INTELLECTUAL PROPERTY (IP TAX REGIME)

An Effective Tax Planning Tool

Since the introduction of the IP tax regime in Cyprus, a number of big corporations established their Head Quarters in Cyprus in an effort to reduce their tax burden substantially in a legal way. The IP Tax Regime was introduced in Cyprus more than a decade ago and provides for significant tax reduction up to 80% from the taxable profits of the Cyprus Company.

The IP Tax regime basically rewards those Companies established in Cyprus which are substantially developing their IPs internally through real expenditure undertaken by them (called qualifying expenditure). The qualifying expenditure constitutes research and development costs, wages and salaries, direct expenses like amortization, outsourcing costs to unrelated parties, general expenses related to installations used for research and development, supplies e.t.c.

Non-qualifying expenditure includes cost for acquisition of the IP, interest pair or accrued, amounts paid to related parties for research and development and costs which cannot be linked to the specific IP.

The 80% deemed deduction is granted only to the qualifying profits and is calculated in accordance to the following formulae:

$$\left[\frac{\text{(Qualifying expenditure + Uplift expenditure)}}{\text{Overall Expenditure}}\right] * \text{Overall IP Income}$$

Overall income has the meaning of gross income arising from the qualifying IP minus any direct expenses for generating such income.

Uplift expenditure is the lower of:

- A rate of 30% calculated additionally on the qualifying expenditure.
- The total amount of the cost of acquisition and outsourcing to related parties for research and development.

Only qualifying IPs are subject to the IP tax Regime and this includes patents, computer software, and other IPs that are legally protected like drug designations, IPs which are used for the protection of plants and genetic material and utility motels. Non-qualifying IPs include those used for marketing purposes like trademarks, business names, brands and image rights.

The IPs are amortised over their useful economic lives in accordance with accepted accounting principles with a maximum period of 20 years.

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