KINANIS
LAW FIRM

NOTIONAL INTEREST DEDUCTION

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INTRODUCTION

During the recent years there have been a lot of developments around the world on the application of the double tax treaties. These changes were mainly driven by OECD through the BEPS initiative, local legislation (i.e. Russia de offshorisation law) as well as case law which set, a precedence as to when a benefit under a double tax treaty can be granted.

For financing transactions there was significant attention given on back to back loans and after the introduction of the above-mentioned developments companies involved in such transactions were denied treaty benefits.

The Government of Cyprus in an attempt to address the risk that heavily leveraged Cyprus companies were facing, introduced in 2015 the Notional Interest Deduction ("NID"). The main purpose of introduction of NID was to assist Cyprus companies to de-leverage the and provide a tax efficient alternative to debt financing.

In this brochure, we shall examine the main features of NID and identify the benefits that NID offers and how NID interacts to the tax developments.

A. WHAT IS NID

The NID is a theoretical interest expense calculated on New Equity introduced into a Cyprus company. NID is calculated for tax purposes only and has the same tax treatment of interest expense. In effect, the NID encourages equity finance in corporate structures by granting the notional interest deduction, substituting the interest from the debt finance which was preferable for tax purposes.

B. WHO CAN CLAIM NID

Eligible for NID are the Cyprus tax resident companies and Cyprus permanent establishments (PEs) of non-tax resident companies provided that:

1. "New equity" is introduced into the business, which will be used by such business for the purpose of generation of taxable income.

2. Paid either in cash or in kind, and

3. The relevant tax declaration in relation to the claim of NID is duly completed and submitted to the Tax Authorities, and in case that the TAX Authorities require particulars in relation to the computation of the NID, such particulars should be duly completed and submitted in due time to the TAX Authorities.

Eligible for NID are also companies that relocate their tax residency in Cyprus on or after the 1st of January of 2015, subject to conditions.

C. BENEFITS USING THE NID

Despite the obvious tax benefit of having an expense for tax purposes without incurring an actual expense, the equity financed companies can address the constraints imposed by the recent tax developments.

In summary, the current tax environment constrains companies' strategies by enforcing the following:

1. Introduction of Transfer Pricing Study on intra group transactions;

2. Introduction of Anti -Tax Avoidance Directive and EU Directive on Mandatory Disclosure;

3. Beneficial Owner of the income concept for avoiding abuse of double tax treaties;

In this respect, the application of the NID in combination with the equity finance may overcome the above-mentioned obstacles. In particular, these issues may be addressed though the equity financed as follows:

1. Transfer Pricing Report Issue:

In Cyprus the Transfer Pricing requirements currently relate to "intra group finance transactions" (defined as any activity by way of granting of loans or cash advances to related parties) which are financed by financial means and/or instruments (loans, bank loans, promissory notes, etc.)

Therefore, by substituting the debt finance to equity finance for the purpose of granting intra group loans, the company's obligation for the Transfer Pricing requirement is eliminated.

2. Anti - Tax Avoidance Directive Provisions:

The General Anti-Abuse Rule aims to eliminate artificial arrangements whose main purposes is the tax benefit that defeats the object or purpose of the tax laws. Back to back arrangements have been considered in many cases by authorities or court cases as artificial arrangements with the main purpose to benefit from a tax treaty thus the treaty benefits were denied.

Therefore, the current tax environment emanates shifting from such arrangements. The NID is a useful scheme that can reduce the tax burden and substantially reduce the risk of falling within the general anti abuse rules.

3. Beneficial Ownership Issue:

The purpose of the Beneficial Ownership Issue is to attack aggressive tax planning structures by refusing the granting treaty benefits to the entities that are not beneficial owners of the income.

An important factor to consider whether the company is the beneficial owner of the income or not is the power of the company to dispose the income and whether all or almost all of the income is transferred to another entity.

