

Notional interest deduction: 2015 interest rates announced by the Cyprus Tax Authorities (updated)

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In brief

For the purposes of the notional interest deduction (NID) the Cyprus Tax Authorities announced on 7 January 2016 (in a revised version of their initial 31 December 2015 announcement) the interest yield of the 10 year government bonds for Cyprus, India, Russia, Romania and Germany as at 31 December 2014, the relevant date for tax year 2015.

Based on the Cyprus Tax Authorities announcement the NID interest rate for tax year 2015 for funds employed in the above mentioned countries is as set out in the table below:

Country where the funds are employed:	2015 NID interest rate
Cyprus, Romania, Germany	8,037%
India	10,86%
Russia	16,73%

In detail

By way of background, with effect from 1 January 2015, Cyprus introduced a NID on new equity for companies. New equity is paid-up share capital and share premium introduced to a company as from 1 January 2015.

In a similar way that an interest expense on debt financing is generally calculated as an interest rate on loan principal, the annual NID is calculated as an interest rate on the eligible share capital / premium.

The **NID interest rate** is the yield on 10 year government bonds (as at 31 December of the prior tax year) **of the country where the funds are employed** in the business of the company plus a 3% premium. This is **subject to a minimum**

rate which is the yield of the 10 year Cyprus government bond (as at the same date) plus a 3% premium.

For the purposes of the above, on 7 January 2016 the Cyprus Tax Authorities announced the interest yield of the 10 year government bonds for Cyprus, India, Russia, Romania and Germany as at 31 December 2014, the relevant date for tax year 2015. This announcement is a revised version of their initial announcement of 31 December 2015. As compared to the earlier announcement the applicable rates for India and Russia are slightly revised and no rate is provided for Ukraine.

Based on the Cyprus Tax Authorities announcement the **NID interest rate** for funds

employed in the above mentioned countries for tax year 2015 is as set out in the table below:

Country where the funds are employed:	2015 NID interest rate
Cyprus, Romania, Germany	8,037%
India	10,86%
Russia	16,73%

It is expected that the Cyprus Tax Authorities will shortly issue a clarifying circular on the practical application of the NID, including how to determine the country where the funds are employed.

For further details on the NID refer to our newsletter [N-3-2015](#).

The Takeaway

With this latest announcement the Cyprus Tax Authorities have established an important part of the NID calculation for 2015 for the

countries which the announcement refers to.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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