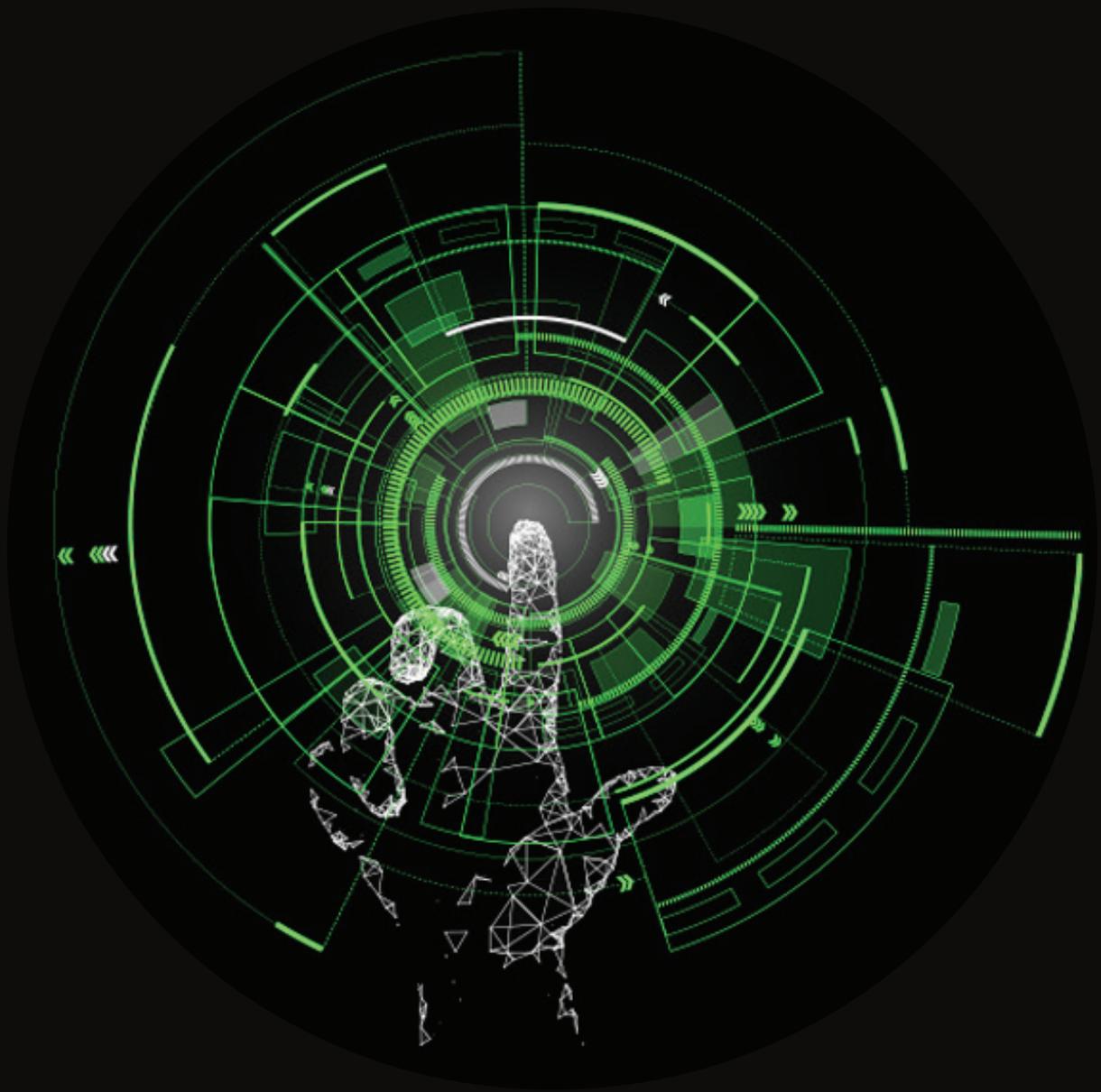


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**Cyprus: A technology hub
to kick-start your business**

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Introduction

The importance of Intellectual Property (IP)

With the global economic environment rapidly evolving, innovation has become a cornerstone in modern day business. This continuously changing landscape has led companies to develop business models where Intellectual Property (IP) is a key element in driving innovation, creating value and potential growth. As such, IP is undeniably one of the most valuable assets of an organisation, being fundamental for the success and viability of any business. It is also particularly important for start-ups who seek to secure a competitive advantage in the market.

