



Cyprus IP Box regime: The “Right Time” for structuring the exploitation of IP assets before 30 June 2016

Intellectual property is increasingly becoming one of the most valuable assets of businesses. Thus, choosing the appropriate regime/location for structuring the exploitation of IP assets is vital in order for businesses to achieve business development, effective IP protection and maximum tax optimisation.

Cyprus IP Box Regime: Effective Tax Rate at 2.5% - Lowest in Europe

Cyprus offers an advantageous regime for businesses investing in IP rights. The IP Box Scheme put in place with effect from 1st January 2012 was a package of incentives and tax exemptions concerning income from intellectual property rights, intended to urge investment in research and development.

The Cyprus corporate income tax rate at 12.5% would normally apply to the 100% of net profits produced. However, following the applicable tax exemptions, only 20% of the profits will be taxed, reaching an **effective rate of 2.5% per annum**. At 2.5%, this rate is considerably lower than the respective percentage in other countries offering similar ‘IP Box’ schemes, including Luxembourg at 5.7%, the Netherlands at 5% and the United Kingdom’s ‘Patent Box’ regime at 10%.

The efficient IP tax regime of Cyprus in conjunction with the protection offered by EU and all major IP treaties and protocols in which Cyprus is signatory is what makes Cyprus highly attractive for the acquisition or development IP assets.

International Environment for IP Box Regimes

On the basis of the Organisation for Economic Co-operation and Development’s (OECD) Base Erosion and Profit-Shifting project there has to be substantial activity in an intellectual property regime so as not to be deemed as harmful tax practise. This is based on a “modified nexus approach”. A taxpayer can benefit from the provisions of a particular IP tax regime if IP income is generated through incurred Research and Development (R&D) expenditures.

In order for the existing IP regimes to adapt with the new requirements, transitional provisions accepted by the OECD and the G20 have been put in place. Under this consensus the current Cyprus IP Box Regime should be accepting ‘new entrants’ until the 30th of June 2016. As the new regime will phase out gradually, Cyprus will be allowed to introduce grandfathering rules and will protect in this way the taxpayers who benefit from the current regime. Under these rules companies entering the Cyprus Regime until 30th of June 2016 can benefit of its provisions until 30th of June 2021.

For the purposes of the above provisions, ‘new entrants’ can be both taxpayers who were not benefiting from the existing regime before and new IP assets held by taxpayers already benefiting from the existing regime.

Qualifying IP rights / What kind of intangibles does the Cypriot IP Box cover?

The Cyprus IP Box regime applies to a wide range of IP rights falling within the meaning of the Patent Law, the Intellectual Property Rights Law and the Trademarks Law. More specifically but not exhaustively “the list” includes intangible assets such as:

- **Copyrights** taking the form of literary works, dramatic works, musical works, scientific works, artistic works, sound recordings, films, broadcasts, published editions, databases, publications, Software programs, etc.
- **Patented inventions** etc.
- **Trademarks** and service marks, designs, models, etc.

Tax Incentives

- i. 80% of any income generated from IP owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax.
- ii. 80% of profit generated from the disposal of IP by Cypriot resident companies (net of any direct expenses) is exempt from income tax.
- iii. Any expenditure of a capital nature for the acquisition and/ or development of IP can be claimed as a deduction in the tax year in which it is incurred and the immediate four following years on a straight-line basis.

For an IP to secure the above benefits the taxpayer should be the owner of the IP, officially registered either in Cyprus or abroad, and the IP should be used in the production of income.

International Network

Cyprus offers maximum protection and certainty for IP owners due to the ratification of all major IP treaties and protocols. In addition to asset protection, Cyprus’ wide network of double tax treaties will be considerably reduced foreign withholding taxes on royalty income.

Time for Action

The IP Box regime of Cyprus provides a very attractive legal and financial framework for businesses who are structuring the exploitation of IP assets through Cyprus. Businesses that register their IP assets in Cyprus by **30 June 2016** will be able to take advantage of Cyprus current IP Box Scheme until **30 June 2021**.

Companies considering investing in intellectual property should proceed immediately as there is limited time to enter into the current IP Box Scheme and qualify to benefit out of it.