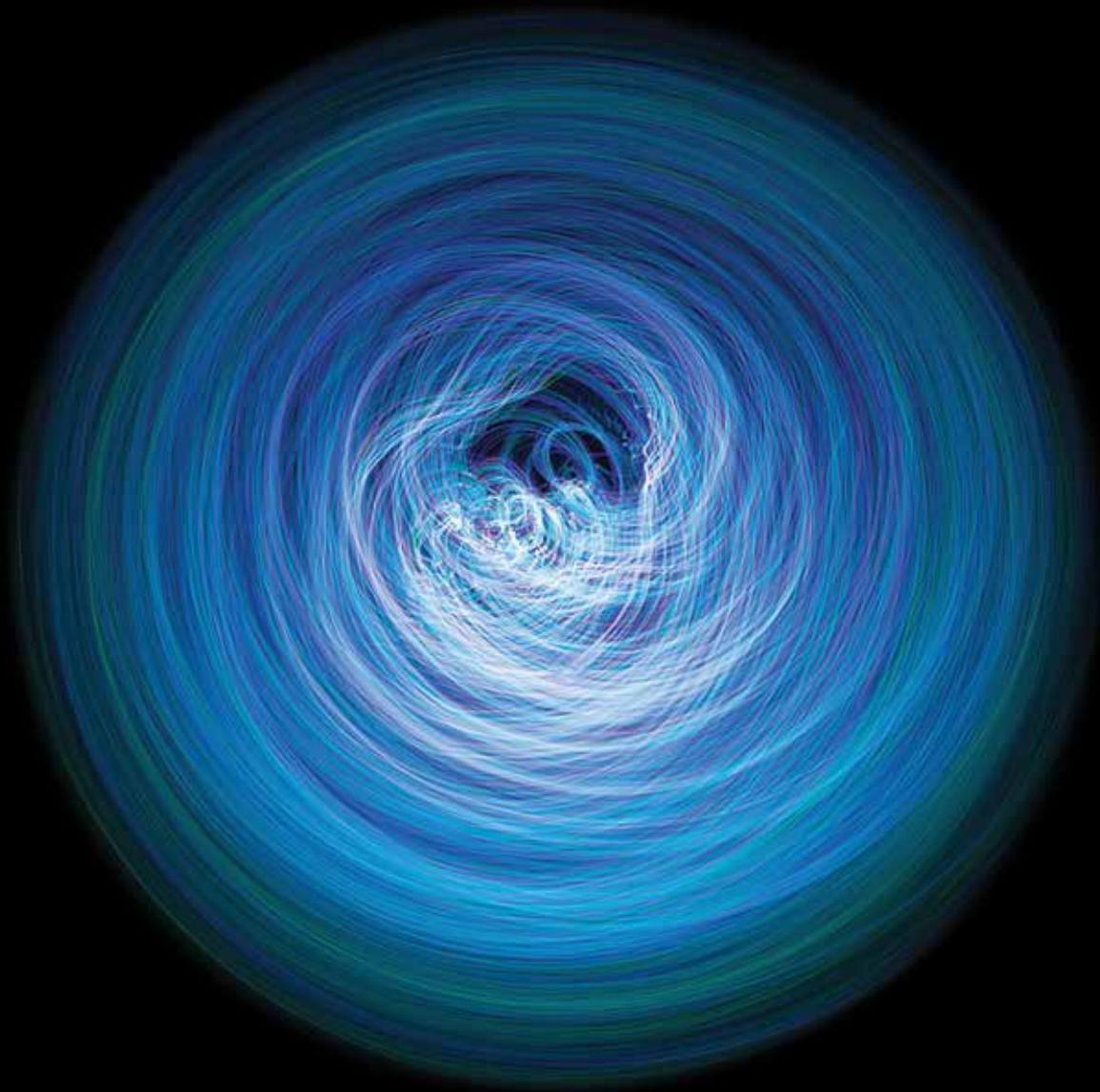


Deloitte.



Cyprus

An ideal location for intellectual
property assets

The Cyprus IP regime

Cyprus is an attractive location for the establishment of an IP holding and development company, offering an efficient tax rate as well as the legal protection afforded by EU Member States and by the signatories of all major IP treaties and protocols.

Background

Cyprus IP regime is fully compliant with international developments in the tax treatment of IP income and OECD's guidance. The IP 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

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%.

