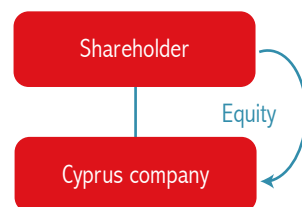
For the purposes of the NID, New Equity is defined as equity contributed as from 1 January 2015 in the form of paid up share capital or share premium either in cash or in kind.

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 5% premium (as at 31 December of the year preceding the tax year of the NID claim).

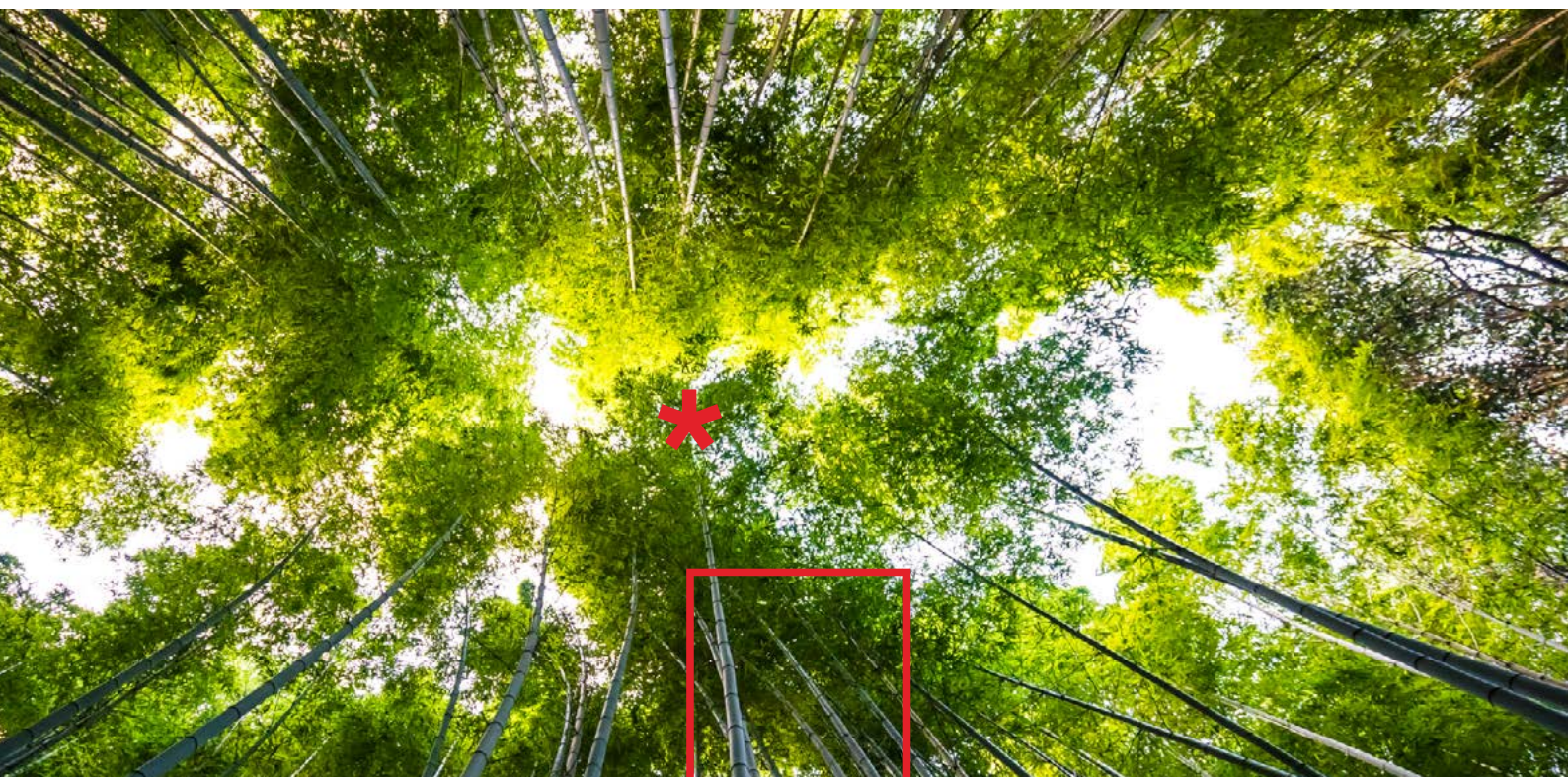
Example

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.
- Company reserves that existed prior to 1 January 2015 and capitalised post 1 January 2015, will not be eligible for inclusion in qualifying equity.



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