

The Cyprus Company and Notional Interest Deduction (NID)

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Introduction

Cyprus has established itself as a leading international financial centre, attracting businesses and investors from around the world. Cyprus is an attractive jurisdiction for trading and holding companies and offers [a number of tax incentives](#). One of which is the Notional Interest Deduction (NID).

The NID can be used to lower the [corporate tax rate from 15%](#) to as low as 3%. Given that Cyprus' standard rate of corporate tax of 15% is already among the lowest rate in the EU, the NID has become a very attractive tax planning tool for many companies looking to maximise their tax efficiencies.

What is the Notional Interest Deduction?

The NID was designed to encourage companies to finance their operations through equity rather than debt, while also promoting capital investment in Cyprus.

In simple terms:

- The NID allows a company to deduct a “notional” interest expense on new equity injected into the business.
- This deduction reduces taxable income, thereby lowering the overall corporate tax liability.
- Importantly, the NID is not an actual accounting expense — it is a tax deduction only.

Key Rules

- The NID cannot exceed 80% of taxable income generated from the new equity.
- The NID rate is based on:

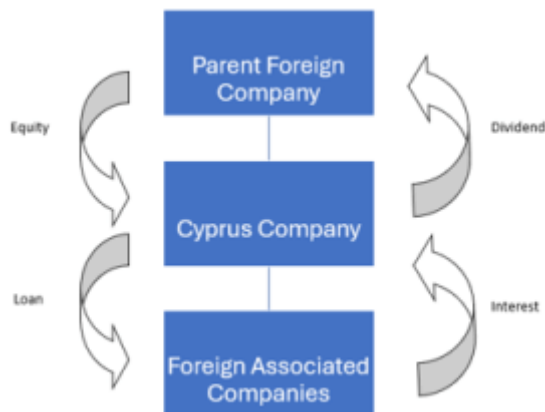
- 10-year government bond yield of the country where the equity is invested + a 5% premium.
- If the relevant country does not issue government bonds, the Cyprus 10-year government bond rate is applied instead.

Example: How the NID Works

Scenario:

A foreign parent company injects €10m of new equity into its Cyprus subsidiary, which uses the funds to finance other group companies.

Details	Amount
New equity introduced	€10,000,000
Loans advanced	€10,000,000
Interest rate charged	10%
Cyprus 10-year bond rate	3.25%



Step 1: Calculate taxable income

$$€10\text{m} \times 10\% = €1,000,000$$

Step 2: Calculate NID

Lower of:

- $(3.25\% + 5\%) \times €10\text{m} = €825,000$
- $80\% \times €1,000,000 = €800,000$

Step 3: Tax payable

- Taxable income after NID = $€1,000,000 - €800,000 = €200,000$
- Corporate tax at 15% = $€30,000$

Effective tax rate: 3%

Who Can Claim the NID

The NID is available to:

- Cyprus tax-resident companies

- Permanent establishments (PEs) of non-resident companies in Cyprus

However, to benefit from the NID, a company must be managed and controlled from Cyprus and demonstrate sufficient economic substance. For a detailed guide on substance requirements, see our [full article on economic substance](#).

Additional Information Regarding the Taxation of Companies in Cyprus

Alongside the NID, Cyprus offers a highly attractive [corporate tax regime](#) with several exemptions from corporate income tax, including:

- Dividend income
- Certain types of interest income (except when earned in the ordinary course of business)
- Foreign exchange (FX) gains (except those from FX trading)
- Gains from the sale of securities

Additionally, expenses incurred wholly and exclusively for generating income are deductible, providing further opportunities for optimisation.

For more information, explore our comprehensive guide to [corporate tax in Cyprus](#).

How Can Dixcart Help You?

At Dixcart, we have over 50 years of experience supporting businesses and individuals with international tax planning and corporate structuring.

Our team can assist with:

- Evaluating whether the NID applies to your company
- Incorporation of a Cyprus company and ensuring compliance with local regulations
- Providing ongoing accounting, secretarial and compliance support

Every client's situation is unique. We work closely with you to understand your objectives and provide tailored, practical solutions that meet your needs today and protect your interests for the future.

If you're considering establishing a Cyprus company or want to explore the benefits of the NID, contact us at advice.cyprus@dixcart.com. Our specialists will be happy to guide you through the process.

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