

INTELLECTUAL PROPERTY TAX IMPLICATIONS

INTRODUCTION

On 24 May 2012, following amendments to the Income Tax Law, Cyprus enacted a favorable tax regime for companies owning Intellectual Property (IP) falling within the below categories as defined in the relevant laws:

- Patents
- Copyrights
- Trademarks

The purpose of the above regime is to make Cyprus an attractive jurisdiction and also to provide incentives for research and development activities as well as to promote innovation and investment in new technology. The effective tax applicable for companies owning IP as from 1 January 2012 will not be higher than 2,5% (for tax year 2012, 2%).

TAX TREATMENT

General provision

- 80% of the net profit generated from the exploitation of the IP is exempt from taxation. For the purpose of determining the net profit, the law allows the deduction from the resulting IP income of all expenses incurred wholly and exclusively for the production of IP income as well as a proportion of indirect expenses incurred.
- Income falling within the above provision
 - Income from the exploitation of IPs
 - Income from the disposal of IPs
 - Compensations received from any illegal use of IPs
- Direct expenses falling within the above provision
 - Amortisation of capital expenditure made on the acquisition or development of IPs in the year incurred and in the following 4 years. The company will be able to receive capital allowances of 20% straight line starting from the first year of the use of the asset as well as the subsequent four years of usage.
 - Interest incurred for the acquisition or development of IPs
 - Direct expenses not capitalized
 - Other expenses directly related to IP activities (such as consulting expenses)

CONDITIONS

The above provisions are applicable if the following conditions are met:

- The taxable person must be the owner of the intellectual property which should be registered either in Cyprus or abroad
- The IPs must be used for the production of taxable income
- The IPs must fall within the definitions of the relevant laws:
 - Patent Law
 - Trademarks Law
 - Protection of Intellectual Property Law

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