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Profit Margins regarding transactions of a tax resident company in Cyprus in relation to the raising and granting of loans from and to associated companies

1.

a. Raising and granting of interest bearing loans

The following minimum profit margins apply with effect from tax year 2008 onwards:

Level of loan	Profit Margin
€	%
< 50m	0,35
50-200m	0,25
>200m	0,125

b. Raising and granting of non-interest bearing loans

The minimum acceptable profit margin, irrespective of the level of the loan is 0.35%.

c. Tax years 2003-2007

For the tax years 2003-2007 the minimum profit margin that will be acceptable in the case of loans that meet the following criteria is 0.30%.

2. The above margins apply under the following conditions:

(a) The transactions refer to loans between associated companies where a tax resident company in Cyprus receives a specific amount through an interest bearing or non-interest bearing loan from an associated company and using the amount of the said loan grants an interest bearing or non-interest bearing loan to another associated company.

In case where part of the loan granted has been financed by share capital, these provisions apply only for the amount of the loan that is financed through a loan. Thus it must be fully substantiated that the purposes of granting the loan from the Cyprus tax resident company, only the amount received as a loan from an associated company has been used.

(b) Writing off a loan, either the loan granted or the loan received by the Cyprus tax resident company will not bring about directly or indirectly any tax benefit or tax obligation to this company and additionally in case the Cyprus tax resident company writes off a loan it granted, it will not be allowed to claim any interest payable on the loan it received.

(c) The time interval between the date the company receives a loan and the date it grants a loan, will not exceed 6 months.

If the loan received by a company is settled or written off before settlement of the loan it grants, or vice versa, the transaction is considered as being outside the scope of these provisions as from the date of settlement or write off. A loan for which the conditions are met and for which the current provisions were applied, will be followed until its settlement or write off.

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(d) Provided that for purposes of calculating the profit margins, any expenses (excluding exchange differences) that are directly related and/or correspond to these transactions will be deductible, i.e. it is about Net Profit Margins. Exchange differences resulting from such types of loans, realized or not, will not be allowed, as deductible expenses in case of loss and will not be taxable in case of profit.

(e) The said profit margins will apply for each separate loan that the Cyprus tax resident company will receive and grant.

This will also apply in case where a company receives one loan and uses the amount received to grant more than one loan or in case a company receiving more than one loan and grants only one.

(f) These provisions will apply also in cases where the Cyprus tax resident company borrows from a third party (e.g. bank) and lends to an associated company where the bank has relevant guarantees from other associated companies.

(g) In addition these provisions will apply also in cases where instead of a loan other financing products are used but in such case the prior approval of the Commissioner will be required.