One of the measures that may assist in addressing the Beneficial Ownership Issue is the conversion of debt into equity since through the equity finance the company's obligation for further transferring the funds into another entity is eliminated, implying that the control of the economic destiny of the income is retained by the company.

D. HOW TO CALCULATE NID

The NID is calculated by multiplying the amount of the "New Equity" introduced into the company, with the "Reference Interest Rate".

However, the following restrictions apply which limit the amount of the NID granted to the lower of the:

1. 80% of the taxable profit that each asset or activity or group of assets or activities **separately** has generated.

2. 80% of the taxable profit that the assets or activities **collectively** have generated.

In case where tax losses arise from the injection of new equity into the business, no NID should be granted in the relevant tax year.

The terms "New Equity" and "Reference Interest Rate" are defined below.

I. Definitions

In order to obtain a clear understanding of the NID equation, the following terms are defined:

1. New Equity:

New Equity is defined as the "capital introduced" into the company, which is represented by "shares".

<u>Capital Introduced:</u>

Capital introduced comprises the following:

- Issuance of shares as from 01/01/2015;

- Conversion of loans payable, payables and other debt instruments into issued share capital, on or after 01/01/2015;

- Conversion of non-refundable capital contribution into issued share capital, on or after 01/01/2015;

- Conversion of realized reserves created after 1 January 2015 into issued share capital;

In accordance to the Cyprus Income Tax Law, Non-Refundable Financial Assistance, and Shares in Partnerships or other transparent entities, explicitly disqualify for the “capital introduced” definition.

Shares:

The term shares include shares of any class and type. More specifically the type of shares may be:

- Ordinary;
- Preference;
- Redeemable;
- Convertible;
- Share premium;

Unpaid share capital shall be considered as paid-up capital and qualifying as “New Equity” for NID purposes however a corresponding claim will be recognized which will give rise or is deemed to give rise to interest subject to income tax.

2. Old Equity:

Old equity is defined as the share capital and share premium which is issued and settled prior to 31/12/2014. As of 01 January 2021, any reserves existed before the introduction of NID provision in Cyprus (01 January 2015) and which are “capitalised” after 01 January 2015 are no longer allowed to be included in the amount of qualifying equity for the purpose of calculating the NID of the year.

3. Reference Interest Rate:

Reference Interest Rate is the 10-year government bond yield of the country in which the funds raised from the new equity are invested, increased by 5%.

The 10-year government bond yield used for the calculation of the NID is the rate as at 31st of December of the year preceding the tax year in which the NID is claimed and there is no minimum reference rate.

In the event where the country in which the new equity is invested has not issued a government bond up to and inclusive the 31st of December of the year preceding the tax year the NID is claimed, the reference rate will be equal to the Cyprus 10-year government bond yield plus 5%, of the year preceding the tax year the NID is claimed.

The 10-year government bond yield is obtained from the official site of the Tax Department in Cyprus, in which the 10-year government bond yields for selected countries on an annual basis is issued.

II. Basic Principles/Limitations:

In order to calculate the NID, the following basic principles should be taken into account.

1. Time apportion of NID:

The NID deduction is granted proportionally for the months for which the company is eligible to the new equity (the capital introduced is both issued and paid) provided that taxable income is generated from the use/investment of such new equity.

NID is subject to an option which can be exercised in each year of assessment in respect of total or part of the NID (for indefinite period).

For better understanding, please refer to the example in Section F, **Appendix A**.

2. Matching Concept:

The matching concept is used by allocating the New Equity to the assets or activities of the business that were financed. The NID is calculated for each asset/activity/group thereof separately.

Therefore, on calculating the NID of each asset/activity, the value of the new equity contributed together with the reference interest rate for each asset/activity/group should be identified. Further on applying the 80% restriction of NID the taxable profit of each asset/activity should be identified.

For better understanding, please refer to the example in Section F, **Appendix B**.