Effective management and proper valuation of IP, combined with measures to protect that value, can make sure a company stays ahead of the innovation game.

Choosing the appropriate location for the development and exploitation of IP is a significant business decision for a company. The ideal location is one that offers adequate asset protection combined with an attractive taxation system and a business-friendly environment.

Why Cyprus?

Cyprus' key geographical location, coupled with its highly skilled workforce, full EU membership and robust legal framework, has enabled it to develop strong IT infrastructure and R&D centres, therefore putting Cyprus forward as a prominent choice for an IP hub.

In order to further develop the country as a regional tech hub and strengthen its competitiveness, one of the priorities of the government continues to be the positioning of Cyprus into the map of technology-driven economies. As a result, Cyprus has been attracting major international companies of the Information and Communication Technology (ICT) industry to take advantage of the benefits of Cyprus as a hub for software development and R&D activities. In addition, the island currently boasts the headquartering of an increased number of innovative start-ups.

The Cyprus IP regime

Cyprus offers an efficient IP regime which, combined with the legal protection afforded by EU Member States and the signatories of all major IP treaties and protocols, guarantees maximum protection for IP owners.

Background

With a combination of an attractive taxation system, a business - friendly environment, a diverse collection of international IP rights and taxation treaties, as well as compliance with EU standards and OECD's guidance, the Cyprus IP regime provides international investors with financial benefits and full protection of IP assets.

The regime has been reviewed by the EU Code of Conduct and has been assessed as fully compatible with EU standards.

Benefits of the Cyprus IP regime

The Cyprus IP regime provides important exemptions from income tax arising from the use of IP rights. 80% of the profits qualifying for the regime are exempt from tax. With a corporate tax rate of 12.5%, this can result in an effective tax rate of as low as 2.5%.

In detail

Under the Cyprus IP regime, 80% of the qualifying profits generated from the qualifying assets is deemed to be a tax deductible expense for qualifying taxpayers. In calculating the qualifying profits, the new regime adopts the 'Nexus' approach.

According to this approach, the level of the qualifying profits is positively correlated to the extent the claimant performs R&D activities to develop the qualifying asset (QA) within the same company.

Qualifying assets

Qualifying assets under the new regime include:

- patents,
- copyrighted software programs, and
- other intangible assets that are non-obvious, useful and novel.

Qualifying assets do not include trademarks, copyrights and other marketing IP.

Qualifying persons

Qualifying persons include Cyprus tax resident taxpayers, tax resident Permanent Establishments (PEs) in Cyprus of non-tax resident persons as well as foreign PEs that are subject to tax in Cyprus.

Qualifying profits

Qualifying profits are calculated in accordance with the nexus fraction that follows.

The nexus fraction

The nexus fraction, shown on the right, is used to calculate the amount of qualifying profits that will give the relevant deduction to the taxpayer.

$$OI \times \frac{QE + UE}{OE}$$

Where:

OI is the "overall income derived from the QA"

QE is the "qualifying expenditure on the QA"

UE is the "uplift expenditure on the QA" and

OE is the "overall expenditure on the QA"

Overall Income (OI)

The Overall income (OI) is calculated as the gross income less any direct expenditure (including the capital allowances) of this asset, i.e. the gross profit. Overall income includes, but is not limited to, royalties received for the use of the intangible asset, trading income from the disposal of the qualifying asset and embedded income earned from the qualifying asset.

Capital gains arising from the disposal of a QA are not included in the overall income and are fully exempt from tax.

Qualifying Expenditure (QE)

The Qualifying expenditure includes salary and wages, direct costs, general expenses associated with R&D activities and R&D expenditure outsourced to unrelated parties.

The QE does not include any acquisition costs of the IP, interest paid or payable, any amounts payable to related persons carrying out R&D and costs which cannot be proved to be directly associated with a specific QA.

Uplift Expenditure (UE)

The Up-lift expenditure (UE) is the lower of:

- 30% of the QE and
- The total acquisition cost of the QA and any R&D costs outsourced to related parties.

