

Notional Interest Deduction - NID

Introduction

The Cyprus government has introduced this powerful tool to improve and simplify the tax system and to attract investments through Cypriot companies. The aim of the NID provisions is to reduce the leverage and lending dependence of Cyprus company and at the same time attract new equity.

It is a tool for reducing the taxable income of Cyprus companies through a tax-deductible remuneration for equity financing.

It is available to all tax resident Cyprus Companies or to permanent establishment in Cyprus.

NID in practice

NID is a tax allowable expense that can be claimed as from 1st January 2015, it is deductible in a similar way as for actual interest, if used to finance most types of business assets. It deducted following the determination of the taxable profit and it cannot exceed 80% of the taxable profit.

NID is calculated by multiplying the new equity by a reference interest rate.

NID is a notional deduction and there is no need for any real transfer of money to take place for it to apply.

New Equity

This is issued, and fully paid capital and share premium introduced on or after January 1st, 2015.

Old equity is equity in existence on December 31st, 2014 or before.

New equity can be introduced in either cash or kind, i.e. providing of assets instead of cash. The equity in the latter case cannot exceed the market value of the assets introduced.

New Equity cannot include any amounts capitalized that have derived from the revaluation of immovable or movable property.

Existing loans

Capitalization of existing loans does qualify as new equity for NID purposes. Capitalizing back to back loans will qualify for NID and will strengthen the Balance Sheet of Cypriot companies.

Interest Rate

The reference interest rate used to calculate NIOD is the higher of:

- The yield of the 10-year government bond of Cyprus, as at the year end of the preceding year of the year of assessment increased by 3%

Or

- The yield of the 10-year government bond of the country in which the new equity is invested, as at the year end of the preceding year of the year of assessment increased by 3%

Advantages

- Coupled with the income tax rate of 12.5% and depending on the NID deduction, the effective rate of tax can be as low as 2.5%.
- Eliminating any possible offshore financing companies
- Equity Financing has similar benefits of debt financing
- Can be used with other tax incentives in Cyprus, Non – Dom, IP BOX

Our consultants can advise on the effective use of NID, on the scope and on the limitations and anti – avoidance provisions.

* The information provided above is purely a courtesy guideline and should not be constituted as advise.

Please contact us for an updated profile. Specialist advise may be sought.