

June, 2013

## **CYPRUS: AN ATTRACTIVE INTELLECTUAL PROPERTY REGIME**

### **CYPRUS STRENGTHENS ITS IP TAX REGIME**

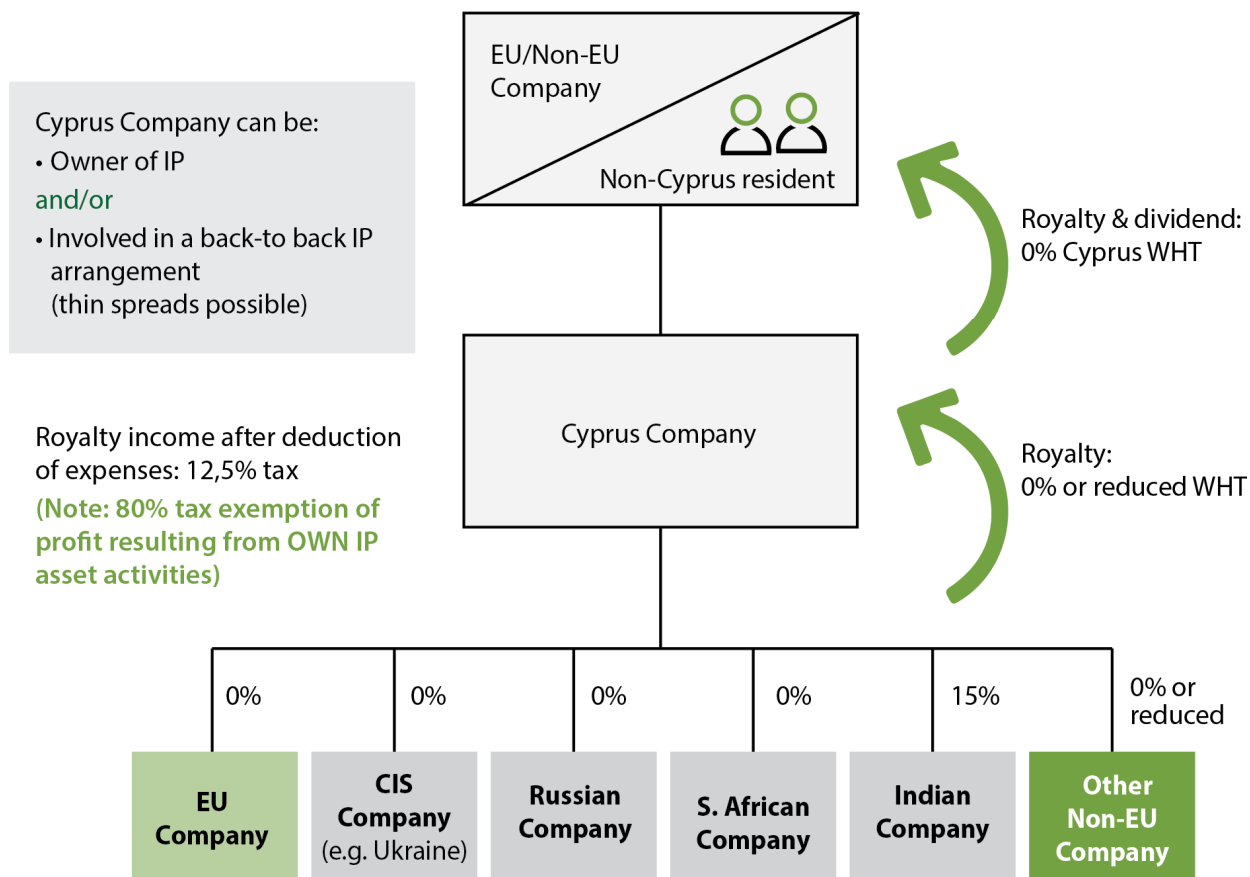
Cyprus has recently reformed its Intellectual Property (“IP”) tax regime by introducing an 80% tax exemption on IP related profit. This now constitutes the island as one of the most attractive and preferred IP locations in the EU and worldwide.

### **CYPRUS IP TAX REGIME**

- As from 1 January 2012 profits from the use or sale of IP will be reduced by 80% (i.e. be tax exempt) before being taxed at the flat corporate income tax rate of 12,5% which is the lowest in Europe. This brings the effective tax rate on IP income to less than 2,5%
- The scope/definition of IP has been broadened and now includes all intangible assets (brands, franchises, copyrights, designs, computer software, patents etc.)
- For an IP owning company: As from 1 January 2012 the acquisition or development cost of an IP will be amortized by 20% per annum (i.e. 5 year straight line depreciation for tax purposes)
- For an IP company involved in back-to-back licensing arrangements: Where an IP is licensed to the Cyprus company and in turn the Cyprus company sublicenses it, thin (small) spreads are accepted
- The expenses of a Cyprus company are tax deductible to the extent that they are incurred wholly and exclusively for the production of the company’s own income
- Availability of foreign tax credit (deduction) for foreign tax suffered (e.g. foreign withholding tax) against Cyprus tax resulting from the same income
- No Cyprus withholding tax on payments of royalties abroad unless the royalty is used in Cyprus
- No Cyprus withholding tax on dividend distributions or liquidation payments to non-Cyprus residents
- Disposing the shares of a Cyprus company attracts no taxation in Cyprus (provided it holds no immovable property in Cyprus)
- Profit of foreign branch (e.g. acting as the IP owner) is tax exempt in Cyprus under conditions
- No exit taxes



## HOW IT WORKS



## OTHER POINTS

- The IPs involved may be registered in Cyprus or abroad
- Cyprus legal system has been fully harmonized with EU IP directives and regulations
- Major related IP International Treaties and Protocols have been ratified
- Cyprus company is relatively easy to set up and cost efficient to maintain
- No thin capitalisation rules (i.e. the Cyprus company can be financed in any combination of debt and equity)
- Cyprus Company can also act very tax efficiently as a holding company of Cyprus and foreign subsidiaries
- Transactions between related parties shall, for tax purposes, be made at arm's length
- Depending on the jurisdictions involved, relevant substance may be needed at the level of the Cyprus company in order to satisfy substance requirements of foreign jurisdictions that grant treaty or E.U. Directive benefits



The purpose of this legal briefing is to provide a general guideline on the subject and not to be considered, in any way, as legal advice. It is advisable to seek professional and legal advice on this subject before proceeding with any general information provided to you. For further clarifications and advice please contact us at [legal@economideslegal.com](mailto:legal@economideslegal.com)