Overall Expenditure (OE)

The Overall expenditure (OE) is the sum of:

- The Qualifying expenditure and



- The total acquisition costs of the QA and any R&D costs outsourced to related parties incurred in any tax year.

Tax treatment of intangible assets

Disposal of an IP

When an IP asset is disposed, an accounting profit/loss may arise. As long as the disposal is considered as a capital nature transaction, the accounting gain/loss should be exempt from tax in Cyprus.

Where the disposal is considered as a trading nature transaction, the accounting gain/loss should be taxable.

Up to 31 December 2019, upon the disposal of an IP asset, the taxpayer would also be obliged to prepare a balancing statement to calculate the taxable gain/loss as follows: Disposal proceeds less tax written down value of the asset (TWDV), whereby TWDV is the cost of the IP asset less accumulated capital allowances claimed.



As of 1 January 2020, taxpayers disposing their IP assets have no obligation to prepare a balancing statement. Therefore a (capital nature) disposal of an IP asset, should be tax exempt in Cyprus.

Income from non-qualifying intangible assets

Income arising from non-qualifying intangible assets that are used in the business, can still benefit from certain provisions of the Cyprus tax law. In particular, capital allowances and/ or

notional interest deduction (NID) may be available to be deducted from such income, which should help reduce the overall effective tax rate of the company. Examples of such intangible assets include trademarks, copyrights and other IP assets.

Capital allowances

All intangible assets (excluding goodwill), irrespective of whether they are qualifying assets or not, are eligible for tax amortisation (capital allowances) over

their useful economic life with a maximum of 20 years.

The taxpayer has the option not to claim capital allowances in a given year. Moreover, capital allowances that have not been claimed in a year are claimed over the remaining useful economic life of the asset.

Notional Interest Deduction (NID)

NID may be available on assets introduced in a Cyprus company through equity contributions and which are employed in the production of taxable income. More information on NID is available in our dedicated NID publication (<https://www2.deloitte.com/cy/en/pages/tax/articles/nid.html>).

Technology companies in Cyprus

A number of technology companies have set up businesses in Cyprus, enjoying the benefits of the Cyprus IP regime. The copyrighted software programmes developed by these companies are qualifying assets under the provisions of the IP regime, and the qualifying profits of these companies are eligible for the tax deduction offered by the regime.

The provisions of the IP regime are more beneficial for companies that develop the qualifying asset in-house, by employing the software developers themselves and avoiding outsourcing to related parties as much as possible. As such, a lot of companies have chosen to relocate their key personnel and team of software engineers to Cyprus, to benefit as much as possible from the provisions of the IP regime.

Incentivising entrepreneurs

Cyprus businesses have introduced a number of programmes to encourage innovation and entrepreneurship



ARIS programme

ARIS (A Really Inspiring Space) is a start-up accelerator founded by Deloitte Cyprus

and Bank of Cyprus, with the purpose of offering entrepreneurs the structure, mentorship and network needed to launch successful business ventures. The programme has been designed and is being curated by Deloitte's Innovation and Entrepreneurship Centre.

The programme supports aspiring entrepreneurs throughout their residency by offering a complete package of services to fine-tune their business model and accelerate their go-to-market strategy:

- Mentoring: Providing guidance with product and customer validation, marketing, product development &

pitching.

- Pitching: Hands-on advice on how to create their pitch deck and master their pitching technique.
- Networking opportunities: Develop connections with industry partners, mingle with likeminded people, and build a network.
- Co-working space: An inspirational, fully furnished shared working space, hot desk and conference rooms.
- Funding opportunities: Organise workshops on available funding and provide assistance on the preparation of proposals.
- Financial projections: Template to prepare their Financial Projections and provide feedback.
- Connecting with Investors: ARIS prepares residents and introduces them to investors for their start-up.

ARIS welcomes applications from start-ups in different fields of technological innovation and is passionate about innovative sustainable solutions addressing the major issues of today.

The programme targets start-ups that:

- Have solid growth potential in the global market.
- Focus on the development of a technology-based innovative product/ service with an existing proof of concept or prototype and ideally an MVP.
- Consist of a dedicated and capable team consisting of at least two founders.

