



Intellectual Property Rights in Cyprus

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Tax Planning Option for Registering Intellectual Property Rights in Cyprus

Cyprus has always been a traditional location for holding and financing companies by featuring the lowest corporate tax rate in Europe, no exit costs along with no withholding taxes on outbound payments in relation to interest, dividends and royalties. In addition to the existing beneficial tax provisions, new tax incentives were introduced to attract registration of Intellectual Property (IP) right in Cyprus.

The Cyprus Income Tax Law has been recently amended to allow for an 80% exemption on the net income generated from the utilization of patent, trademark or any other IP rights registered in Cyprus. Net income in this case is defined as income from IP minus all expenses attributable to the specific income. This exemption results in an effective tax rate of 2.5% from the utilization of Cyprus registered IP (since corporate tax rate is set at 12.5%). The same exemption applies in cases of any gain arising from the disposal of such IPs, even though there is always the option to dispose the shares of a Cyprus company holding the IP rights, which will result in 0% tax. In addition, the rate of capital allowances on such intangibles has been set at 20% of the cost of acquisition. The amendment in the Cyprus Income Tax Law has retrospective effect since 1 January 2012 (involves IPs acquired or developed after the particular date).

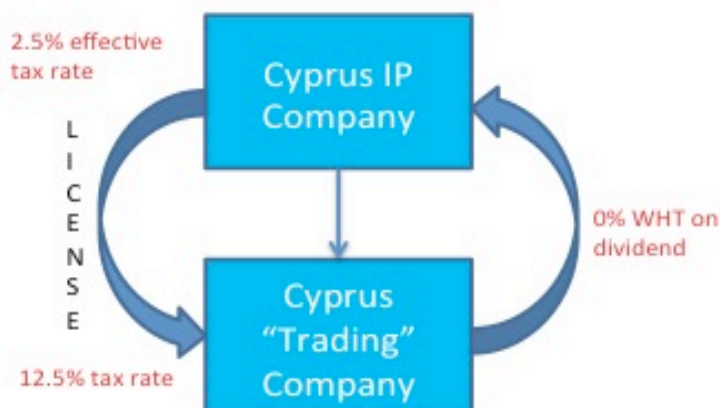
It is worth noting that the definition of patent right and intellectual property rights has been amended to correspond to the meaning of the local Patent Rights Law of 1998, the Intellectual Property Law of 1976 and the Law regarding Trademarks. This development ensures that uncertainty is lifted in regards to which types of IP rights are covered. IP rights include amongst others patents, trademarks/service marks, designs, internet domain names, software copyrights, secret formulae, know-how, research and development, lists, rights to scientific, literary or artistic work, rights related to industrial or commercial work.

As a result of the above amendments, Cyprus is now the most attractive EU onshore jurisdiction for IP registrations and IP holders and developers now have a material tax incentive for registering their IPs in the Island. Cyprus' flat 2.5% effective tax rate beats U.K.'s 'Patent Box' as included in the 2012 Finance Bill (effective from April 2013), which provides for an effective tax rate of 10% for the profits attributed to patents and certain other similar types of intellectual property (supplementary protection certificates, regulatory data protection and plant variety rights). It is also more favorable and straight forward than Malta's complicated tax regime regarding IP related income, with an effective rate ranging between 0-5% subject to numerous conditions and tax refund processes. Luxemburg's effective tax rate for IP income is slightly lower than 6%.

Cyprus has currently concluded DTTs (Double Tax Treaties) with more than 45 countries including the majority of the European Union countries, the United States of America, Canada, India, China, Russia and the C.I.S countries. The Cyprus treaty network covers more than 80% of the global GDP. Structures can be formed in accordance with any particular DTT and local legislation to optimize the IP holders' tax savings.

For further information please contact Mr. Michael Ioannides – LLPO Law Firm at moi@llpolawfirm.com.

Cyprus IP Company - Example



Plan

- Registration of a Cyprus IP Company in the structure which is the owner of the patents, trade marks etc
- Registration of a Cyprus "Trading" Company which holds the license to sell the products or to give license to any third party
- The management and control of the Cyprus IP Company and the Cyprus "Trading" Company is in Cyprus

Benefit

- Income from IP taxable at 2.5% after deduction of expenses
- Cyprus Trading Company is taxed 12.5% on net profit
- No withholding tax on dividends