

Cyprus IP Box Regime



The **Cyprus IP box regime** has been in effect since 2016 and is aligned with the OECD's BEPS project. It provides for a highly beneficial tax deduction of 80% of **qualifying profits** earned from **qualifying intangible assets**. The OECD recommended 'nexus approach' is applied which limits application of the IP box regime if R&D is being outsourced to related parties.

Qualifying Intangible Assets

Intangible assets acquired or developed within the course of carrying out a business (except IP that relates to marketing such as trademarks, image rights etc). These include patents, computer software, other useful and novel assets certified by appropriate authorities subject to conditions.

Qualifying Profit

Qualifying profit (QP) is calculated using the below formula:

$$QP = OI \times \frac{QE + UE}{OE}$$

Where:

OI = overall income QE = qualifying expenditure
UE = uplift expenditure OE = overall expense

Overall income is the gross income earned from qualifying intangible assets less any direct costs. This income includes royalties, license income, income from disposal etc. Direct costs include all costs incurred directly, wholly and exclusively for the purpose of earning the income as well as amortisation of the asset cost and notional interest on equity contributed to finance the assets' development.

Qualifying expenditure is the sum of all R&D costs incurred during any tax year, wholly and exclusively for the development, improvement or creation of qualifying intangible assets. This includes wages and salaries, direct costs, general expenses for installations used for R&D, R&D expenditure outsourced to non-related parties etc. It does not include: cost of acquisition of intangibles, interest, cost for acquisition or construction of immovable property, amounts payable directly or indirectly to related parties for R&D activities.

Uplift expenditure is added to the qualifying expenditure and is equal to the lower of:

- 30% of qualifying expenditure and
- The total acquisition cost of the qualifying intangibles plus the cost of outsourcing to related parties of any R&D in relation to such assets.

Overall expenditure is the sum of:

- The qualifying expenditure and
- The total acquisition cost of the qualifying intangibles plus the cost of outsourcing to related parties of any R&D in relation to such assets, incurred in any tax year.

Examples

The following examples aim to show the difference in the tax benefit to be gained in cases where:

- Qualifying assets are **internally developed** (R&D expenses undertaken by the company directly)
- Qualifying asset is **acquired** and subsequent R&D costs are **outsourced to non related** parties.
- Qualifying asset is **acquired** and subsequent R&D costs are **outsourced to related** parties.

	A €000	B €000	C €000
Overall income (OI)	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Overall expenditure (OE)			
Acquisition cost	-	500	500
R&D costs incurred internally	800	-	-
R&D costs outsourced to non-related parties	-	300	-
R&D costs outsourced to related parties	-	-	300
	<u>800</u>	<u>800</u>	<u>800</u>
Qualifying expenditure (QE)	<u>800</u>	<u>300</u>	-
Uplift expenditure (UE) lower of:			
• 30% of QE and	240	90	-
• acquisition cost +outsourced R&D to related parties	-	500	800
and is therefore:	<u>-</u>	<u>90</u>	<u>-</u>
Qualifying profit (QP):			
2,000 x ((800+0)/800)	2,000		
2,000 x ((300+90)/800)		975	0
2,000 x ((0+0)/800)			0
Deduction of 80% of QP	<u>1,600</u>	<u>780</u>	<u>0</u>
Taxable profit	<u>400</u>	<u>1,220</u>	<u>2,000</u>
Tax at 12,5%	<u>50</u>	<u>153</u>	<u>250</u>
Effective tax rate	<u>2,5%</u>	<u>7,625%</u>	<u>12,5%</u>

Further benefits of Cyprus IP companies

In addition to the IP Box provisions a Cyprus IP company benefits from:

- Ability to make use of EU tax directives or the wide double tax treaty network to receive IP income at zero or low foreign withholding tax.
- European and international level protection for IP rights as a result of strong legal framework.
- No withholding taxes in Cyprus on dividend distributions, interest or royalty payments (provided royalties are used outside Cyprus).

Our services

Joannides + Co Ltd can assist (directly or through affiliated companies) with:

- Tax advice on setting up an efficient structure
- Company incorporation and administration
- Accounting and audit work
- Tax filing and compliance
- Enhancing substance for the Cyprus operations

ABOUT US

Joannides + Co. Ltd is a leading firm of accountants and management consultants established in Cyprus for 40 years providing audit and assurance, taxation, business support services and management consulting to international companies and private clients.

The firm has offices in Nicosia, Limassol and Larnaca and is a member of AGN International Ltd, a worldwide association of independent accounting and consulting firms operating in 80 countries.

Joannides + Co. Ltd is an approved training centre of the professional accounting institutes ICAEW and ACCA. The firm's stated objective is to add significant value to its clients' business performance.

Nicosia:
13, Agiou Prokopiou Str.
CY-2406 Egkomi, Nicosia
T. +357 22 556 556
F. +357 22 556 300

Limassol:
2 Chr. Samara Str.
CY-4001, Mesa Yitonia
T. +357 25 811 700
F. +357 25 811 701

Larnaca:
8 Gr. Afxentiou Ave.
CY-6023 Larnaca
T. +357 24 654 042
F. +357 24 657 183

E. cy@joannides.com.cy www.joannides.com.cy