For more information, news and updates, stay tuned at:

Website: <https://ariscy.com/>

Facebook: [@AReallyInspiringSpace](#)

Instagram: [@AReallyInspiringSpace](#)

Twitter: [@ARISinLimassol](#)



IDEA Innovation Center

IDEA Innovation Center is the largest non-profit

incubator-accelerator in Cyprus. Backed by the Bank of Cyprus and other strong partners, including Deloitte Cyprus as a Strategic Partner, IDEA is "giving back" to the society and to the economy. It provides business support and training to start-ups, enables the creation of viable, investible companies and new job positions and promotes Cyprus as a regional innovation hub, a bridge between Europe, Asia and Africa.

For six years now, IDEA hosts start-up companies for a period of 9 to 12 months, offering them the entire spectrum of business support, from the Idea-stage to Sales & Investment and then to Expansion abroad, a package of estimated value of over €60,000 in cash and services per start-up:

- The highest quality of Business Creation Training, so as to turn their innovative ideas into viable businesses with a global outlook
- Seed capital of €12,000 in cash
- Mentoring by renowned businesspersons and experts of various fields
- In-house consultation and free professional services on business, legal, accounting, marketing and technological (ICT) issues
- Fully equipped modern co-working offices
- Business opportunities and contacts with corporate customers
- Networking with keypersons and access to investors when ready
- Heavy media exposure – traditional and social media
- Guidance on European programmes and grants, locally and abroad, promoting the extroversion start-ups.

Within this support, the major success factor for entrepreneurs is themselves: their passion, their determination, their

sense of urgency, their hard work, their willingness to give and take.

Since its establishment, IDEA supported 74 new businesses with over 160 entrepreneurs and helped to create more than 80 new jobs. A multi-awarded organisation that has received many accolades over the years. In 2019 it was the European Winner in 'Investing in Entrepreneurial Skills', surpassing 29 other countries, in the European Commission's Enterprise Promotion Awards, underscoring its leading role in promoting entrepreneurship and innovation.

For more information, news and updates, follow:

Website: ideacy.net

Facebook: [@ideacy](#)

Instagram: [@ideacy](#)

Twitter: [@ideacy](#)

LinkedIn: [Idea Innovation Center](#)



Corporate taxation

Cyprus offers one of the most attractive tax regimes in Europe, fully compliant with EU and OECD regulations. Its favourable provisions render Cyprus an ideal location for doing business in the region.

Introduction

A Cyprus tax resident company can enjoy a number of tax benefits. A company is considered to be Cyprus tax resident, if it is managed and controlled from Cyprus. In general, the (worldwide) business profits of a Cyprus tax resident company are subject to corporation tax at the rate of 12.5%. However, certain income sources are exempt from tax.

Tax exempt sources of income

- Dividend income (subject to conditions)
- Profits from disposal of shares, bonds and other financial instruments
- Foreign exchange (FX) gains, except those arising from trading in FX
- Profits of overseas permanent establishments (subject to conditions)

Withholding tax

Cyprus does not impose any withholding tax on payments of dividends and interest to foreign investors and on royalties granted for use outside of Cyprus.

Personal taxation

Cyprus is considered as one of the most favourable jurisdictions within the EU on personal taxation, attracting a number of expatriates to work and live in Cyprus.

