



Notional Interest Deduction provisions amended

19 June 2020 - On 16 June 2020, amending Income Tax Law (ITL) (Law 66(I)/2020) was published in the [Cyprus Government Gazette](#) on the application of the provisions of the Notional Interest Deduction (NID) on new equity used for the production of taxable income.

Brief History

As from 1 January 2015, Cyprus tax resident companies and Cyprus permanent establishments having “new equity” that produces taxable income are entitled to deduct from their taxable profits, a notional interest (NID). This NID is subject to a number of condition including a taxable income limitation.

In brief, the NID is equal to the amount of the new equity introduced for business purposes multiplied by the relevant “reference rate,” subject to an annual cap of 80% of the taxable profits (as calculated prior to the NID) arising from the new equity.

New Provisions

(a) Reference Rate

Until 31 December 2019.

The [reference rate](#) was the yield of the 10-year government bond (as at 31 December of the year preceding the tax year the NID is claimed) of the country in which the new equity is employed/invested plus 3%. The minimum reference rate was the yield of the Cyprus 10-year government bond (as at 31 December of the relevant year) plus 3%.

From 1 January 2020.

As of 1 January 2020, the relevant 10-year government bond yield will no longer be determined by taking the higher of: (i) the Cyprus yield rate; and (ii) the yield of the country in which the new equity is invested into.

Instead, the 10-year government bond yield will be determined only with reference to the jurisdiction of investment (i.e., the Cypriot yield rate will no longer serve as a minimum).

The reference rate is the yield of the 10-year government bond (as at 31 December of the year preceding the tax year the NID is claimed) of the country where the new equity is employed/invested plus 5%, and there is no minimum reference rate.



In case the country in which the new equity is invested has not issued a government bond on 31 December of the year preceding the tax year, the “reference interest rate” will be based on the government bond yield of Cyprus plus 5%.

(b) New Equity

Under the existing provisions, “new equity” refers to any equity introduced into the business on or after 1 January 2015 and used for producing taxable income but excludes any equity created from the capitalization of reserves existing on 31 December 2014. An exception to this exclusion rule is when the capitalization of such “old” reserves creates new business assets which did not exist on 31 December 2014.

“New equity” is now defined as equity introduced into the business on or after 1 January 2015. Therefore, as from 1 January 2021, the NID can no longer be claimed on equity arising from the capitalization of reserves existing on 31 December 2014 regardless of whether such equity is funding new business assets.

(c) 80% Restriction

The amending law clarifies that 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. It also clarifies that the 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.

The amendments for the 80% restriction will apply retroactively as from 1 January 2015, since the Law effectively adopts the matching concept followed by the Cypriot tax authorities since the introduction of the NID in Cyprus and the issuance of [Circular No 2016/10](#).

Taxpayers should review their 2020 NID calculations in order to assess whether their annual NID amount is impacted by the amendments within the framework of the upcoming 31 July 2020 deadline for the submission of the 2020 provisional tax declaration and the payment of the first temporary tax installment.

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.