

## INTELLECTUAL PROPERTY REGIME IN CYPRUS

If you are the owner of Intellectual Property (IP) and you looking for ideal IP holding jurisdiction, we would like you to consider Cyprus.

### Why Cyprus?

Cyprus has adjusted its already existing IP Box Regime and, therefore, became an attractive jurisdiction for influx of companies holding, developing and creating IP. Cyprus IP Box Regime offers various advantages for IP owners, such as low tax rate and favorable environment for IP development. Cyprus is also a party to numerous IP treaties and worldwide recognized as financial and fintech centre.

### Features of the IP Regime

- 80% of the profit earned from the use and transfer of IP is deducted for tax purposes. Thus, only 20% of IP income after deduction of the costs of earning such income is subject to the standard Corporate Income Tax (CIT) rate of 12.5%. Therefore, effective CIT rate might be as low as 2,5%;
- 0% tax on capital nature transactions: if transfer of intangible assets is a capital nature transaction, then capital gain should not be taxable;
- 100% deduction of expenses incurred on acquisition, development and creation of IP for 5 years period. This in practice can lower the effective tax rate to less than 2%.

### Who could benefit from Cyprus IP Regime: Key requirements

#### Qualifying persons

Cyprus IP Box Regime is applicable to:

- Cyprus resident taxpayers (either natural and/or legal person);
- Permanent establishment in Cyprus of a non-resident persons;
- Foreign permanent establishments that are subject to taxation in Cyprus.

#### Qualifying IP

Qualifying IP is an intangible asset which was acquired, developed or exploited either by natural and/or legal person while performing his business, as a result of research and development (R&D) activities, such as:

- Patents;
- Copyrighted software programs, and
- Other intangible assets that do not satisfy the above criteria, but:



- provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;
- are non-obvious, useful and novel, where the person utilizing them in furtherance of a business does not generate annual gross revenues in excess of €7,500,000 from all intangible assets (€50,000,000 in case of a group of companies), which are certified as such by an appropriate authority, in Cyprus or abroad.

*\*To be noted that other IP rights used for marketing of products and services, business names, brands, trademarks, image rights do not fall within the qualifying IP, however the income arising from such IP can still benefit from certain Cyprus tax advantages, such as capital allowances and/or notional interest deduction (NID).*

## Qualifying Profit

Qualifying profits (QP) are calculated under Nexus Fraction rule, which is used to set the amount of qualifying profits that will give the relevant deduction to the taxpayer. In brief, an amount equal to 80% of the QP earned from qualifying intangible assets will be treated as a tax deductible expenses, but there needs to be a direct link with the qualifying income and the own qualifying expenses contributing to that income.

- It is mandatory for any person who wants to benefit under the above regime to maintain proper books of account and records of income and expenses for each intangible asset.

Now VISUALIZE it:



Meet Anjie!

Anjie is the creator of an IP and she wants to make the most of it.

## Steps to be done:

Lewben sets up a company in Cyprus, which will become the sole owner Anjie's IP and will license the rights of use of such IP to any other natural and/or legal persons, either in Europe or CIS Region. Now Anjie though her Cyprus company might enjoy the following:

## Reduced withholding tax rate on royalty payments from foreign jurisdictions:

- Double Tax Treaties: Cyprus has an extensive and beneficial network of Double Tax Treaties with third Countries, enabling Anjie to receive royalties from various jurisdictions at reduced rate as opposed to the rate of usual withholding tax rates imposed by these jurisdictions in the absence of such treaties;
- Relief under the EU Interest and Royalty Directive: where licensor and licensee are both in the same group, but in different Member States, both can receive interest and royalties with no withholding tax;
- Unilateral Tax Credit Relief: tax paid abroad might be credited against any tax paid for an income in Cyprus.



## Withholding tax deduction on dividends:

As Anjie is treated as a foreign shareholder of her Cyprus IP holding company, any dividends paid to Anjie are not subject to any withholding tax in Cyprus.

## How can Lewben assist you?

- Advice you on your Cyprus IP holding structure;
- Identify if your intangible assets falls within the criteria of Qualifying IP;
- Incorporate your Cyprus IP holding company or transfer the ownership of the IP to newly incorporated company in Cyprus;
- Assist you on the necessary procedures and steps to protect your IP rights, i.e.: to acquire licence for the use of your IP right, if needed;
- Undertake all accounting services in regards to the calculation of QP under Nexus Fraction rule;
- Support you in all other legal framework, such as corporate governance services, international taxation;
- Be there and provide you with the ongoing support after the initial set-up.

## CONTACT US

We – “Lewben” team – are here to assist you with all topics above.



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