Introduction

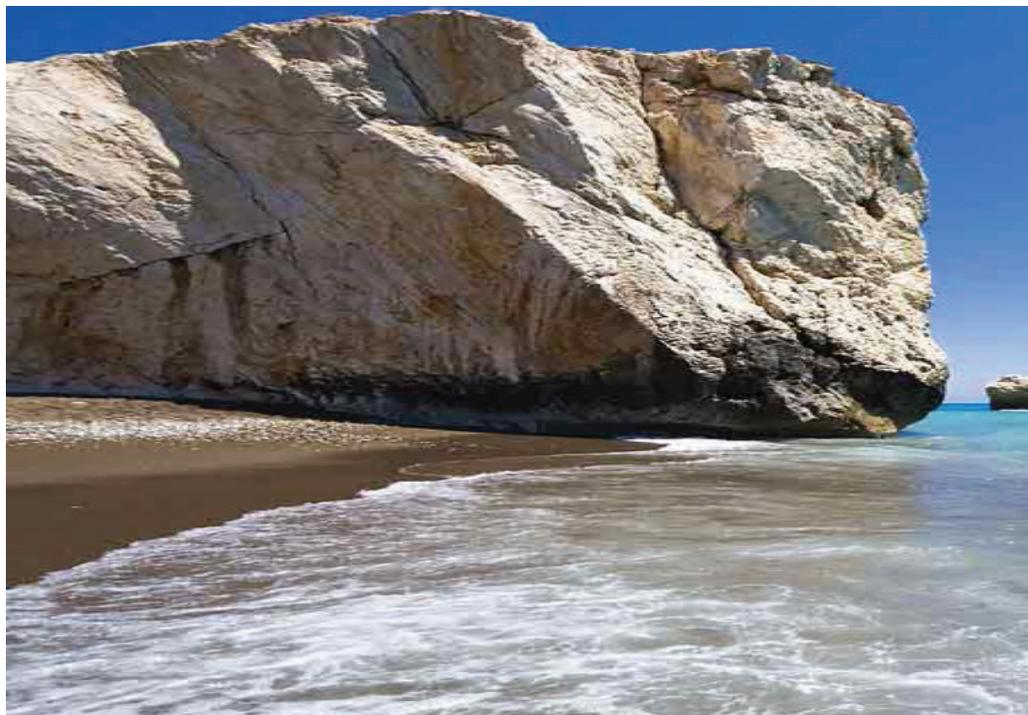
The income (including employment income, rental income, etc.) of individuals is subject to income tax. Certain types of income, including dividend and interest income, are subject to a defence tax but this type of tax only applies to Cyprus tax residents who are also Cyprus domiciled individuals.

Capital gains tax is only applicable on profits from the disposal of immovable property situated in Cyprus, or on gains from the disposal of shares of companies not listed on a recognised stock exchange which own immovable property situated in Cyprus, or on gains from the disposal of shares of companies which indirectly own immovable property situated in Cyprus and derive at least 50% of their market value from such immovable property.

In order to understand the tax treatment of an expatriate individual arriving in Cyprus, it is important to establish the residency status, domicile status, sources of income and eligibility for tax exemptions.

Tax residency

An individual who spends more than 183 days in Cyprus is a tax resident of Cyprus. An individual can also become Cyprus tax resident by spending at least 60 days in Cyprus provided he/she satisfies a number of other criteria, including maintaining a



permanent home in Cyprus and carrying on a business or being employed in Cyprus. A Cypriot tax resident individual is subject to income tax on his/her worldwide income whereas a non-Cypriot tax resident individual is subject to income tax only on Cyprus sourced income.

Personal Income Tax

The Cyprus personal income tax rates are progressive, ranging from nil to 35%, on

taxable income exceeding €60,000. Income of up to €19,500 is not subject to tax. Cyprus offers significant tax incentives to expatriates to either take up employment in Cyprus or become Cyprus tax residents.

Tax exemptions

The following (among others) are exempt from income tax:

- 50% of the remuneration from any employment exercised in Cyprus by an



- Remuneration from the rendering of salaried services to a non-Cyprus tax resident employer or to a permanent establishment abroad of a Cyprus tax resident employer outside Cyprus for more than 90 days within a year
- All gains arising from the disposal of securities such as shares and bonds

Tax exemptions on investment income

Cypriot tax residents who are not Cyprus domiciled are also exempt from defence tax on dividend and interest income.

Domicile

In general, an individual is not domiciled in Cyprus if he/she was not born to Cypriot parents. However, one would be deemed to be domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year.

VAT

Value added tax is levied at the rate of 19%. Reduced VAT rates of 5% and 9% apply to certain goods and services.

individual who was resident outside Cyprus before the commencement of his/her employment in Cyprus and was not a Cyprus tax resident for at least three out of the last five years immediately prior to the tax year of commencement of employment. The exemption applies for a period of ten years starting from the first year of employment provided that the employment income exceeds €100,000 per annum

- 20% of the remuneration or €8,550 (whichever is the lower) from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/her employment in Cyprus. The exemption is available to qualifying individuals commencing employment in Cyprus between 2012 and 2025 and is provided for the five years that follow the tax year of commencing employment

Living in Cyprus

Lifestyle

In Cyprus, one can enjoy a high standard of living. The island is well known for its rich culture, the hospitality of its people, its sunny weather, clean and beautiful beaches and an abundance of outdoor activities. At the same time, Cyprus offers an ideal place to raise a family with good education and healthcare systems and one of the lowest crime rates within the EU. With over 170,000 foreign nationals, Cyprus is an exciting, diverse and safe place to live in.

