

# Cyprus Intellectual Property Incentives

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***IP-rich groups can now conduct/direct their R&D as well as manage their IP from Cyprus, enjoying full legal protection afforded by the EU and all major international IP treaties and protocols and at the same time achieve tax optimisation.***

## ***Cyprus - An ideal R&D and IP location***

Intellectual Property ("IP") can be one of the most valuable assets of a corporate group. Choosing the right location for the centralisation and management of research and development (R&D) and IP is a very important strategic business decision. The ideal location is one that can serve the group's business strategies, safeguard and protect its IP and contribute to its tax optimisation.

Cyprus' geographical location, common law framework, and full EU membership coupled with the fact that Cyprus offers a highly educated workforce, a well-developed IT infrastructure and R&D centres as well as highly-regarded Universities, puts itself forward as a prominent choice.

Cyprus now also offers a tax efficient new IP Box, fully aligned with the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action 5 report. The new Cyprus IP Box strengthens Cyprus' position as a jurisdiction for R&D and IP management as businesses may benefit from the preferential tax IP Box within the internationally agreed framework of BEPS Action 5.

## ***The new Cyprus IP Box***

Under the new Cyprus IP Box, applicable as from July 1st, 2016, Cyprus IP companies can achieve an effective tax rate of 2,5% (or less) on qualifying profits earned from exploiting qualifying IP. Non qualifying incomes are taxable at an effective tax rate of 12,5% (or less).

Cyprus' extensive double tax treaty network and access to the EU Interest and Royalty Directive serve as additional means to achieve tax optimisation. If foreign taxes are suffered on IP incomes these are creditable against the Cyprus tax without the need for a double tax treaty to be in place.

### ***1. R&D and ownership***

- Legally and/or economically owned,
- May be self-developed, outsourced or acquired (see 4 below)

### ***2. Qualifying IPs***

- Patents
- Copyrighted software
- Other IP assets that are legally protected, which are either:
  - a. utility models, IP assets that grant protection to plants and genetic material, orphan drug designations and extensions of patent protection,
  - b. other non-obvious, useful, and novel IPs (subject to conditions)

***IP Box***

### ***3. Non- Qualifying IPs***

- Marketing related IPs, such as trademarks
- Other Cyprus tax law provisions are available that could reduce the effective tax rate to as low as 2,5% on non-qualifying IP income

### ***4. Qualifying profits (non exhaustive)***

- Royalty income emanating from IPs
- Embedded IP income in products/services
- Trading gains on disposal of the IP
- The higher the amount of R&D undertaken by the person itself (directly, through a taxable foreign branch or outsourced to third parties), the higher the amount of income qualifying under the new IP Box

## New Cyprus IP Box quick reference table

Effective tax rate	Proportion of income qualifying for the new Cyprus IP Box		
	100%	50%	0%
	2,1% - 2,5%	2,3% - 7,5%	2,5% - 12,5%
	<i>depending on the fact pattern</i>		
Acquired IP?	Yes, based on further development of the acquired IP by the company		
Tax amortisation	Over the life of IP, with a max of 20 years		
Applicable to existing IP?	Yes (assets under the old Cyprus IP Box are subject to transitional rules)		
Can R&D be performed abroad?	Yes, if performed by the same entity in a taxable branch		
Credit for tax withheld on qualifying income?	Yes, no double tax treaty is required		
IP disposals taxed?	No if of capital nature. Trading nature taxed at above effective rates		

## How can PwC help you

- Assistance in identifying qualifying IP in the business
- Establishing IP companies and R&D operations
- IP valuations
- Level of royalty/embedded income streams
- Interaction of transitional and new rules
- Eligibility of tax depreciation
- Corporate statutory compliance matters
- Ongoing support after initial set-up

## Cyprus is signatory to the following international conventions relevant to IP

- European Community Trademarks
- Convention Establishing the World Intellectual Property Organisation (“WIPO”)
- WIPO
- The Madrid Agreement Concerning the International Registration of Marks (the “Madrid Agreement”) and Protocol to the Madrid Agreement
- The Patent Cooperation Treaty
- Berne Convention for the Protection of Literary and Artistic Works
- Paris Convention for the Protection of Industrial Property
- Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms
- WIPO Performance and Phonograms Treaty
- Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations
- Trademark Law Treaty
- WIPO Beijing Treaty on Audiovisual Performances

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