

Cyprus: an ideal central location for managing intellectual property

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CENTRALISED MANAGEMENT OF INTELLECTUAL PROPERTY (IP) CAN BRING BUSINESSES MANY BENEFITS. CYPRUS – STRATEGICALLY LOCATED AT THE CROSSROADS OF THREE CONTINENTS (EUROPE, ASIA AND AFRICA) – HAS ALWAYS PLAYED A MAJOR ROLE AS AN INTERNATIONAL BUSINESS AND FINANCIAL SERVICES CENTRE. THE COUNTRY ALSO HAS MANY ATTRIBUTES WHICH, WHEN COMBINED, MAKE IT AN IDEAL CENTRAL LOCATION FOR MANAGING IP.

Advances in technology are a major driver of rising living standards in societies and communities across the world – and not least in Russia and the Commonwealth of Independent States (CIS). This ongoing technological progress depends critically on efficient and effective management of brands and IP, a discipline where financial aspects play a vital role.

Centralising brand/IP management in one location is a proven way to improve a company's competitiveness and realise substantial value. The benefits are especially apparent during an economic downturn, when the significant savings generated by a centralised brand/IP management can make a significant contribution to a company's efforts to control and reduce costs.

Why manage IP centrally?

The benefits of centralised IP management are wide-ranging and well-established. It brings substantial operational synergies, enabling more efficient and effective global management of valuable brands and IP, centralised use of technology, and reduced costs through lower headcount and less capital investment. The development

of marketing intangibles is also improved. As a result, centralised IP management enhances a multinational corporation's competitiveness in its marketplace.

To optimise these benefits, a multinational corporation can centralise its key functions, risks and intangible assets in



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such a way as to have sufficient substance in the chosen location to perform those functions, while simultaneously locating its key people and assets in an efficient tax jurisdiction.

Why locate IP in Cyprus?

A growing number of businesses are choosing Cyprus as the best place to realise these advantages, with Cyprus companies being used extensively for IP holdings, licensing and sublicensing. There are many reasons for this trend.

The most obvious is that Cyprus has been firmly established and recognised as an international financial centre for the past 30 years, and its status is continuing to grow. Its strength is both reflected and supported by a favourable legal and tax framework, excellent infrastructure, a convenient time zone and European lifestyle in a warm Mediterranean island.

These positive traits are further enhanced by a high standard of legal, accountancy and other professional services, supported by a high-calibre professional workforce of whom approximately 80% are university graduates with European and/or US experience. The country has also built up a strong business culture focused on high performance and the development of leadership potential. English is commonly used as the business language.

Positive tax aspects

On the tax front, the accession of Cyprus into the EU in 2004 led to significant reform of the taxation system, bringing Cyprus tax legislation in line with EU legislation and also international practices and guidelines, including those of the Organisation for Economic Co-operation and Development (OECD) model. The country has an extensive and comprehensive network of double tax treaties.

There are also many specific attributes of the Cyprus tax regime that make the country especially well-suited to acting as a location for IP. The corporate tax rate of 10% is the lowest in the EU. Under an EU Directive there is no withholding tax on royalty payments from EU companies (as defined in the Directive) to Cyprus. And gains that arise

on the disposal of shares in a Cyprus company that owns IP are exempt from all taxes in Cyprus.

What is more, royalty deductibility resides in the paying company, and there is no exit taxation, and no withholding tax on dividends paid from Cyprus. The profits of a foreign branch of a Cyprus company that owns IP are also exempt from taxes in Cyprus (subject to easily met conditions).

Further attractions include tax advantages for expatriates migrating to Cyprus to manage and develop the IPs. Personal tax rates are low. And remuneration from any office or employment exercised in Cyprus, by an individual who was not a resident of Cyprus before the start of his employment, is entitled to a 20% exemption on his/her income up to a maximum of €8,550 a year for three years, beginning from the January 1, following the year when the employment began. There is also an exemption for profits from the sale of securities.