3. Method of finance of the new equity:

The method of finance of the new equity by the shareholder varies. However, this impacts the calculation of the NID, since different treatments apply in each case as analysed below:

1. Financed from new equity of another Cyprus company:

   NID may be claimed only by one company, unless the reinvestment of the new equity generates different taxable income.

2. Financed directly or indirectly from loans:

   NID is reduced by the amount of the interest expense claimed for tax purposes by the shareholder if the shareholder is Cyprus Tax Resident.

   For better understanding, please refer to the example in Section F, **Appendix C**.

3. If the new equity is a result of conversion of loans payable into capital:

   NID is calculated on the taxable income generated by the assets or activities that the loans payable are financing.

4. If the new equity contributed by the shareholder is paid in kind:

   The value of the new equity is the market value of the assets contributed at the date of the injection of the assets into the company, provided that such value is accepted by the Tax Authorities.

   The NID is claimed provided that the injected assets contributed by the shareholder produce taxable profits to the company.

4. Restrictions on the grouping of the assets/activities subject to NID:

NID is calculated separately on each asset or activity, unless the assets or activities qualify for grouping.

Therefore, unless the assets/activities form part of a group, the income and expenses of each asset/activity needs to be clearly defined and documented, since the 80% restriction will apply on the taxable profit generated from such asset/activity respectively.

5. If the new equity is a result of reorganisation:

NID is claimed by the surviving company on the new equity that results from the reorganisation, subject to conditions.

6. Cessation of NID:

NID ceases to be granted if the new equity is withdrawn via a capital reduction, or in the instance that the company purchases its own capital, or in the instance the company stops using the new equity for the generation of taxable income.

In the instance of reduction of capital, then the capital is matched to the assets/activities in order to result to the amount of new equity subject to the capital reduction and consequently the restriction of the NID.

7. Capital Increase:

Where there is capital increase from the capitalisation of reserves that cannot be matched to assets/activities, then the capitalisation of reserves is conducted in a predetermined order. The order will be analysed on a case-by-case basis.

8. Profit/Loss generated from the disposal of the asset or from the activities subject to NID and reinvestment into same type of assets/activities:

Where there is a disposal of an asset generating taxable income and a further reinvestment of the proceeds into another taxable income generating asset then the profit/loss on disposal is not taken into consideration when calculating the amount of the New Equity for NID purposes.

9. Conversion of debt:

Where there is conversion of debt that financed non-taxable income generating assets/activities, into equity, then NID may be claimed if the assets are disposed and the proceeds are used for the acquisition of new taxable income generating assets/activities. However, unless the disposal of the assets and purchase of new assets is incurred after the capitalisation of debt, NID is not granted.

For better understanding, please refer to the example in Section F, **Appendix D**.

10. Limitation of the taxable loss:

Any brought forward loss that an asset or activity or group thereof may produce is not included in the calculation of arriving to the taxable profit of that asset or activity or group thereof subject to NID.

For better understanding, please refer to the example in Section F, **Appendix E**.

A collective restriction applies by which the 80% of the total taxable profit of all assets or activities is calculated. In order to arrive to the total taxable profit of all assets or activities, both the taxable profits and taxable losses generated by each asset or activity is taken into consideration.

For better understanding, please refer to the example in Section F, **Appendix E**.

The NID cannot create or increase taxable losses.

11. Limitation on Reference Interest rate:

As of 01 January 2020, there is <u>no minimum</u> reference rate.

In the instance that the subject country has issued 10-year government bond yields for various currencies, then the 10-year government bond yield of the transactions' currency is used. If the subject country has not issued a 10-year government bond yield of the transactions' currency, then the 10-year government bond yield of the country's currency is used.

III. NID Anti-Abuse Rules:

1. Capital Reduction and Reissuance of New Equity

If there is a capital reduction and increase of capital in relatively short time, then the grant of NID is not allowed.

2. General Anti abuse Provisions

The Tax Authorities do not have to grant the NID where the company is entering into certain transactions or arrangements having no commercial or economical rational, as main purpose is to obtain the tax benefit through the NID scheme.