Culture

The rich cultural landscape is reflected in the archaeological sites, museums and monuments located throughout the island. Local and international festivals, music concerts and other cultural events take place throughout the year.

Outdoor activities

With over 320 days of sunshine, Cyprus is the ideal place to enjoy a wide variety of outdoor activities. Running in Pedieos River Linear Park in Nicosia, cycling along the coast of Paphos and Limassol, swimming in Ayia Napa and Protaras, windsurfing in Larnaca and hiking in Troodos are just few of the activities one can enjoy.



Education

Cyprus has over 20 reputable English-speaking primary and secondary schools. In addition, Cyprus offers internationally recognised colleges and universities. The island ranks among the highest in the EU in respect of university graduates in proportion to its population.

Healthcare

Cyprus has an easily accessible healthcare system, both in the public and in the private sector. EU citizens and people who

are permanent residents in Cyprus are eligible for free state healthcare, whilst non-EU citizens need private healthcare, the cost of which is relatively affordable. Emergency medical treatment in Cyprus is free for all citizens. Cyprus has six public general hospitals, a modern oncology centre and more than 70 private hospitals and healthcare clinics. A general healthcare system (GHS) was also implemented in March 2019. The system aims to provide affordable and effective medical care to people residing in Cyprus.

Doing business in Cyprus

The strategic geographic location of Cyprus together with its talented workforce, EU membership, robust legal framework, business friendly environment and competitive tax regime make Cyprus the ultimate choice for setting up and running your business.

The Cyprus Company

When it comes to doing business in Cyprus, entrepreneurs have a number of options. The most common way of doing business in Cyprus though is by establishing a Cyprus company. The process of setting up a Cyprus company is simple and usually takes less than a working week.

The majority of companies incorporated in Cyprus are private limited liability where the liability of the shareholders is limited to the amount unpaid on their shares. The law governing limited liability companies is the Companies Law, CAP 113, which is based on the Companies Act of the United Kingdom.

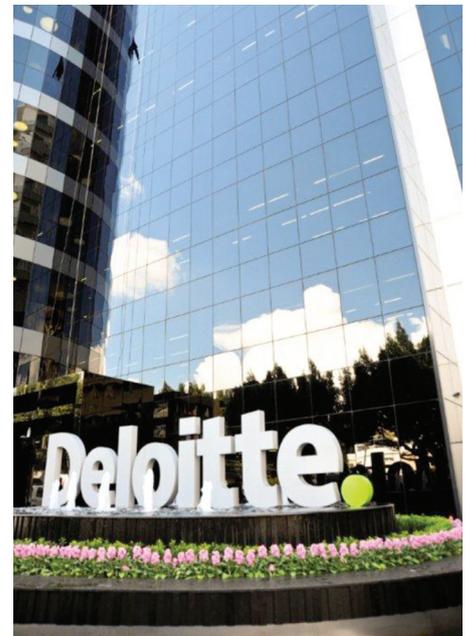
A company's constitutional documents are its Memorandum and Articles of Association which specify the activities in which the company may engage and the means by which it will govern its affairs. There is no minimum required issued and paid up capital for a private company, however it is common to have share capital of at least €1,000.

Every company must have a company secretary, a director and a registered office address in Cyprus, which may also be used as the business address of the company. Although not a requirement, it is common practice for the majority of the directors to be Cypriot residents.

Compliance obligations of a Cyprus Company

Every Cyprus company has (among others) the following compliance obligations:

- Maintain proper books and records
- Prepare financial statements in accordance with International Financial Reporting Standards
- Have its financial statements audited by a Cyprus registered auditor
- Submit an annual return to the Registrar of Companies
- Register with the Cyprus Tax Authorities
- Calculate and pay its taxes (if applicable)
- Submit an annual corporate income tax return to the Tax Department.



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