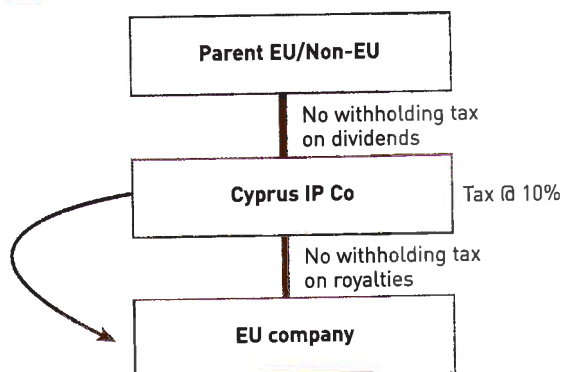
Main features of the Cyprus tax system

The main features of the Cyprus tax system are as follows:

- tax is imposed on all Cyprus resident persons (individuals and corporations) on their worldwide

The basic structure of a Cyprus company

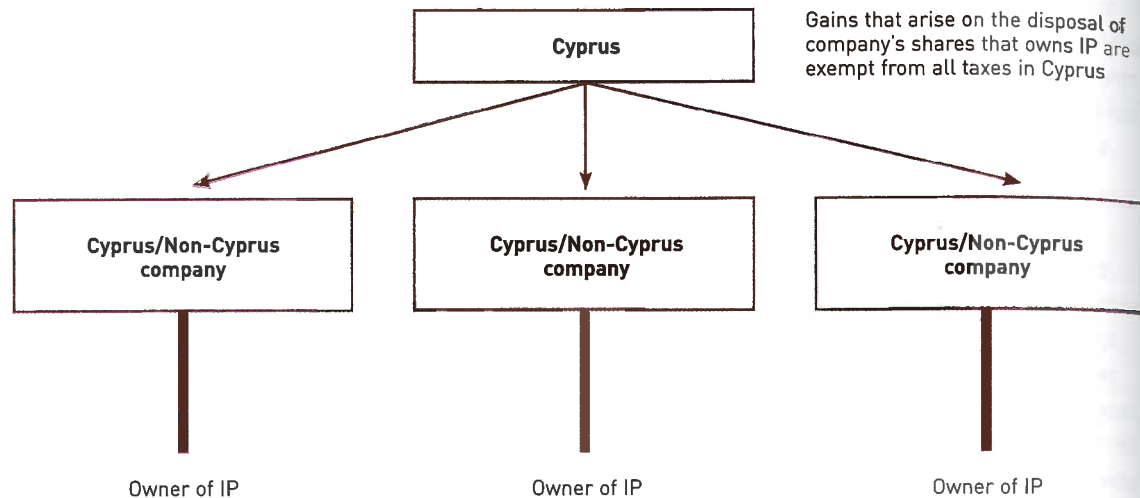
Exhibit 1



Source: PricewaterhouseCoopers Ltd Cyprus

A typical Cyprus holding company model

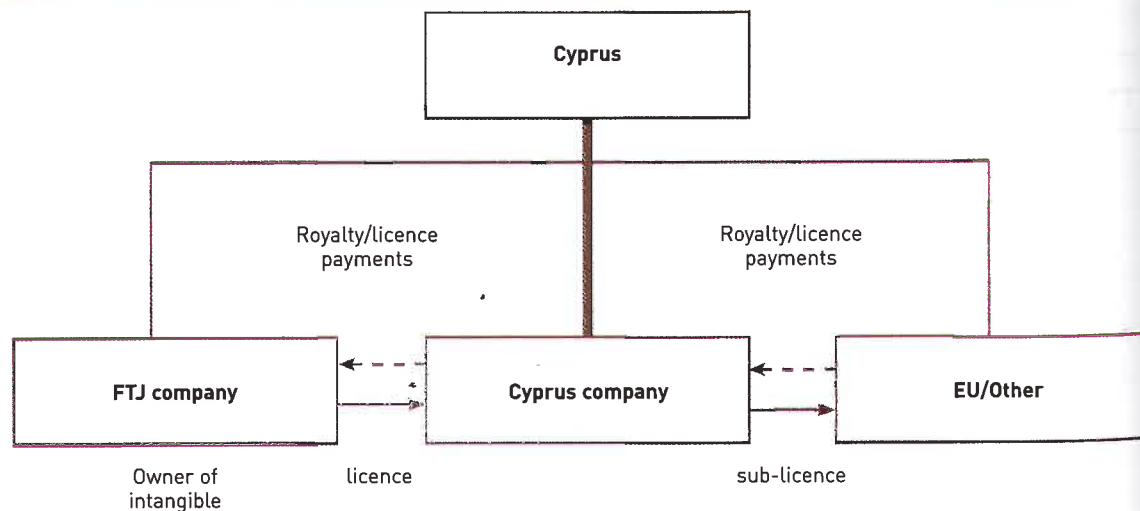
Exhibit 2



Source: PricewaterhouseCoopers Ltd Cyprus

A typical Cyprus IP company model

Exhibit 3



Source: PricewaterhouseCoopers Ltd Cyprus

- income. A corporation is tax resident in Cyprus when its management and control is exercised in Cyprus. An individual is tax resident in Cyprus when he/she spends more than 183 days in Cyprus in a calendar year;
- corporate tax rate of 10%;
- tax exemption on disposal of shares and similar titles;
- deduction of costs. Under Cypriot law all expenses incurred wholly and exclusively for the production of income are deducted before arriving at the taxable income;
- tax exempt dividend income (subject to minor conditions);
- no imposition of any withholding tax on dividend and interest and royalties paid by a Cypriot company to

- non-tax resident shareholders including individuals and corporations;
- tax relief for group losses;
- no controlled foreign corporation (CFC) legislation;
- no thin capitalisation provisions in the Cypriot tax legislation;
- tax neutral reorganisations to both EU and non-EU members;
- exemption of profits from a permanent establishment/fixed place of business abroad (subject to minor conditions);
- full adoption of all EU directives; and
- extensive double tax treaty (DTT) network.

Legal aspects of the IP environment

Exhibit 4

Legal aspects of the IP environment	Characteristics of Cyprus
Legal system	Flexible and business friendly. Modelled on the English legal system, and common law and equity apply.
Domestic legislation	Fully harmonised with EU legislation.
IP legal framework	Covers and protects all recognised intellectual property rights such as trade and service marks, patents, industrial designs and copyrights.
IP EU directives and regulations	All relevant IP EU directives and regulations apply and have been introduced into the domestic legislation. There is certainty of law.