Also, the Tax Authorities do not have to grant the NID where the origin of the new equity of the company is from equity existed as at 31/12/2014 and through transactions or arrangements between related parties whose main purpose was is to obtain the tax benefit through the NID scheme.

3. Value of New Equity:

Where the capital is introduced in the form of assets, the value of the assets should be determined through a report of an external independent expert, unless certain conditions apply.

E. CONCLUSION

The tax developments applied universally necessitates the companies to reconsider their business structures, and consider whether it would be more beneficial to shift from debt finance to equity finance.

As analysed, the equity finance assists in conformance of the globally applied regulations and also offers a notional interest deduction of up to 80% of the taxable income, leading to an effective taxation of only 2.5%, through the application of the NID.

Our Tax Department is able to prepare a diagnostic review and propose possible solutions to your structure.

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F. DISCLAIMER

G. APPENDIXES

SCHEDULE 1 – REFERENCE INTEREST RATES

The following table gives a summary of the 10-year government bond yield of EACH country since 2014 as issued in the official site of the Tax Department in Cyprus, forming the reference interest rates:

COUNTRY	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Armenia	8,064	6,385	9,251			
Abu Dhabi	2,514					
Argentina	10,253					
Austria	0,016	0,484	0,563			
Bulgaria	0,257	0,966	0,750			
Belgium	0,086					
Belarus ($ USA)	5,350	7,226	5,946			
Bermuda (US $)	3,082					
British Virgin Islands	N/A	N/A	N/A			
Canada	1,699	1,965	2,079			
Cayman Islands	N/A	N/A				
China	3,130	3,261	4,268			
Cyprus	0,536	2,302	1,881	3,489	3,685	5,037
Croatia	0,621	2,415	2,453			
Czech Republic	1,569	1,884	1,650	0.414	0.499	
Denmark		0.353				
Dubai (€)	N/A	N/A	N/A			
Dubai (US $)	3.160	4.722	4.402			
Egypt	13.518	17,990				
Egypt ($ USA)	6.382	8,271				
Estonia	N/A					
Finland	0.043					
France	0.115	0,705	0,780			
Germany	-0.210	0,284	0,423	0,204	0,568	0,540
Greece	1.431	4,346	4,073	8,361	9,639	
Hong Kong	1.699	1.946	1.754			
Hungary	2.017	2.971	2.031			
India	6.557	7,261	7,571	6,878	7,758	7,860
Ireland	0.120	1,166	0,811			
Isle of Man	1.712	2.305				
Israel	0.960	2,320				
Israel ($ USA)	2.520	3,900				
Italy	1.404	2,739	2,005	1,930	1,847	
Ivory Coast	N/A					
Jordan (US $)			6.005			
Kazakhstan (€)	0.996	2.463				
Kazakhstan (US $)	2.566	4.232	N/A	4,204	5,311	
Kenya	12.180			9,350		
Latvia	0.136	1,029	0,715	0,894	1,104	
Luxembourg	-0.087	0,522	0,637			

Lithuania	0.169					
Marocco	2.420					
Mauritius	4.260	5,380	5,420			
Netherlands	-0.060	0,383	0,501			
Nigeria (€)	N/A			N/A		
Nigeria	11.563			12.932		
Norway	1.540	1,754	1,579			
Poland	2.109	2,812	3,385	3,627	2,937	
Portugal	0.490					
Romania	4.398	4,811	4,314	3,748	3,703	3,570
Russia	6.270	8,720	7,590	8,380	9,570	13,730
Russia ($ USA)	2.605	5,020	3,822	4,409	6,600	6,580
Saudi Arabia	2.839	4.321				
Serbia	2.778	4,722	5,968			
Singapore	1.730	0.789	0.815			
Slovakia	0.192	0,789	0,815			
Slovenia	0.267	1,166	0,843			
South Africa	9.018	9,206	8,780			
Spain	0.463	1,413	1,558			
Switzerland	-0.454	-0,197				
Sweden	0.145	0.457	0.540			
Taiwan	0.670					
USA	1.919	2,685	2,406			
Ukraine (€)	N/A	N/A				
Ukraine ($ USA)	6.504	10,780	7,222	8,705	9,622	
United Arab Emirates	N/A	N/A	N/A	3,326	7,490	
United Kingdom	0.817	1,275	1,188	1,326		
Vietnam	3.459					

