



AMENDMENTS TO CYPRUS IP REGIME

On 14 October and 4 November 2016 a number of amendments were voted by the Cyprus Parliament to the Income Tax Law in regards to the Cyprus Intellectual Property (IP) Regime.

New Cyprus IP Box

The new IP regime that is fully compliant with the recommendations of the OECD BEPS project will apply as from 1 July 2016 and provides for an 80% deduction for qualifying profits arising from qualifying assets.

Qualifying Assets

Are those assets that are acquired, developed or exploited by a person in the course of its business, that relate to IP, are a result of R&D expenditure and for which the person is the economic owner.

The regulations set out the types of assets that constitute qualifying assets, and the categories are as follows:

- Patents
- Copyrighted software
- Utility models
- IP assets that grant protection to plants and generic material
- Orphan drug designations
- Extensions of patent protection
- Other IP which are non-obvious, useful and novel, that are certified as such by a designated authority

The qualifying IP assets need to be legally and or economically owned.

The regulations clearly clarify that tradenames including brands, trademarks, image rights and other IP rights used for the marketing of goods and services do not qualify.

Qualifying Profits

The following types of profits are considered as qualifying under the new Cyprus IP Box:

- Royalties or other amounts in relation to the use of qualifying IP
- Amounts for the grant of a license for the exploitation of a qualifying IP
- Amounts derived from insurance/compensation in relation to qualifying IP
- Trading income from the sale of qualifying IP
- IP income embedded in the sale of products, services or the use of processes directly related with qualifying IP



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The qualifying profits are calculated based on the “Nexus Approach” whereby 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 R&D fraction:

$$\frac{QA \times (QE+UE)}{OE}$$

Where:

QA – Qualifying Asset’s IP profits

QE – Qualifying Expenditure on relevant R&D incurred in any tax year wholly and exclusively for the development and enhancement or creation of a qualifying asset

UE – Uplift Expenditure of a qualified asset is the lower of

- 30% of QE,
- total acquisition cost of the qualifying asset and any R&D costs outsourced to related parties

OE – Overall expenditure is the sum of QE and UE

Qualifying Taxpayers

A qualifying taxpayer eligible for the new Cyprus IP Box Regime is a Cyprus Tax Resident, a Cyprus Permanent Establishment of non-resident persons, or a Foreign Permanent Establishment that is subject to tax in Cyprus