



2019 Notional Interest Deduction rates announced


4 February 2019 – The Cyprus Tax Department issued on 30 January 2019 a notification announcing the interest reference rate of the 10-year government bond as at 31 December 2018.

The notification, which can be found by clicking [here](#), relates to the application of Article 9B of the Income Tax Law N118(I)/2002 Notional Interest Deduction (NID) for the tax year 2019.

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 3%, with the minimum rate being the yield on the 10-year government bond of Cyprus plus 3%.

You may refer to the reference interest rates below as published by the Tax Department:

Country	10 Year Bond Yield	Country	10 Year Bond Yield
Cyprus	2.302	Kazakhstan	N/A
Austria	0.484	Latvia	1.029
Armenia	6.385	Belarus (USD\$)	7.226
Bulgaria	0.966	Luxembourg	0.522
BVI	N/A	Mauritius	5.380
France	0.705	Norway	1.754
Germany	0.284	South Africa	9.206
Switzerland	-0.197	Holland	0.383
Greece	4.346	Hungary	2.971
UAE	N/A	Ukraine (USD\$)	10.780
United Kingdom	1.275	Poland	2.812
USA	2.685	Romania	4.811
India	7.261	Russia	8.720
Ireland	1.166	Russia (USD\$)	5.020
Spain	1.413	Serbia	4.722
Italy	2.739	Slovakia	0.789
China	3.261	Croatia	2.415
Slovenia	1.166	Czech Republic	1.884
Sweden	0.457	Hong Kong	1.946
Canada	1.965		



Based on the Tax Department's notification, it transpires that the minimum reference interest rate to be used for NID purposes for the tax year 2019 should be 5,302% being 2,302% yield on the 10-year Cypriot government bond plus 3% as dictated by Article 9B of the Income Tax Law.

NID can be used as a tax optimization option for financing and other arrangements.

Capitalization of existing liabilities (loans/payable) obtained by a Cyprus tax resident company qualifies as "new equity" for the purposes of NID. Consequently, capitalization of back-to-back liabilities could reduce the effective tax rate of the Cyprus tax resident company from 12,5% to as low as 2,5%. At the same time the Cyprus tax resident company should be considered the beneficial owner of the income on the foreign interest it receives on loans granted out.

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