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REPORT

From: General Secretariat of the Council
To: Delegations
Subject: Code of Conduct Group (Business Taxation)
- Report to the Council

Monitoring fiche: Cyprus – CY020 – Notional interest deduction [2020 CoCG decision]

I. Background

1. The CY Notional Interest deduction (NID) applies as of January 2015 and was amended in June 2020. The Code of Conduct Group agreed that the Cypriot NID regime was *Not harmful after the amendment in June 2020, but that it should be "further monitored, in order to establish if a high foreign use of the NID regime would appear under criterion 1b and 2b"*. The 2023 annual monitoring exercise (covering data for tax year 2021) was thus the first monitoring exercise.

2. The Cypriot NID regime is an incremental regime and is calculated as a percentage of a company's net equity increase, as follows: Reference interest rate x New Capital (NC). This is referred to as the “Basic Calculation”.¹
3. Since the 2020 modifications, the reference interest rate of the Cypriot NID regime, differently from similar regimes in other Member States where one single rate is applicable to all cases, is the “10-year government bonds yield of the state where the new capital is invested, increased by 5% on 31.12 of the year preceding the tax year.” In case “the state where the new capital is invested has not issued any government bonds [...] reference rate is the yield of the government bonds of the Republic increased by 5% on 31.12 of the year preceding the tax year.”².

II. Preliminary assessment

4. The data provided covers the **tax year 2023**, and Cyprus indicated that it is provisional, as it is based on the income tax returns filed up to 3 September 2025, while the statutory deadline for the submission of tax returns is 30 of November 2025.
5. In addition, Cyprus updated the data provided previously for tax years 2021 and 2022.
6. While for tax year 2021 the final data does not indicate significant changes, the final data for tax year 2022 shows a slight increase in the uptake. The data for tax year 2023 shows a clear decrease, but as mentioned before, it is still provisional.

¹ **The First Step:** The regime requires that each asset financed by NC should be identified through a tracing/matching method. The CY NID deduction cannot exceed 80% of the taxable income from each asset as determined before the application of the NID provisions. This 80% cap is calculated based on the taxable income derived from each asset financed by NC separately. It is then compared to the NID calculated for each asset under the Basic calculation above. The deduction for each asset is then determined as the lower of these two amounts.

The Second Step: A second calculation is then made on the total taxable income from all assets financed by NC. If this amount is lower than the total deduction under the first step, this lower amount is used as the deduction. The lowest effective rate that may be achieved with the maximum deduction is 2.5% (12.5% CIT rate*(100% taxable - 80% taxable income/max. NID deduction).

² The minimum reference rate is no longer the Cyprus interest rate as was the case before, and can hence be lower or higher than the Cyprus interest rate depending on the respective jurisdiction.

7. From the final data provided for 2021 and 2022, it can be noted that the number of beneficiaries remained rather stable, 1 474 and 1 507, and did not decrease as it was initially concluded. Yet, the overall amount of NID granted remained stable, and so did the average amount of the NID deduction.
8. The provisional data for tax year 2023 indicates that the number of beneficiaries having submitted the request to benefit of the NID is around 830.
9. Cypriot authorities were previously invited to provide data that distinguishes between the domestic-owned and foreign-owned companies, to ensure the proper monitoring of criteria 1(b) of the Code. On this occasion, the Cypriot authorities informed that they are cooperating with the Registrar of Companies in order to match the data of the UBO registry with their tax base, but at this stage this was not yet technically feasible.
10. Despite the absence of data for **2021 and 2022** that breaks down per category of beneficiary, the available data indicates that the **average amount of the NID deduction** remained rather high but stable, slightly increasing from **EUR 1 592 000 to EUR 1 653 000**. This corresponds to an **average NID tax benefit per taxpayer³** of approximately **EUR 200 000**, and of **EUR 206 000**.
11. The **data for 2023** indicates a decrease of the average amount of the NID deduction in comparison with the previous years, to **EUR 670 000** (i.e. average NID tax benefit around EUR 83 000), but the data is only provisional.
12. The amount of the tax benefit per company on a yearly basis being relatively high, it remains important that the Cypriot authorities provide the Group with data on the numbers of domestically- and (directly or indirectly) foreign-owned taxpayers.

³ Average NID deduction x CIT 12.5%.

13. As previously concluded, based on the aforementioned information and the absence of data regarding the domestic or foreign ownership of the beneficiaries, the Commission Services cannot draw a final conclusion on whether the measure at issue has affected the business location amongst the Member States in a significant way. However, the effect of a NID is in principle positive, as the amount of the NID deduction is linked to the increase in the equity during the relevant tax year. Furthermore, in this specific case, the average NID tax benefit, although relatively high, has remained stable or provisionally decreased.
14. The Commission Services suggest that the Group continues monitoring the effects of the measure, to verify whether the trend regarding the amount of the NID allowance is maintained. The Cypriot authorities should continue their efforts to improve the data collection and endeavour to provide the Group with a breakdown of the numbers of domestically- and foreign-owned companies which benefit from the regime.

III. Follow-up

15. The Group agreed that the monitoring should continue and invited the Cypriot authorities to improve the data collection and provide the relevant data

Cyprus – CY020 – Notional interest deduction [2020 CoCG decision]

Cyprus – CY020	2021 (updated)	2022 (updated)	2023 (submission is still in progress – deadline for timely submission 30/11/2025)
Total number of taxpayers benefitting from the measure	1 474	1 507	835
Out of which directly or indirectly foreign owned companies:	We cannot extract such information from our database	We cannot extract such information from our database	We cannot extract such information from our database – Note 1
Global amount of NID granted	€2 346 000 000	€2 492 000 000	€559 000 000
Total tax expenditure (<i>at 12.5% CIT rate</i>)	€293 000 000	€311 000 000	€70 000 000
<i>Average amount of NID allowance</i>	€1 592 000	€1 653 000	€670 000
Total tax expenditure attributable to directly or indirectly foreign owned	We cannot extract such information from our database - Note 1		
<i>Average NID tax expenditure attributable to directly or indirectly foreign owned</i>			

Note 1: We are in coordination with the Registrar of Companies in order to match the data of the UBO registry with our tax base. The process is still in progress due to technical issues