

There are various ways to finance the operations of and to inject funds into a company. The following table shows the some of the most common ways with an explanation of the consequences.

1. Loan from a UBO or another party to the company

- The loan will increase the liabilities of the company
- No Impact on issued capital and reserves
- Loan is refundable
- Tax Advantages due to the interest paid to the lender
- Company bears the lending costs such as annual interest payments and agreement setup costs

2. Share Capital Increase at par value

- No increase the liabilities of the company
- Increase on issued capital of the company at par value
- Provided that the Articles of Association authorise an increase of share capital, shareholders will be required to pass a resolution and within 15 days, the relevant resolution has to be filed to the Registrar of Companies, along with the payment of the applicable capital duty at par value.
- Capital increase is not refundable, but a reduction of the share capital can be implemented by a special resolution of the shareholders, which is submitted first to the Court for approval and then to the Registrar of Companies.
- Equity contributed in the form of paid up share capital had the advantage of the notional interest deduction (See explanation below)

3. Share Capital Increase at a premium over the par value

- The same a share capital stated in the previous point but the new shares are issued at a premium over the par value.
- The capital duty is paid only up to the par value
- The advantage of the **Notional Interest Deduction (NID)**

The Basis

The NID enables businesses to deleverage and realise a tax efficient return on new equity. This return is achieved through the deduction of a "notional" interest expense from their taxable income. Equity financing can now be a useful alternative to the debt financing norm as Cypriot companies can achieve through the NID effective tax rates of up to 2,5%.

Who can benefit from the NID

Cyprus tax resident companies and the Cyprus permanent establishments of non-Cyprus tax resident companies.

General

NID is deducted following the determination of a company's taxable profit of the Company / permanent establishment. As the NID is a "notional" deduction there is no need for any expense being booked or any exchange of funds to take place for NID to apply.

New equity

Equity shall be contributed as from 1 January 2015 in the form of paid up share capital or share premium.

New equity can be contributed either in cash or in kind. In the case of assets in kind the amount may not exceed the market value of the asset. Reserves existing as at 31 December 2014 can only be considered as a new equity if they are used for financing new business activities.

Advantages

NID has similar benefits to debt financing while companies can maintain tax benefits while increasing their financing robustness.

Example

For the purpose of the following example it is assumed that New Equity amounting to €1.000.000 is contributed to a company and that an 8% NID rate is applicable.

	without NID	With NID
Taxable Profit before NID	100.000	100.000
NID benefit		80.000
Taxable Profit after NID	100.000	20.000
Taxation	12.500	2.500
Effective Tax Rate	12,5%	2,5%

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