Information Sheet No. 23

Cyprus: A Very Attractive Intellectual Property Regime

Cyprus strengthens IP tax regime

Cyprus recently reformed its Intellectual Property ("IP") tax regime by introducing an 80% tax exemption on IP related profit. This now constitutes the island as one of the most attractive and preferred IP locations in the EU and worldwide.

Why Cyprus

- Established international financial center with a stable tax regime
- EU Member State with access to EU Directives
- On the white list of OECD
- Tax system approved and compliant by EU and OECD
- Excellent double tax treaties with certain non-EU countries (e.g. Russia, Ukraine, India, South Africa)
- Elimination or significant reduction of foreign withholding tax on receipt of royalties from other countries. This is achieved through access to benefits of double tax treaties or EU Directives
- High standard of professional services
- Availability of nominee/trustee shareholders for confidentiality purposes where needed
- No exchange controls restricting the movement of capital

Very competitive and attractive tax regime

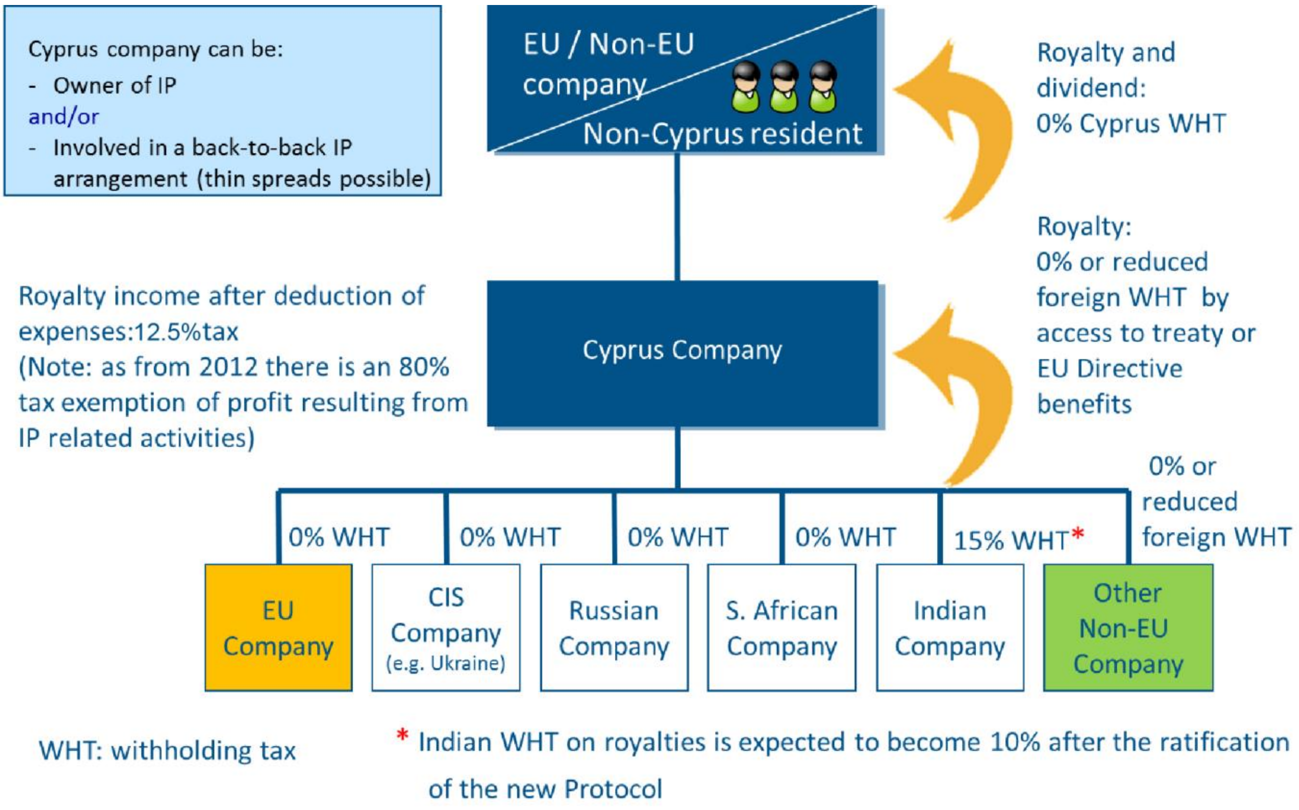
Cyprus IP tax regime

- As from 1 January 2012 profits from the use or sale of IP will be reduced by 80% (i.e. be tax exempt) before being taxed at the flat corporate income tax rate of 12.5% which is the lowest in Europe. This brings the effective tax rate on IP income to less than 2.5%.
- The scope/definition of IP has been broadened and now includes all intangible assets (brands, franchises, copyrights, designs, computer software, patents etc.)
- For an IP owning company: As from 1 January 2012 the acquisition or development cost of an IP will be amortized by 20% per annum (i.e. 5 year straight line depreciation for tax purposes)
- For an IP company involved in back-to-back licensing arrangements: Where an IP is licensed to the Cyprus company and in turn the Cyprus company sublicenses it, thin (small) spreads are accepted
- The expenses of a Cyprus company are tax deductible to the extent that they are incurred wholly

and exclusively for the production of the company's own income

- Availability of foreign tax credit (deduction) for foreign tax suffered (e.g. foreign withholding tax) against Cyprus tax resulting from the same income
- No Cyprus withholding tax on payments of royalties abroad unless the royalty is used in Cyprus
- No Cyprus withholding tax on dividend distributions or liquidation payments to non-Cyprus residents
- Disposing the shares of a Cyprus company attracts no taxation in Cyprus (provided it holds no immovable property in Cyprus)
- Profit of foreign branch (e.g. acting as the IP owner) is tax exempt in Cyprus under conditions
- No exit taxes

How it works



Other points

- The IPs involved may be registered in Cyprus or abroad
- Cyprus legal system has been fully harmonized with EU IP directives and regulations
- Major related IP International Treaties and Protocols have been ratified

- Cyprus company is relatively easy to set up and cost efficient to maintain
- No thin capitalisation rules (i.e. the Cyprus company can be financed in any combination of debt and equity)
- Cyprus Company can also act very tax efficiently as a holding company of Cyprus and foreign subsidiaries
- Transactions between related parties shall, for tax purposes, be made at arm's length
- Depending on the jurisdictions involved, relevant substance may be needed at the level of the Cyprus company in order to satisfy substance requirements of foreign jurisdictions that grant treaty or EU Directive benefits

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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