

## Corporate Tax - Cyprus

### Department publishes guidance on interest on loans between connected entities

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Section 33 of the Income Tax Law allows the tax authorities to adjust a company's taxable profit in the event that transactions between related companies are undertaken on a non-arm's length basis.

In 2009 the tax authorities issued informal guidance on the parameters to be observed for the acceptable margin of taxable interest that should apply in transactions involving Cyprus entities as intermediary financing vehicles in back-to-back financing arrangements. This guidance has now been formalised in correspondence between the Department of Inland Revenue and the Institute of Certified Public Accountants of Cyprus. For the tax years 2008 onwards, minimum interest rate margins are applicable. Specifically, for tax years beginning January 1 2008 onwards, the following minimum profit margins have been confirmed as acceptable:

Amount of loan	Interest-bearing loans	Interest-free loans
Less than €50 million	0.35%	0.35%
Between €50 million and €200 million	0.25%	0.35%
More than €200 million	0.125%	0.35%

If loans are made on an interest-free basis, taxation will be calculated on the basis of a rate of 0.35% regardless of the amount of the loan.

For loans for earlier years that are still open, the minimum profit margin is 0.3% irrespective of the loan amount and whether it is interest bearing.

These margins apply to Cyprus companies borrowing funds and using them within a six-month period to finance related or connected entities via loans. The margins apply to:

- funds borrowed from another related or connected party; or
- funds borrowed from a bank where the facility is guaranteed by a related or connected party.

Each financing arrangement will be considered separately.

Professional advice should be obtained in relation to financing transactions so as to ensure tax certainty. In particular, taxpayers may apply to the revenue authorities for an advance ruling in relation to a proposed financing arrangement confirming that it will not trigger any adjustments.

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