IP international treaties and protocols	Cyprus is a member and has ratified all major relevant IP international treaties and protocols including the Madrid Agreement, the TRIPS Agreement, the European Patent Convention, the Patent Co-operation Treaty, the Berne Convention, the Rome Convention and the WIPO Copyright Treaty.
Registration of trade-marks	Cyprus is a particularly popular register for the registration of trade-marks under the Madrid Agreement. The registration procedure is simple and is completed within one year.
Enforcement	Enforcement of IP rights is very strict in Cyprus. The police and Customs and Excise authority have wide powers under the applicable laws to enforce IP rights and prosecute criminal acts violating IP rights, including powers to enter premises and seize counterfeit goods.
Courts	Cyprus courts have the power to grant <i>ex parte</i> temporary injunctive relief and restrictive orders as well as final judgements and orders.
Orders and judgements	Cyprus court orders and judgements are enforceable: (i) automatically in every EU member country pursuant to the applicable EU Regulation; and (ii) in many other countries outside Europe by Virtue of Bilateral or International Treaties that Cyprus has signed.

Source: PricewaterhouseCoopers Ltd Cyprus

Some structuring ideas

Basic structure

EU or non-EU parent establishes a Cyprus royalty company to collect royalties from EU group companies. The Cyprus company is the owner of the intangible (Exhibit 1).

Cyprus holding company

Exhibit 2 illustrates a Cyprus company used as a holding company of IP companies for a tax free route.

Cyprus IP company

As depicted in Exhibit 3, an EU/non-EU company sets up an IP company in a favourable tax jurisdiction (FTJ) which will be the owner of the intangible. A Cyprus company is set up to obtain a licence of the IP which then sub-licenses it to

EU/non-EU companies. Profit of the Cyprus company is taxed at 10%.

The legal aspects

The overall legal benefits of locating and centralising management of IP in Cyprus are summarised in Exhibit 4.

Cyprus: a great place for IP

For many multinational companies who are managing brands and IP across borders, the highlighted benefits have proved compelling enough to convince them to make the move to Cyprus. We believe many more companies should consider joining those forward-looking businesses in migrating their IP to one of the world's most IP-friendly locations.