

Intellectual Property Tax Incentives in Cyprus (1 of 2)

The Cyprus' Intellectual Property ("IP") Regime, which has entered into force a few years ago through the enactment of a new legislation, provides very attractive opportunities for structuring the exploitation of IP rights through the country and has strengthened Cyprus' position as a jurisdiction for R&D and IP management.

The so called IP Box of Cyprus when combined with the island's geographical location, common law framework, and full EU membership, together with its highly educated workforce, well-developed IT infrastructure and R&D centres and highly-regarded Universities, represents a striking option for every business.

Key Highlights

- Fully aligned with the internationally agreed framework OECD/G20 Base Erosion and Profit Shifting (BEPS) Action 5 report
- Notional deduction of 80% from qualifying royalty income reduces tax rate to approx. 2,5% or less
- 5 year amortisation of IP acquisition cost further reduces taxable base
- Wide range of IP rights qualify for the exemption
- Tax Loss carry forward is limited to 20%
- No withholding taxes on royalty payments if IP not used in Cyprus
- Zero/ reduced withholding tax from royalty payments into Cyprus subject to Double Tax Treaty provisions
- Access to the EU Interest and Royalties Directive

Qualifying IPs

Qualified intangible assets are those intellectual property assets developed by a person as a result of research and development activities including assets even when there is no legal registered ownership but only economic ownership. These assets are the following:

- Patents
- Computer software (copyrighted)
- Other IP assets (non-obvious, useful and unique) utilised in the business of a person for the generation of taxable income which does not exceed annual gross revenues of €7.500.000.

It is specified that trademarks, image rights, brands, business names and other relevant intellectual property rights used to market products and services are not considered as qualifying intangible assets. There is a further requirement in the legislation for such intangible assets to be certified by a specialised firm abroad in order to be considered as qualified for the application of the new IP legislation. Moreover, other Cyprus tax law provisions are available that could reduce the effective tax rate to as low as 2,5% on non-qualifying IP income.

Deemed deductible expense

80% of the overall profit arising from qualified intangible assets (i.e. gross income accrued in the tax year less direct costs for generating such income less amortisation cost less notional interest on new share capital/share premium used to finance the development of the intangible asset).

Gross Income

It includes both the license income as well as the capital gains from the sale of such qualified intangible assets. Moreover, it is important to note that embedded arising from the sale of products or procedures directly related to such intellectual property rights are also considered as qualified income.

Direct costs

It includes, amongst others, R&D costs, wages and salaries, other direct and general expenses but does not include interest expenses and costs attributed directly/indirectly to a related person to conduct R&D activities. A further advantage is that an up-lift expenditure can be added to the above being the lower of:

- (i) 30% of the eligible costs, or
- (ii) total cost of acquisition and outsourcing to related parties for R&D in relation to these qualified intangible assets.

How we can help

VGDA is well positioned to provide you with more details regarding the above tax incentive scheme and whether your company would be able to benefit from it.

Furthermore, our firm can provide you with the following services:

- ⦿ We can work with you to identify and assess your tax structuring options, evaluating the respective pros and cons, and assist you in determining the optimal route which is most beneficial for you.
- ⦿ We can assist in the identification of qualifying IP assets and performing their valuation.
- ⦿ We can undertake the responsibility for project managing the establishment process of the Cyprus IP Company, monitoring all related workstreams, and coordinating with different stakeholders.
- ⦿ We can provide our ongoing support after the establishment of the IP company.
- ⦿ We can provide accounting, audit and other related services for the IP Company.

We remain at your disposal for any clarifications/further information required.



Nicosia Office

32, John Kennedy Avenue
DADLAW Business Centre, 2nd Floor
1087 Nicosia, Cyprus

Tel.: +357 22 300900

Fax: +357 22 300901

Limassol Office

8, John Kennedy Street
Iris House, 8th Floor
3106 Limassol, Cyprus

Tel.: +357 25 760500

Fax: +357 25 760501

For more information you may contact:

Vasilis Koufaris

Managing Director

Tel. ☎: +357 99 432000

Email ✉: vkoufaris@vgda.com.cy

Antonis Antoniou

Director, Head of Audit

Tel. ☎: +357 99 699664

Email ✉: aantoniou@vgda.com.cy

Constantinos Christodoulou

Director, Head of Advisory

Tel. ☎: +357 99 657028

Email ✉: cchristodoulou@vgda.com.cy

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info@vgda.com.cy
www.vgda.com.cy