



**K. TREPPIDES
& CO LTD**

Direct Taxation

June Newsletter - Issue 08/2020



Amendments Article 9B of ITL-Notional Interest Deduction

An amendment to article 9B of the Income Tax Law (ITL) was published on 16 June 2020 in the Official Gazette, in relation to the Notional Interest Deduction (NID), in order to comply with the European Commission recommendations.

Article 9B of ITL, grants to Cyprus tax resident companies a Notional interest deduction on new equity introduced after 1 January 2015, that produces taxable income. The formula to calculate the NID is as follow:

NID = New equity x Reference rate (not exceeding 80% of taxable income)

The provisions of article 9B of ITL were amended as below:

1. Reference rate

Until 31 December 2019

The reference rate is the 10-year government bond rate of the country in which the new equity is invested (as at 31 December of the year preceding) **plus 3%**, subject to a minimum rate equal to the 10-year government bond rate of Cyprus increased by 3%.

From 1 January 2020

The reference rate is the 10-year government bond rate of the country in which the new equity is invested (as at 31 December of the year preceding) **plus 5%**.

There is **no minimum** reference rate.

In cases where the country which the new equity is invested in, does not have an issued 10-year government bond, the reference rate of the Cyprus 10-year government bond yield should be used.

2. New Equity

Until 31 December 2020

The NID can be claimed on new equity occurring from the capitalization of pre-existing reserves (existing on 31 December 2014), **as long as** the pre-existing reserves are invested in assets that produce taxable profit.

From 1 January 2021

The NID cannot be claimed on new equity occurring from the capitalization of pre-existing reserves and accumulated profits.

3. Clarifications to the matching principle

The new amendment is applied retrospectively from 1 January 2015, to align the provisions

of article 9B with the circular 2016/10 issued by the Cyprus Tax Department.
More specifically the amendment clarifies that the amount of NID that a company is eligible to claim on new equity cannot exceed 80% of the net taxable income that arises from the introduction of the new equity and the application of the 80% deduction should apply separately to the taxable income that arises from each business asset that has been financed by the new equity.

For any further information required, please not hesitate to contact us.



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