SCHEDULE 2 –NID CALCULATION EXAMPLES

Appendix A

Notional Income Deduction Calculation Based on Scenario A

Financial Year 2020

Facts of Scenario A:

- *The Cyprus company issues new equity of EUR 2,000,000 on 05.05.2020.*
- *Only a part of the new equity, is paid amounting to EUR 1,000,000 on 30.06.2020.*
- *The equity of EUR 1,000,000 contributed, is used for trading purposes as from 10.08.2020 The Cyprus company purchases trading goods of EUR 1,000,000 and sells them for the amount of EUR 1,065,000 on 30.09.2020.*
- *The income generated from the disposal of the trading goods of EUR 1,065,000 will be partially distributed as dividends of EUR 35,000, and the remaining amount of EUR 1,030,000 will be invested into a fixed deposit that will generate interest income of EUR 50,000.*

Assumptions of Scenario A:

- *The 10Year Government Bond+5% of the country in which the trading of goods is made is 10.590%.*

Data

	Date	EUR
New Equity Issued	**05.05.2020**	**2,000,000.00**
New Equity introduced to be used for trading purposes	**30.06.2020**	**1,000,000.00**
New Equity used for trading purposes - proportionate to the days of use	**10.08.2020**	**139,726.03**

Year 2020	Goods	Investment of funds in fixed deposit	Dividend Distribution	Total
Cost of Assets	1,000,000	1,030,000	35,000	
Income	1,065,000	50,000	0	1,115,000
Taxable Profit (subject to Income Tax)	65,000	0	0	65,000
NID Calculation				
	Taxable Profit	10Year Government Bond+5%	Market Value of new equity	
Data	65,000	10.590%	139,726	
(10Year Government Bond+5%) * MV (new equity)				14,797
80% of the Taxable Income				52,000
Restriction on NID				**14,797**

Points to Note:

1. *New equity is restricted for the calculation of the NID to the period in which the new equity belongs to the company (issued and paid) and it is used for the purpose of taxable income. Therefore, the new equity is restricted to the number of days that the new equity was used in trading in goods (from 10.08.2020 till 30.09.2020).*
2. *NID cannot be claimed on income derived from assets/activities that produce income which is not subject to corporation tax.*
3. *NID will NOT be granted in respect of the new equity which is used for the investing of funds into the fixed deposit (since the fixed deposit generates investment income, subject to Special Defence Tax, rather than taxable income).*

Computation of Corporation Tax Based on Scenario A	
	EUR
Total Income	1,115,000.00
Cost of Sales	1,000,000.00
Gross Profits	115,000.00
Less:	
Non Taxable Income	-50,000.00
NID Deduction	-14,797
Taxable profits for the year	50,203
Corporation tax @ 12,5%	6,275

Computation of Special Defence Tax Based on Scenario A	
	EUR
Income subject to Special Defence Tax	50,000
Special Defence Tax @ 30%	15,000

Appendix B

Notional Income Deduction Calculation Based on Scenario B

Financial Year 2020

Facts of Scenario B:

- *The Cyprus company issues new equity of EUR 1,000,000 on 01.01.2020.*
- *All of the new equity is paid on 01.01.2020 and is used for the purchase of 3 different assets in 3 different countries on 01.01.2020 that generate taxable income.*
- *Asset A is situated in Country A and generates taxable profit of EUR 50,000.*
- *Asset B is situated in Country B and generates taxable loss of EUR 30,000.*
- *Asset C is situated in Country C and generates taxable profit of EUR 80,000.*

