



## Notional interest deduction on new equity

As from 1 January 2015, the Government has introduced the Notional Interest Deduction (NID) regime on equity.

NID will be allowed on "new equity" funds introduced into a Cyprus Tax Resident company and which funds are used for the operations of the company. Foreign companies that maintain a Permanent establishment in the Republic can also benefit from this provision.

The NID will equal the multiple of "reference interest rate" and the "new equity".

The definitions of the aforementioned terms under Cyprus Law are:

### "Reference interest rate"

The interest rate of the 10 year government bond of the country in which the new equity is invested, plus 3%, having as a lower limit the 10 year government bond yield of the Republic of Cyprus plus 3%. The bond yield is the one applicable as of 31 December of the tax year preceding the relevant tax year. The 10-year government bond of Cyprus as at 31.12.2017 was 1.881%.

### "New Equity"

Any equity introduced in the business after 1st January 2015 in the form of both share capital and share premium, provided it is fully paid (either in cash or assets in kind) and used for the operations of the company.

For the assets contributed in kind for the new equity, the value of the new equity cannot be higher than the market value of the assets to be contributed. Independent valuation maybe required by the tax authorities.

Also, the below are considered to be qualified as new equity:

- Ordinary, preference, redeemable and convertible shares of any class;
- In case the share capital has not been paid, but an

interest-bearing receivable has been recognised;

- New equity issued against reserves created as from 01.01.2015;
- New equity issued against reserves created before 01.01.2015, in case the new equity funds are used to finance new business asset(s);
- New equity funds are used to repay loans payable and other credit instruments.
- The NID will be limited to 80% of the taxable profit before deducting the NID, and no NID will be allowed in the event of losses.

The deductibility of the deemed interest will be subject to the same rules as actual interest paid (tax deductible only if it relates to assets used in business, based on the actual days, etc.).

The effective tax rate is as low as 2.5% if maximum NID is available

### Anti-avoidance provisions

The Commissioner may not authorise the granting of the above exception if it's believed that there is an abuse of the new benefit granted, such as "dressing up" old capital into new capital, claiming notional interest twice on the same funds through the use of multiple companies or where the arrangement introduced lacks valid economic or commercial reasons.