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The Cyprus Intellectual Property (IP) Tax Regime at a glance

Choosing the right location for the centralisation and management of IP requires careful consideration since is a very important strategic business decision.

With the introduction of the new Cyprus Tax legislation on Royalties ("IP Box Scheme") effective from 1st January 2012, Cyprus offers competitive incentives and tax exceptions on income generated from any type of qualifying IP rights, patents and trademarks.

There has been considerable opposition however from some countries to IP box regimes and, under the G20/Organisation for Economic Co-operation and Development (OECD) base erosion and profit-shifting project, new entries to such schemes will not be permitted after mid-2016. Nonetheless, companies that join the Cyprus scheme before that date can benefit from substantial savings until mid-2021.

Qualifying IP Right

The Cyprus IP tax regime covers a wide range of intangibles including:

- Copyrights, such as scientific works, literary and dramatic works, musical works, artistic works, films, sound recording, broadcasts, databases, publications
- Patents and innovations
- Trademarks

The above is a non-exhaustive list

Ownership of the Qualifying IP Right

The IP must be owned by a Cyprus Tax Resident company and it can be officially registered in Cyprus or abroad.

The Cyprus IP Holding Company should use the Qualifying IP Right for the production of taxable income.

Tax benefits of Cypriot IP Holding Companies

- Royalty income will be taxable at the standard corporation tax rate of 12.5% in Cyprus.
- 80% of the worldwide royalty income generated from Intellectual Property owned by Cypriot resident companies (net of any direct expenses) is exempt from tax.
- 80% of profit generated from the disposal of Intellectual Property owned by Cypriot resident companies (net of any direct expenses) is exempt from tax.
- Direct expenses may include finance costs to acquire or develop the property and annual tax amortization.
- Any expenditure of a capital nature for the acquisition or development of IP can be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line basis.

All the above exemptions are also available for Intellectual property acquired or developed before January 2012.

The above provisions make the maximum effective taxation on royalties to be as low as 2.5% per annum.

Cyprus has signed an extensive network of Double Tax Treaties and has access to the EU Interest and Royalty Directive which both serve as additional means for the group to achieve tax optimisation when it comes to IP exploitation through Cyprus.

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