

## **NOTIONAL INTEREST DEDUCTION (NID)**

Cyprus has introduced the Notional Interest Deduction (NID) on 1st of January 2015 and since then a number of Companies in Cyprus have adopted it in an effort to inject equity and to claim NID. Effectively, Cyprus tax resident companies and permanent establishments of Non-Cyprus tax resident companies that inject new equity for the purpose of producing taxable income are entitled to deduct from their taxable profits a notional interest deduction (NID).

The Notional Interest Deduction in substance replaces actual interest expense in case the Company would have been financed through loans payable. Instead of that, the shareholders inject capital (it can be increase in the share capital at nominal value or at a premium) and claim NID for tax purposes.

The NID is calculated at the lower of:

- a. Interest reference rate on the capital introduced by the Company which is the 10 years anniversary government bond rate as at 31 December of the previous year of the Country in which the capital is invested increased by 5%.
- b. 80% of the taxable profits derived by the assets financed by the new equity.

It should be noted that the notional interest is only for tax purposes and it does not require presentation of any expense invoices supporting it thus making this law very attractive for foreign shareholders to invest capital in the Cyprus Companies.

The tax experts of our office are at your disposal to answer any questions about this tax law, to calculate it and claim it successfully from the tax authorities.



### **CONTACT US**

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