

# Notional interest deduction: 2016 interest rates announced by the Cyprus Tax Authorities (updated)

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## In brief

Following our latest Newsletter N-5-2016, the Cyprus Tax Authorities (CTA) have announced for the purposes of the notional interest deduction (NID) an updated list of countries' interest yields on 10 year government bonds. The countries now included in the CTA's announcement are Cyprus, Czech Republic, Germany, India, Latvia, Poland, Romania, Russia, Ukraine and United Arab Emirates as at 31 December 2015, the relevant date for tax year 2016.

Based on the CTA's updated announcement the NID interest rate for tax year 2016 for funds employed in the above mentioned countries is as set out in the table below:

Country where the funds are employed:	2016 NID interest rate
Cyprus, *Czech Republic, *Germany, *Latvia, *Poland	6,685%
Romania	6,703%
United Arab Emirates	10,490%
India	10,758%
Russia	12,570%
Ukraine	12,622%

\*The Cyprus rate is used as it is the minimum.

## In detail

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, the CTA have recently provided an updated announcement for the interest yield of the 10 year government bonds for Cyprus,

Czech Republic, Germany, India, Latvia, Poland, Romania, Russia, Ukraine and United Arab Emirates as at 31 December 2015, the relevant date for tax year 2016. The update adds Czech Republic, Latvia, Poland, Romania and United Arab Emirates are now included.

Based on the CTA's latest announcement the **NID interest rate** for funds employed in the above mentioned countries for tax year 2016 is as set out in the table below:

Country where the funds are employed:	2016 NID interest rate
Cyprus, *Czech Republic, *Germany, *Latvia, *Poland	6,685%
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\* The Cyprus rate is used as it is the minimum.

## The Takeaway

With this latest announcement the CTA have established an important part of the NID calculation for 2016 for the countries to which the announcement refers.

## Let's talk

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

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