Cyprus: The New Intellectual Property (IP) Tax Regime in Cyprus

Cyprus – The ideal location for Intellectual Property

Cyprus offers an OECD BEPS-compliant Intellectual Property (IP) Box regime, making it an attractive jurisdiction for innovative and technology-driven companies seeking to structure and commercialise intellectual property.

Benefits of the Cyprus IP Box Regime:

- Cyprus IP companies can achieve an effective tax rate up to 3% on qualifying profits earned from using qualifying IP;
- The IP Box Regime permits Notional Interest Deduction (NID)
- Lower operational costs related to IP activities strengthen competitive positioning in global markets;
- Cyprus companies can benefit from R&D expenditure deductions, further reducing the tax base;
- Global expansion opportunities with access to a wide network of double tax treaties

How IP regime works:

Under the regime, 80% of **qualifying profits** generated from **qualifying assets** are deemed to be tax deductible.

"Qualifying intangible asset" - Examples of such assets can be seen below:

a) Patents as defined in the Patents Law
b) Computer Software
c) Utility Models
d) Protected Plant/Genetic Material
e) Orphan Drug Designations
f) Novel IP Assets

Marketing-related IP such as trademarks, brands, business names and image rights is excluded.

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"Qualifying profits" are calculated based on the **"nexus approach"**. More specifically, the level of profits eligible for the 80% tax exemption will depend on the level of R&D expenditure carried out by the taxpayer to develop the qualifying asset. The qualifying profits are calculated based on the following formula:

$$\boxed{QP = OI \text{ multiplied by } \frac{(QE + UE)}{OE}}$$

Whereby:

QP: Qualifying Profit

OI: Overall Income

QE: Qualifying Expenditure

UE: Uplift Expenditure

OE: Overall Expenditure

"Overall Income (OI)": is defined as the gross income derived from qualifying intangible assets during the tax year less any **direct costs** incurred for generating the income.

A few examples of such types of **income** are royalties, licence fees, insurance payouts and disposal income.

Direct costs are any allowable costs that have been incurred wholly and exclusively for the generation of gross income. Direct costs also include amortisation of the cost of the assets (over the life of IP, with a max of 20 years) and notional interest deduction associated with qualifying asset.

"Qualifying expenditure (QE)": is defined as, but not limited to:

- Wages and salaries
- General expenses for Research and Development (R&D) activities. The more a company contributes to the R&D expenditure, the larger the tax benefit the company can claim.

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- Direct operational costs

Qualifying expenditure do **not** include acquisition cost of the intangible asset, interest payments, cost for acquisition of immovable property and any costs not directly linked to the qualifying asset.

"**Uplift Expenditure (UE)":** is added to the qualifying expenditure, which will be equal to the lower of:

a) 30% of QE or
b) The total costs of acquiring the qualifying asset plus the cost of outsourcing to related parties of any research and development

The purposes of the uplift expenditure are to ensure that the nexus approach does not penalise taxpayers excessively for acquiring IP or outsourcing R&D activities to related parties.

Overall Expenditure (OE): relating to qualified intangible assets is defined as the sum of:

- The qualifying expenditure and
- The total cost of acquiring the qualifying asset plus the cost of outsourcing to related parties of any research and development costs outsourced to related parties incurred in any tax year.

Calculation of taxable profit

80% of the overall profit derived from the qualifying intangible asset is treated as a deductible expense. Every year the taxpayer may elect not to claim the whole or part of this allowance. In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.

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