

Corporate Tax - Cyprus

Guidance on Margins for Intermediary Financing Vehicles

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Cyprus tax legislation does not contain specific provisions relating to the thin capitalization of companies, such as limits on debt-to-equity ratios. Therefore, a Cyprus holding company may be financed by loans without the risk of interest that is paid at arm's length to its parent company being disallowed for tax. However, in order to demonstrate that interest is charged on an arm's-length basis, it is important to have an adequate margin between the rate charged to the recipients of the funds on the one hand and the rate paid to the provider of the finance on the other.

The Cyprus tax authorities have recently provided the following guidance on the parameters to be observed in arriving at the acceptable margin of taxable interest which should apply in transactions involving Cypriot entities as intermediary financing vehicles in back-to-back financing arrangements:

- For loans of less than €50 million the acceptable taxable margin is 0.35%;
- For loans of between €50 million and €200 million the acceptable taxable margin is 0.25%; and
- For loans of more than €200 million the acceptable taxable margin is 0.125%.

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

This informal guidance is expected to be confirmed in due course in the form of a statutory amendment or through the issue of a circular.

Professional advice should be obtained in relation to financing transactions involving Cypriot entities to ensure tax certainty, bearing in mind that the particular facts of each case may affect the tax position.

For further information on this topic please contact [Elias A Neocleous](#) at [Andreas Neocleous & Co LLC](#) by telephone (+357 25 110 000), fax (+357 25 110 001) or email (eliasn@neocleous.com).

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