

Cyprus Tax Authorities publish 10-year government bond yield rates for NID purposes

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Executive summary

The Cypriot Tax Department issued an announcement on 14 February 2018 to inform taxpayers of the 10-year government bond yield rates as at 31 December 2017 for a number of countries (set forth in the table below), with respect to the Notional Interest Deduction (NID) regime. These yield rates shall be used to determine the reference interest rate for claiming NID in respect of the 2018 tax year. The key provisions of the NID and the applicability of the 10-year government bond yield rates are summarized below.

Detailed discussion

Notional Interest Deduction

As of 1 January 2015, Cyprus tax resident companies (as well as foreign companies with permanent establishments in Cyprus), which carry on a business, are entitled to claim a Notional Interest Deduction (NID) on their equity capital introduced on or after 1 January 2015.

NID is deducted from the taxable income of the company for the relevant tax year (subject to any restrictions) for the period of time within the tax year during which the equity belongs to the company and is used by that company for the carrying on of its activities.

The NID will equal the multiple of the “reference interest rate” (as defined below) and “new equity.”

“**Reference interest rate**” means the yield rate (not the coupon rate) as at 31 December of the year preceding the tax year of the 10-year government bond of the country in which the new capital is invested, increased by 3% having as a minimum limit the yield rate of the 10-year government bond of Cyprus increased by 3% (the higher of the two yield rates).

The NID is considered an interest expense and is subject to the same limitation rules as interest.

It is important to note that the maximum NID that can be claimed is the lowest of: (i) 80% taxable profit resulting from the use of the new capital for each business asset or for each group of business assets or for each line of activity; or (ii) 80% of the taxable profit that resulted from the use of the new capital on an aggregated basis. Taxpayers can elect not to claim the NID or claim part of it for each tax year.

10-year government bond yield rates as at 31 December 2017

Country	Yield Rate	Country	Yield Rate
Austria	0.563	Luxembourg	0.637
Belarus	N/A	Netherlands	0.501
British Virgin Islands	N/A	Norway	1.579
Canada	2.079	Poland	3.385
China	4.268	Romania	4.314
Croatia	2.453	Russia	7.590
Cyprus	1.881	Russia (\$USA)	3.822
Czech Republic	1.650	Serbia	5.968
France	0.780	Slovakia	0.815
Germany	0.423	Slovenia	0.843
Greece	4.073	South Africa	8.780
Hungary	2.031	Spain	1.558
India	7.571	Sweden	0.540
Ireland	0.811	Ukraine	N/A
Italy	2.005	United Arab Emirates	N/A
Kazakhstan	N/A	United Kingdom	1.188
Latvia	0.715	United States	2.406

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