



**Tax treatment for loans to the**  
**Shareholders / Directors from Cyprus**  
**Company**

If a non-Cyprus/Cyprus tax resident acting as Director/Shareholder of a Cyprus tax resident company and obtain loan from that company, there is tax implication.

## **What is the Tax Treatment?**

It is considered a Benefit in kind equal to 9% per annum on the **monthly balance** of loan or other financial facility granted to the director or shareholder (including the spouse and relatives up to the second degree of kindred).

According to the Cyprus Income Tax Law, a Cyprus resident individual director or shareholder (including shareholder spouse of director or shareholder and relative up to the second degree of the director or shareholder) of a Cyprus company, receiving a loan, cash facility or withdrawal from a Cyprus company is deemed to have a benefit calculated on a monthly basis on the respective balance at an interest rate of 9% per annum. The benefit is added on the taxable income of the individual.

If the benefit is under €19,500 and the individual has no other source of income then there is no tax liability. If the benefit together with any other source of income exceeds €19,500 then such an excess is taxable and the company is required to calculate and pay the tax on behalf of the individual through the Pay-As-You-Earn (PAYE).

The practice followed by the Cypriot tax department for a Cyprus non-tax resident individual was that the benefit could be reduced according to the individual's number of days spent outside Cyprus (Cyprus Income Tax Law (118(I)/2002 ,5(2)(ζ))

As of 14 of November 2017, the Cyprus Tax Department clarified that the benefit deemed to be calculated on a Cyprus non-tax resident individual, will be calculated throughout the year regardless of the number of days spent outside Cyprus (**Interpretative Circular 14**).

## Examples

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- a.** On 1<sup>st</sup> of January a Cy company give loan to Cy tax resident director/shareholder amounting to €4m with 0% interest.

In this case the Cy tax resident director/shareholder has benefit in Kind. The additional benefit in Kind is  $€4m * 9\% = €360.000$ . The company is required to calculate (using the below formula **(Note 1)**) and pay the tax on behalf of the individual through the Pay-As-You-Earn (PAYE).

- b.** On 1<sup>st</sup> of January a Cy company give loan to Non - Cy tax resident director/shareholder amounting to €4m with 0% interest. The director/shareholder actually spent 20 days in Cyprus during the tax year.

In this case the Non - Cy tax resident director/shareholder has benefit in Kind again. The additional benefit in Kind is  $€4m * 9\% = €360.000$ . The tax treatment is exactly the same with example (a) independently if the director/shareholder spent only 20 days in Cyprus (**Interpretative Circular 14**).

- C.** On 1<sup>st</sup> of January a Cy company give loan to Non / Cy tax resident director/shareholder amounting to €4m with 3% interest.

In this case the Non / Cy tax resident director/shareholder has benefit in Kind again. The additional benefit in Kind is  $€4m * 6\% = €240.000$ . Again, the company is required to calculate (using the below formula **(Note 1)** and pay the tax on behalf of the individual through the Pay-As-You-Earn (PAYE). The 6% is the different between 9% and 3%(real interest).

The 3% will consider as income for the company. The company should pay SDC (30%) and not corporation tax (12.5%).

**Note 1**  
**Income tax rates:**

€0	- €19500	0%
€19500	- €28000	20%
€28000	- €36300	25%
€36300	- €60000	30%



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