



2022 Notional Interest Deduction reference rates announced

25 February 2022 – The Cyprus Tax Department issued earlier this month a notification announcing the interest reference rates of the 10-year government bond as at 31 December 2021, which are applicable for the tax year 2022.

The notification, dated 3 February 2022, relates to the application of Article 9B of the Income Tax Law N118(I)/2002 Notional Interest Deduction (NID) for the tax year 2022.

The NID enhances the tax benefits of financing business operations through equity and offers a tax efficient alternative to debt financing.

A NID is allowed on new equity funds introduced into a Cyprus tax resident company that are used for the operations of the company. The NID should be calculated on the basis of the 'reference interest rate' which is equal to the yield on the 10-year government bond of the country where the new funds will be/are invested, plus 5%.

The Tax Department publishes the 10- year government bond yields for selected countries on an annual basis through which one can derive the relevant reference rate. In the absence of published guidance on behalf of the Tax Department, the relevant yield should be obtained from publicly available sources.

You may refer to the 10-year government bond yield rates covering the tax years from 2017 to 2022 by clicking [here](#).

In respect of countries not mentioned in the announcement, taxpayers may apply to the Tax Authorities for the determination of the appropriate NID Reference rate enclosing the interest yields of the 10-year government bonds for the countries concerned as identified on the basis of the Bloomberg Index, or in the absence thereof, their estimation of the applicable rate.

You are reminded that the NID is restricted on the 80% of the taxable profits of the Cypriot taxpayer. For the purposes of calculating the 80% restriction, the relevant taxable profits are those relating to the new equity, so that the NID can only be claimed against such profits. Also note that the 80% cap applies separately to the taxable profits derived from each business asset that is financed by the new equity (i.e. 80% restriction should apply separately to the taxable income arising from each business asset which is financed by new equity).

If tax losses arise from the use of new equity into the business, no NID should be available in the relevant year.

As always, The Taxation Department of Costas Tsielepis & Co Ltd is at your disposal should you require any further information or clarifications on this or any other tax issue.

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