Cyprus - probably one of the best destinations for intellectual property assets

The Cyprus IP regime

Cyprus is an attractive location for the establishment of an IP holding and development company, offering an efficient tax rate as well as the legal protection afforded by EU Member States and by the signatories of all major IP treaties and protocols.

Background

Cyprus IP regime is fully compliant with international developments in the tax treatment of IP income and OECD's guidance. The IP regime has been reviewed by the EU Code of Conduct and has been assessed as fully compatible with EU standards.

Benefits of the Cyprus IP regime

80% of the profits qualifying for the regime are exempt from tax. With a corporate tax rate of 12.5%, this can result in an effective tax rate of as low as 2.5%.

Relevant details of the regime

Under the Cyprus IP regime, 80% of the qualifying profits generated from the qualifying assets is deemed to be a tax-deductible expense for qualifying taxpayers. In calculating the qualifying profits, the new regime adopts the 'Nexus' approach. According to this approach, the level of the qualifying profits is positively correlated to the extent the claimant performs R&D activities to develop the qualifying asset (QA) within the same company.

Qualifying assets

Qualifying assets under the new regime include:

- patents,
- copyrighted software programs, and
- other intangible assets that are non-obvious, useful and novel.

Qualifying assets do not include trademarks and copyrights.

Qualifying persons

Qualifying persons include Cyprus tax resident taxpayers, tax resident Permanent Establishments (PEs) of non-tax resident persons as well as foreign PEs that are subject to tax in Cyprus.

Other intangible assets

Other intangible assets that are used in the business of a taxpayer and do not qualify for the IP regime may still benefit from other provisions of the Cyprus tax law. In particular, capital allowances and/or notional interest deduction (NID) may be available to these assets, which will help reduce the overall effective tax rate of the company. Examples of such assets include trademarks, copyrights and other intellectual property assets.

Capital Allowances

As from July 2016, the capital costs of intangibles (excluding goodwill and qualifying assets as defined in the IP regime) are tax deductible in the form of capital allowances. The cost is spread over the useful life of the asset with a maximum useful life of 20 years.

Notional Interest Deduction (NID)

NID may be available on assets introduced in a Cyprus company through equity which are employed in the production of taxable income.