Relevant details of the regime

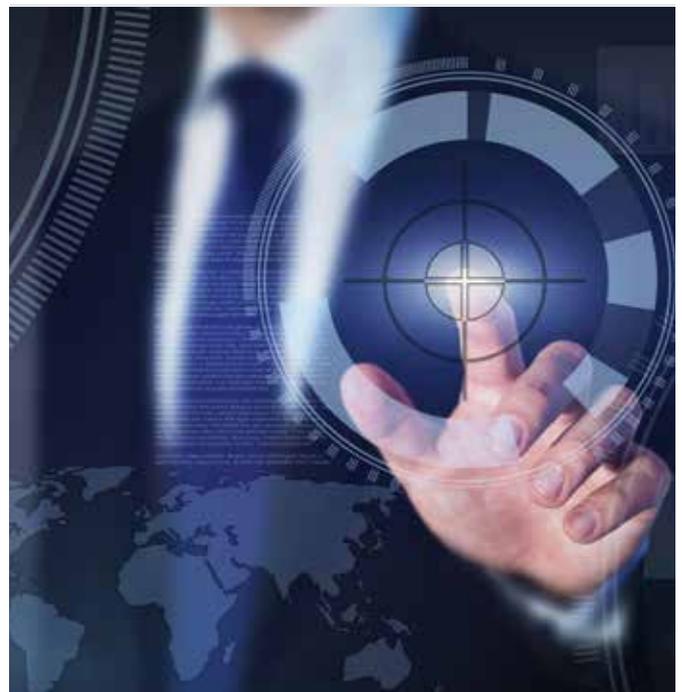
Under the Cyprus IP regime, 80% of the qualifying profits generated from the qualifying assets is deemed to be a tax deductible expense for qualifying taxpayers. In calculating the qualifying profits, the new regime adopts the 'Nexus' approach.

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 and copyrights.



Qualifying persons

Qualifying persons include Cyprus tax resident taxpayers, tax resident Permanent Establishments (PEs) 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 is used to determine the amount of qualifying profits that will give the relevant deduction to the taxpayer.

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 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.

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

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 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.

Cumulative nexus fraction

The nexus approach is an additive approach; the calculation requires both that QE includes all qualifying expenditures incurred by the taxpayer over the life of the IP asset and that OE includes all overall expenditures incurred over the life of the IP asset.

Illustrative example

Once the nexus fraction is calculated, this will be used to determine the deduction available for each QA, as illustrated in the example.

	EUR
Revenue	35.000.000
<i>Less: Direct expenditure from IP asset</i>	<i>- 15.000.000</i>
Overall income (OI)	<u>20.000.000</u>
<i>Assume nexus fraction of 90%</i>	
Qualifying profits- 90% (nexus fraction) of OI	18.000.000
<i>Less: 80% exemption on qualifying profits</i>	<i>- 14.400.000</i>
Taxable qualifying profits	<u>3.600.000</u>
Remaining OI (10% of OI) - Note 1	<u>2.000.000</u>
Total taxable profit	<u><u>5.600.000</u></u>
Tax @ 12.5%	700.000
Effective tax rate - Note 2	3,5%

Note 1: The remaining overall income is added to the taxable qualifying profits and the total is subject to tax at the corporate tax rate of 12.5%

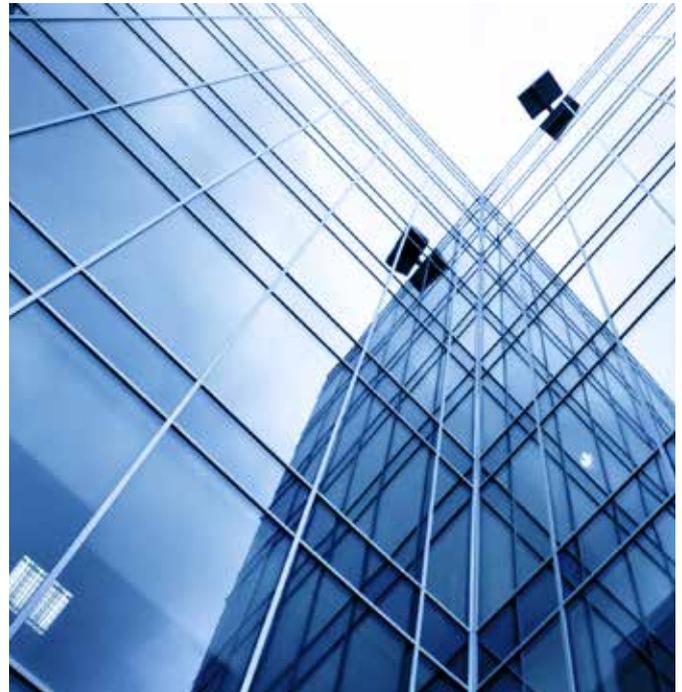
Note 2: The effective tax rate can be reduced to 2.5% with a nexus fraction of 100%

Losses from the qualifying assets

Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved.

Other intangible assets

Other intangible assets that are used in the business of a taxpayer and do not qualify for the IP regime may still benefit from other provisions of the Cyprus tax law. In particular, capital allowances and/or notional interest deduction (NID) may be available to these assets, which will help reduce the overall effective tax rate of the company. Examples of such assets include trademarks, copyrights and other intellectual property assets.



