THE IP BOX CYPRUS REGIME

INTRODUCTION

This publication[1] refers to the new Regime which is applicable for Qualifying IP, developed or acquired after the 01/07/2016.

Effectively the new Regime provides a tax exemption of 80% on profits qualifying for the regime which means that only the 20% shall be subject to the corporation tax of 12.5% and as such this will result to an effective tax rate of as low as 2.5%.

EU OECD and BEPS COMPLIANCE

The scheme offers a competitive intellectual property vehicle fully compliant with the provisions of the OECD BEPS Action 5 and the EU standards.

THE NEW REGIME

The new regime, sets some additional conditions which make it even more specific as to which assets are qualified under the IP regime.

CONDITIONS OF THE NEW REGIME

WHAT IS A QUALIFYING ASSET

IP acquired, developed or exploited by a person for the furtherance of his business and which IP is the result of research and development.

Specifically, the Law recognises the following assets as qualifying IP:

- Computer software;
- Patents;
- Utility models, intellectual property assets which provide protection to plants and generic material, orphan drug designations and extensions of protections for patents;
- Other intangible assets, legally protected which are nonobvious, useful and novel. Under this type of asset, the person exploiting the asset must not generate annual gross revenue over €7.5 million, and if the person is a group company, the group's revenue must not exceed €50 million.

---

1 For information regarding the Old IP regime please refer to our previous publication.

24 Solonos Michaelides, CY-1035, P.O BOX 29166 CY-1622, Nicosia, Cyprus tel: +357 22027060 fax: +357 22027061
email: info@lawlab.com.cy www.lawlab.com.cy
I. Christodoulou & Partners LLC

It must be noted that trademarks and copyrights do not fall within the above categories and thus are not qualifying assets.

QUALIFYING PROFITS

Only 'Qualifying profits' can take advantage of the tax benefit. The "Nexus" approach is the basis which is used to determine the amount of qualifying profits as per the formula that follows: -

[QE+UE): OE] X QA

QUALIFYING EXPENDITURE (QE)

Includes the costs incurred wholly and exclusively for the development, creation or improvement of the Qualifying intangible assets including (but not limited to): -

- direct costs, including but not limited to, amortization and National Interest Deduction;
- salary and wages;
- general expenses relating to research and development actions and
- costs relating to research and development that is outsourced to **non-related parties.**

Qualifying expenditure, excludes the research and development costs of outsourcing to related parties and generally any other type expenditure which cannot be directly associated with a qualifying asset. Indeed high costs incurred in favour of related parties reduce the tax benefit.

In view of the Nexus approach formula the higher the Qualifying Expenditure the higher the tax benefit.

The **Uplift Expenditure (UE)** allowed is the **lower** of: -

- 30% of eligible costs; or
- the total cost of acquisition of the qualifying intangible assets, plus the cost of outsourcing to related parties of any R&D activities in relation to such assets.

24 Solonos Michaelides, CY-1035, P.O BOX 29166 CY-1622, Nicosia, Cyprus tel: +357 22027060 fax: +357 22027061
email: info@lawlab.com.cy www.lawlab.com.cy
I. Christodoulou & Partners LLC

OVERALL EXPENDITURE (OE)

Overall expenditure relating to qualified intangible assets is defined as the sum of:

i) the qualifying expenditure; and
ii) the total cost of acquisition of the qualifying assets, plus the cost of outsourcing to related parties of any R&D activities in relation to these assets, incurred during any tax year.

In view of the Nexus approach formula, the lower the Overall Expenditure, the higher the tax benefit.

QUALIFYING INCOME (OI)

It is the overall income derived from the qualifying Asset minus any direct costs including but not limited to the following types of income: -

- Royalties received for the usage and operation of an intangible asset;
- amounts received from insurance or compensation relating to the intangible asset;
- income received from the sale of an intangible asset; and
- embedded income arising from any sale of products or services using the IP

TAX BENEFIT

80% of the qualifying profits derived from qualifying intangible assets is treated as a deductible expense. In case where a loss is incurred, only 20% of such loss can be surrendered to other group companies or be carried forward to subsequent years.

CONCLUSION

Coupled with the Start UP scheme available, as well as other Schemes[2] and financing/grant opportunities[3] that are available on R&D company with qualifying assets will find a business.

DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

---

[2] Non -Dom Taxation Brochure.

[3] EU Subsidies (Restart, Horizon); Pre-SEEDS, SEEDS Events; Research promotion foundation.

24 Solonos Michaelides, CY-1035, P.O BOX 29166 CY-1622, Nicosia, Cyprus tel: +357 22027060 fax: +357 22027061
email: info@lawlab.com.cy www.lawlab.com.cy
I. Christodoulou & Partners LLC