Assumptions of Scenario B:

- *The 10Year Government Bond+5% of country A is 17.00%.*
- *The 10Year Government Bond+5% of country B is 12.00%.*
- *The 10Year Government Bond+5% of country C is 15.00%.*

Data

Data	**Asset A**	**Asset B**	**Asset C**	**Total**
Country in which asset is situated	Country A	Country B	Country C	
10 Year Government Bond+5%	17.00%	12.00%	15.00%	
Date of introduction of New Equity	01.01.2020	01.01.2020	01.01.2020	
New Equity (in EUR)	200,000	300,000	500,000	1,000,000
Taxable Profit/Loss (in EUR)	50,000	-30,000	80,000	100,000

NID Calculation

	Asset A	**Asset B**	**Asset C**	**Total**
(10Year Government Bond+5%) * MV (new equity)	**34,000**	**36,000**	**75,000**	**145,000**
80% of the Taxable Income	**40,000**	**0**	**64,000**	**104,000**
Restriction on NID				
1.Restriction on the lower amount (separately)	**34,000**	**0**	**64,000**	**98,000**
2.Restriction on the lower amount (collectively) - 80% x 100,000				**80,000**
NID allowed				**80,000**

Points to Note:

1. The NID is restricted by the 80% of the taxable profit that each asset or activity or group of assets or activities separately generated.

2. The NID is further restricted by the 80% of the taxable profit that the assets or activities or group of assets or activities collectively generated.

3. Any loss that an asset or activity may produce is taken into consideration when accumulating the taxable profits of the assets, activities, groups, for the application of the collective restriction on the 80% of the total taxable profit generated.

Appendix C

Notional Income Deduction Calculation Based on Scenario C
Financial Year 2020

***Facts of Scenario C*:**

- *The Cyprus company (the Financing Company) issues new equity of EUR 150,000,000 on 01.01.2020.*
- *All of the new equity is paid on 01.01.2020 and is used for the provision of a loan as from 01.01.2020 with interest of 7.20 %, as the Cyprus company is operating in the financing sector.*
- *The new equity received from its Cyprus parent company (The Holding Company) is obtained from a bank loan carrying interest of 7% (annual interest amount EUR 10,500,000).*
- *The parent company claims the interest expense from the loan for tax purposes.*
- *The taxable profit generated from the finance activities is 10,800,000.*

Assumptions of Scenario C:

- *The 10Year Government Bond+5% of the country in which the loan is granted is 10.00%.*

Data	
10 Year Government Bond+5%	10.00%
Date of introduction of New Equity	01.01.2020
New Equity (in EUR)	150,000,000
Loan granted (in EUR)	150,000,000
Taxable Profit/Loss (in EUR)	10,800,000

NID Calculation

Holding Company		**Financing Company**	
	EUR		**EUR**
Loan Amount @7%	**150,000,000**	**(10Year Government Bond +5%) * MV (new equity)**	**15,000,000**
Interest Expense	**10,500,000**	**80% of the Taxable Income**	**8,640,000**
		Restriction on NID	**8,640,000**
		NID allowed	**0**

Points to Note:

As the new equity obtained is financed from loan, the NID is reduced by the amount of the interest expense claimed for tax purposes by the parent company.

Therefore, given that the interest expense claimed by the parent company is EUR 10,500,000 which exceeds the NID allowed for claim by the company of EUR 8,640,000 the company is not allowed to claim any NID.

