

## **CYPRUS - INTELLECTUAL PROPERTY REGIME**

### **An ideal location for Intellectual Property**

Cypriot authorities have created its own Intellectual Property (IP) regime in order to attract foreign investments and strengthen the Cypriot economy. The "IP-box" or "patent-box" has become one of the most attractive solutions offered for investors deriving income from the IP.

It is crucial factor to be considered for companies who are "rich" in IP as in many cases IPs are the most valuable assets of the company. Therefore it is important to choose the right location for the Intellectual Property in order to optimize the tax costs and protect the property.

Cyprus has now one of the most favorable IP regimes in the world imposing only 2.5% - 0.0% effective rate of tax on profits derived from IP-related structures (depending on the structure of expenses). This incentive, together with other benefits that Cyprus offers, makes the island the top jurisdiction for structures involving the Intellectual Property.

### **Legal framework**

Stable legal system based on English law protects the IP rights on national level. Cyprus, being a member of the European Union and international organizations offers security for the Intellectual Property also in international scope.

In addition to local legislations like Patent Law, Trademarks Law, Intellectual Property Law, the IP is also protected on global level mainly by European Patent Office, World Intellectual Property Organization and other treaties and conventions – making Cyprus the ideal place to safeguard the intellectual property.

### **Treatment of assets as IP**

The main types of assets falling in scope of IP are:

- Patents
- Copyrights
- Trademarks

However the treatment of different assets as intellectual property is very broad and it also includes: secret formulas; know-how; films; publications; sound recordings; software copyrights; rights connected with scientific, music, literary, artistic, industrial and commercial work; databases; internet domain names; designs.



## Taxation of IP income

The income derived from the IP usually falls in the scope of local Income Tax. The income tax applicable for the companies (Corporation Tax) is currently 12.5%, being one of the lowest in the European Union.

However, from 01 January 2012, Cypriot government amended the legislation with relation to IP income in order to attract foreign investments into the economy.

The main points of the new provisions are:

**Gain from the disposal of the IP:** profits generated from the sales of IP owned by Cypriot-resident companies are subject to 80% exemption of that gain. Direct expenses can be deducted from the taxable income, which allows to decrease the taxation even to zero.

**Royalty income:** 80% exemption also applies to royalty income generated from the IP by the Cypriot-resident company. Direct expenses are also deductible allowing also for 2.5% - 0.0% effective tax rate.

**Amortization period:** the capital expenses connected with IP purchase or development can be deducted accordingly for 5 years, therefore the yearly amortization allowance is 20%, starting from the year of purchase or development of the IP. These expenses can be also deducted from the taxable income, further decreasing the taxation of profits.

## SOLUTIONS AND PRACTICAL EXAMPLES

1. **Royalty income:** On 01 May 2014, Cyprus-resident company purchases a patent for EUR 850,000. The company receives a royalty from the use of IP amounting to EUR 250,000. We assume direct expenses from the use of IP amounting to EUR 20,000.

<b>Royalty income from the IP</b>	<b>250,000</b>
Direct expenses	- 20,000
Amortization (20% of the purchase price)	- 170,000
<b>Profit</b>	<b>60,000</b>
- 80% deduction (from 01.01.2012)	48,000
<b>Taxable profit</b>	<b>12,000</b>
<b>Corporation Tax of 12.5%</b>	<b>1,500</b>
<b>Effective tax rate</b>	<b>0.06%</b>



2. **Sale of the IP:** in the year 2016, the company sells the above patent for EUR 1,850,000. The company paid a fee of EUR 120,000 to the agent who helped to find a buyer.

<b>Sales income</b>	<b>1,850,000</b>
Cost of purchase	- 850,000
Fee paid to the agent	- 120,000
Adding back the amortization for 2014 & 2015	340,000
<b>Profit</b>	<b>880,000</b>
- 80% deduction (from 01.01.2012)	704,000
<b>Taxable profit</b>	<b>176,000</b>
<b>Corporation Tax of 12.5%</b>	<b>22,000</b>
<b>Effective tax rate</b>	<b>0.19%</b>

3. **Sale of shares of the companies that hold IP:** the Cyprus-resident company purchased shares in 3 foreign companies which also own IP. The purchase price was 1,000,000 for each foreign company. The sale price was 1,600,000 for each foreign company.

<b>Sales income</b>	<b>4,800,000</b>
Cost of purchase	- 3,000,000
<b>Taxable profit</b>	<b>1,800,000</b>
<b>Corporation Tax of 12.5%</b>	<b>Not applicable</b>
<b>Capital Gains Tax of 20.0%</b>	<b>Exempt</b>
<b>Effective tax rate</b>	<b>0.00%</b>

## SUMMARY

As shown above, Cyprus is one of the most common and favorable jurisdictions used for Intellectual Property structures, providing safe legal system and very low or no taxation.

Cypriot company limited by shares can be used in many ways (including the above examples for IP) depending on the needs of the business.



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ADVOCATES & LEGAL CONSULTANTS

## **OUR FIRM**

We can assist in setting up the relevant structures designed to optimize the tax cost and safeguard the intangible assets.

We provide complex services from business planning, through incorporation and maintenance of structures, until their sales or liquidations.

For more information, please contact us.

**Note:** The figures and taxation described above does not consider withholding taxes which are nil in most of the cases. However, each case has to be examined accordingly in order to confirm whether there are any additional tax implications between Cyprus and other country. Please do not hesitate to contact us for any queries related to Double Tax Treaties implications.