CYPRUS INTELLECTUALLY PROPERTY RIGHTS BOX REGIME

CY IP BOX REGIME
CYPRUS COMPANIES can be currently utilised in tax effective structures of ownership and exploitation of Intellectual Property Rights.

The law provides that 80% of the profits (income deductible of any expenses related to the Intellectual property rights purchase, license, development, business running expenses, also including amortization) deriving from the exploitation or disposal of intellectual property or intangible assets shall qualify for total tax exemption.

Furthermore any capital expenditure for the acquisition or development of intellectual property rights or intangible assets shall benefit from 20% capital allowance (deduction), provided for five years, commencing from the year of incurrence for purposes of amortization.

Additionally the profits of a Cyprus resident company can be distributed as dividends to non-resident shareholders without any withholding or other type of taxation to be imposed.

On 5th October 2015 the Organisation for Economic Co-operation and Development (OECD) released the final papers of its Base Erosion and Profit Shifting (BEPS) Action Plan, including references to IP tax treatments, by adopting the modified nexus approach. The coming tax legislation of IP requires the existence of material activity that includes clear interconnection between rights creating income and the activity contributing to that income.

This is narrower in scope as regards which IP may qualify for an IP box (an IP-Box is a special tax regime used by several countries to incentivise research and development by taxing patent revenues differently from other commercial revenues) as compared to the current Cyprus IP Box. For an IP structure to secure the above benefits the taxpayer should be the owner of the IP which is used for production of income. It is expected that the changes will take effect by July 2016.

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TRANSITIONAL PROVISIONS FOR EXISTING REGIMES, HAVE BEEN AGREED.

MORE SPECIFICALLY:

• CLOSING OLD REGIMES TO NEW ENTRANTS: countries that have IP regimes that are inconsistent with the nexus approach are expected to take steps to amend those regimes and the process to do this is already underway. In addition there can be no new entrants to such IP regimes after 30 June 2016.

• GRANDFATHERING AND TRANSITION: taxpayers benefitting from existing regimes that do not comply with the nexus approach will not be able to receive any additional tax benefits from those regimes after 30 June 2021.

Taxpayers should determine whether they have eligible IP that is not benefiting from the current IP box, if so they should consider introducing that IP to the current IP box by 30th June 2016 for benefitting from the transitional tax rates until 2021.  

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