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Technology IP: the Cyprus tax incentives

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Cyprus offers technology companies the potential of an effective tax rate of 2.5% on profit resulting from exploitation of their intellectual property, such as computer software, patents and other intangible assets. This favourable tax regime is known as the 'IP Box'.

Qualifying intangible assets are intangible assets acquired, developed or exploited in the course of carrying out a company's business. Qualified intangible assets can include:

- computer software
- patents
- other intangible assets which are non-obvious, useful and innovative, used in the ordinary course of business.

Intangible assets can include utility models and non-obvious, useful and novel IP, where utilised in a business does not generate annual gross revenues in excess of €7,500,000 from all intangible assets (or €50,000,000 in case of a group of companies). Business names, brands, trademarks, image rights and other intellectual property rights used for the marketing of products and services do not fall under qualified intangible assets.

When implemented, the IP Box can result in an amount equal to 80% of the qualifying profits earned from qualifying intangible assets allowed as a tax-deductible expense. Taking into account that Cyprus applies a corporate tax rate of 12.5% on profit, the IP Box regime can result in an effective tax rate of as low as 2.5%. Where a loss is incurred, only 20% of this loss can be surrendered to other group companies or be carried forward to subsequent years.

Qualifying profits refers to the proportion of the overall income corresponding to the fraction of the qualifying expenditure, plus the uplift expenditure over the overall expenditure incurred for the qualifying intangible asset concerned.

Qualifying expenditure for qualifying intangible assets is the sum of all R&D costs incurred during any given tax year exclusively for the development, improvement or creation of qualifying intangible assets, and which costs are directly related to such assets. Qualifying expenditure includes salaries, direct costs, general expenses relating to R&D installations, commission expenses associated with R&D activities, costs associated with outsourced R&D.

The Cypriot IP Box regime complies with the provisions of the modified nexus approach and is aligned with Action 5 of the Base Erosion and Profit Shifting (BEPS) plan of the OECD

The IP Box regime, combined with the following characteristics, place Cyprus at the forefront of destinations for innovative technology companies:

- the standard corporate tax rate is 12.5%, one of the lowest levels in the EU.

- investments in innovative small businesses can be deducted from taxable income, up to an annual limit of €150,000
- dividend payments to investors outside Cyprus are exempt from taxation, enabling most tech entrepreneurs to minimize their overall tax burden
- Cyprus has signed 62 tax treaties to help ensure that individuals and companies avoid double taxation and can structure efficiently.

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