Capital allowances

As from July 2016, the capital costs of intangibles (excluding goodwill and qualifying assets as defined in the IP regime) are tax deductible in the form of capital allowances. The cost is spread over the useful life of the asset with a maximum useful life of 20 years.

Notional Interest Deduction (NID)

NID may be available on assets introduced in a Cyprus company through equity 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>).

Quick facts about Cyprus

Location

Cyprus is the third largest island of the Mediterranean, strategically linking Europe, Africa and Asia.

EU Membership and Currency

Cyprus has been a member of the EU since 1 May 2004. Its currency is the Euro since 1 January 2008.

Total Area, population and principal cities

The total area of Cyprus is 9,250 km² with a coastline of 648 km and a population of 858,000. The principal cities of Cyprus are Nicosia (the capital), Limassol, Larnaca and Paphos.

Languages

The official language is Greek, although English is the principal business language and is spoken by the large majority of the people on the island.

Political System

Cyprus is a Presidential Democratic State. The Executive authority is vested in the President, who is elected for a 5-year term by Cypriot citizens, and is exercised by a Council of Ministers appointed by the President. The Legislative authority is exercised by the House of Representatives, whose Members are elected by Cypriot citizens every 5 years. The administration of Justice is exercised by the Judiciary, which is a separate and independent body.

Infrastructure

Cyprus offers excellent road, air and sea transport solutions and services. Cyprus has two multi-purpose deep-sea ports, located in Limassol and Larnaca. The two modern international airports in Larnaca and Paphos, offer their services to approximately 10 million visitors per year, connecting the island to popular transit hubs throughout the world including Athens, Vienna, London, Dubai and Moscow.

Lifestyle

In Cyprus, one can enjoy a high standard of living. Cyprus 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.

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.



Limassol, Cyprus



Curium ancient theatre, Limassol



Tzielefos bridge, Paphos

Contacts

For more information you may contact:

Agis Agathocleous

Partner | Tax & Legal
Business Tax Services
Tel: +357 22360300
agagathocleous@deloitte.com

Alecos Papalexandrou

Partner | Tax & Legal
Business Tax Services
Tel: +357 25868686
apapalexandrou@deloitte.com

Mary Poufou

Director | Tax & Legal
Business Tax Services
Tel: +357 22360300
mpoufou@deloitte.com

Members of the Board of Directors

Christis M. Christoforou (Chief Executive Officer), Eleftherios N. Philippou, Nicos S. Kyriakides, Nicos D. Papakyriacou, Athos Chrysanthou, Costas Georghadjis, Antonis Taliotis, Panos Papadopoulos, Pieris M. Markou, Nicos Charalambous, Nicos Spanoudis, Maria Paschalis, Alexis Agathocleous, Alkis Christodoulides, Christakis Ioannou, Panicos Papamichael, Christos Papamarkides, George Martides, Kerry Whyte, Andreas Georgiou, Christos Neocleous, Demetris Papapericleous, Andreas Andreou, Alecos Papalexandrou, George Pantelides, Panayiota Vayianou, Agis Agathocleous, Kypros Ioannides, Gaston Hadjianastassiou, Yiannis Sophianos, Kyriakos Vlachos, Yiannis Leonidou, Panikos G. Teklos, Michael Christoforou (Chairman Emeritus).

Nicosia

24 Spyrou Kyprianou Avenue
CY-1075 Nicosia, Cyprus
P.O.Box 21675
CY-1512 Nicosia, Cyprus
Tel: +357 22360300
Fax: +357 22360400
infonicosia@deloitte.com

Limassol

Maximos Plaza, Tower 1, 3rd floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
P.O.Box 58466
CY-3734 Limassol, Cyprus
Tel: +357 25868686
Fax: +357 25868600
infolimassol@deloitte.com

www.deloitte.com/cy

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Limited is the Cyprus member firm of DTTL. Deloitte Cyprus is among the nation's leading professional services firms, providing audit & assurance, consulting, financial advisory, wealth advisory, risk advisory, tax and related services as well as a complete range of services to international business through over 680 people in Nicosia and Limassol. For more information, please visit the Cyprus firm's website at www.deloitte.com/cy

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at www.deloitte.com

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

The tax information contained in this publication is accurate as at its date of publication, 3 January 2019. The information included within is designed to increase the reader's general awareness on the Cyprus IP regime and in no case should substitute seeking professional advice. For explanations, clarifications or professional advice please contact your Deloitte advisors.

Deloitte Limited is a private company registered in Cyprus (Reg. No. 162812).
Offices: Nicosia, Limassol

© 2019 Deloitte Limited