Appendix D

Notional Income Deduction Calculation Based on Scenario D	
Financial Year 2020	

Facts of Scenario D:

- *The Cyprus company issues new equity of EUR 150,000,000 on 31.12.2019.*
- *The new equity is settled through the conversion of the debt the company had towards the shareholder on 31.12.2019.*
- *The debt was used to finance the company's deposit account.*
- *However, on 01.01.2020 the deposit is mature, and the funds invested in the deposit is returned to the Cyprus company.*
- *The Cyprus company uses those funds to provide loan with interest of 7.20%, which is considered taxable activity, on 01.01.2020.*

Assumptions of Scenario D:

- *The 10Year Government Bond+5% of the country in which the finance is granted is 5.05%.*

Data	
10 Year Government Bond+5%	5.05%
Date of introduction of New Equity	01.01.2020
New Equity (in EUR)	150,000,000
Loan granted (in EUR)	150,000,000
Taxable Profit/Loss (in EUR)	10,800,000
NID Calculation	
(10Year Government Bond+5%) * MV (new equity)	**7,575,000**
80% of the Taxable Income	**8,640,000**
Restriction on NID	**8,640,000**
NID allowed	**7,575,000**

Points to Note:

Since the conversion of debt into equity was made before the disposal/realisation of the non-taxable income generating assets/activities, and investment into new taxable income generating assets/activities, the Company can apply for NID. However, unless the disposal of the assets and purchase of new assets is incurred after the capitalisation of debt, NID is not granted.

Appendix E

Notional Income Deduction Calculation Based on Scenario E

Financial Year 2020

Facts of Scenario E:

- *The Cyprus company issues new equity of EUR 2,000,000 on 01.01.2020*
- *All of the new equity is paid on 01.01.2020 and is used for the purchase of 3 different assets in 3 different countries on 01.01.20 that generate taxable income.*
- *Asset A is situated in Country A and was acquired for EUR 1,000,000, generated taxable income of EUR 150,000 and taxable profit of EUR 100,000.*
- *Asset B is situated in Country B was acquired for EUR 500,000 generated taxable income of EUR 100,000 and taxable profit of EUR 70,000.*
- *Asset C is situated in Country C was acquired for EUR 500,000 generated taxable income of EUR 20,000 and taxable loss of EUR 50,000.*
- *The Cyprus company has a loss brought forward of EUR 5,000.*

Assumptions of Scenario E:

- *The 10Year Government Bond+5% of country A is 10.59%.*
- *The 10Year Government Bond+5% of country B is 5.10%.*
- *The 10Year Government Bond+5% of country C is 10.00%.*

Data

	Date	EUR
Taxable Loss b/f		5,000
New Equity introduced to be used for trading purposes	01.01.2020	2,000,000

	Country A	Country B	Country C	Total
Cost of Assets	1,000,000	500,000	500,000	2,000,000
Trading Income	150,000	100,000	20,000	270,000
Taxable Profit	100,000	70,000	-50,000	120,000
10Year Government Bond+5%	10.590%	5.10%	10.000%	

NID Calculation

	Country A	Country B	Country C	
(10Year Government Bond+5%) * MV (new equity)	105,900	25,500	50,000	181,400
80% of the Taxable Income (separately)	80,000	56,000	0	136,000
80% of the Taxable Income (collectively)				96,000
Restriction on NID				**96,000**

Computation of Corporation Tax Based on Scenario E	
	EUR
Income from trading goods	**270,000**
Cost of Sales	**-150,000**
Gross Profits	**120,000**
Less:	
NID Deduction	**-96,000**
Taxable income for the year	**24,000**
Less:	
Taxable Loss b/f	**-5,000**

Our Firm

We are a Law Firm with offices in Cyprus and Malta and a representative office in Shanghai China comprising of more than 80 lawyers, accountants and other professionals who advise, international and local clients.

The Firm has been offering legal and consulting services since 1983 evolving from a traditional law firm to an innovative cutting-edge multidisciplinary law firm combining exceptional expertise in law, tax, vat and accounting.

From its establishment the Firm's focus has been heavily business oriented and always abreast with the latest global developments and innovations. Drawing from our pool of experienced professionals we provide our clients' businesses full legal and accounting support on an everyday basis as well as customized solutions in today's global financial and legal challenges.

We consider ourselves as 'traditional pioneers' and our motto is to foresee and anticipate any issues that may potentially impact our clients' business and to offer effective advice and solutions proactively.

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