



**MeritServus**

**NOTIONAL INTEREST  
D E D U C T I O N**

# NOTIONAL INTEREST DEDUCTION

**A BIG CHALLENGE – AND GREAT OPPORTUNITY – FOR MULTINATIONAL COMPANIES TODAY IS EFFECTIVELY MANAGING LOCAL AND FOREIGN TAXES IN A WAY THAT ALIGNS WITH THEIR OVERALL BUSINESS OBJECTIVES AND OPERATIONS. ON JANUARY 1, 2015, THE CYPRUS PARLIAMENT PASSED INTO LAW THE “NOTIONAL INTEREST DEDUCTION (NID)”.**

## THE CONCEPT

THE NID PUTS DEBT AND EQUITY FINANCING ON A LEVEL PLAYING FIELD SINCE BOTH WILL BE ENTITLED TO A TAX DEDUCTION.

CORPORATE ENTITIES (INCLUDING PERMANENT ESTABLISHMENTS OF FOREIGN COMPANIES) WILL BE ENTITLED TO A NID ON EQUITY. THE NID IS CALCULATED BY MULTIPLYING THE REFERENCE INTEREST RATE BY THE NEW EQUITY INTRODUCED TO A COMPANY FOR BUSINESS PURPOSES.

## WHAT IS "NEW EQUITY"?

"NEW EQUITY" IS THE EQUITY INTRODUCED TO A COMPANY AS FROM 1 JANUARY 2015 IN THE FORM OF PAID-UP SHARE CAPITAL AND/OR SHARE PREMIUM. NEW EQUITY MAY BE INTRODUCED IN CASH OR IN ASSETS IN KIND.

## WHAT IS "THE REFERENCE INTEREST RATE"?

THE MINIMUM RATE OF NOTIONAL INTEREST DEDUCTION IS THE YIELD ON THE 10 YEAR CYPRUS GOVERNMENT BONDS PLUS A 3% PREMIUM. THE NID GRANTED ON EQUITY CANNOT EXCEED 80% OF THE TAXABLE PROFIT BEFORE ITS DEDUCTION AND NO NOTIONAL INTEREST DEDUCTION WILL BE AVAILABLE IF THE TAX COMPUTATION RESULTS IN TAX LOSSES.

## ANTI-ABUSE PROVISIONS:

MEASURES HAVE BEEN INTRODUCED IN ORDER TO AVOID POSSIBLE ABUSE OF THE NID, AS FOLLOWS:

- To avoid double counting of the notional interest deduction, if the new equity of a Cyprus company derives directly or indirectly from new equity of another Cyprus company then the notional interest deduction is available for only one of the two companies.
- If the new equity of a Cyprus company derives directly or indirectly from funds on which another company has claimed interest expense deduction in Cyprus then the notional interest deduction is reduced by the amount of the interest expense claimed.
- In the case where new equity is introduced in the form of assets in kind then the amount of the equity may not exceed the market value of these assets.
- New equity which derives from reserves that existed on 31 december 2014 are excluded if they do not relate to the financing of new assets used in the business.
- New equity which derives from share capital and/or share premium that existed on 31 December 2014 is excluded.
- New equity which derives from asset revaluations is excluded.
- In the case of companies undergoing a reorganisation under the provisions of the income tax law, the notional interest deduction will be based on Their new equity calculated as if the reorganisation had not taken place.