



Cyprus Tax News

Amendments to the tax treatment of intangible assets

On 17 July 2020, an amending Income Tax Law (ITL) was voted by Parliament with respect to the tax treatment of intangible assets.

The amendment aims to simplify the relevant legislation and provide increased flexibility to taxpayers benefiting from these provisions.

RECAP OF EXISTING PROVISIONS

The capital costs of intangible assets are tax deductible in the form of capital allowances and are spread over the useful life of the asset, as determined by generally acceptable accounting principles (with a maximum useful life of 20 years).

AMENDMENTS

- **Balancing statement**

- **Until 31 December 2019 (pre-amendment)**

- When disposing an intangible asset, the taxpayer is obliged to prepare a balancing statement consisting of the tax written down value (TWDV) of the asset (acquisition cost less capital allowances) and the disposal proceeds, to identify any balancing addition or balancing deduction in relation to that asset.

- **As of 1 January 2020 (post amendment)**

- The obligation to prepare a balancing statement on the disposal of an intangible asset is **abolished**. As such, no balancing addition or balancing deduction would be included in the taxpayer's taxable income in the year of disposal.

- **Capital allowances**

- **Until 31 December 2019 (pre-amendment)**

- Any expense for the acquisition or the development of an intangible asset which is of a capital nature is claimed as a deduction over the useful life of the intangible asset with a maximum period of 20 years.

Although the taxpayer has the option not to claim capital allowances for such intangible assets in a particular tax year, the law is silent as to whether the unused amount can be carried forward and be used in subsequent years.

As of 1 January 2020 (post amendment)

The taxpayer upholds 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 life of the asset.

As such the TWDV of the asset at the beginning of each year will be re-distributed over the remaining useful life of the intangible asset.

Deloitte comments

The abolition of the balancing statement is a positive development for companies owning or exploiting intangible assets as any gain of a capital nature realised upon the disposal of such intangible assets is exempt from corporate income tax.

In addition, the amended provisions on capital allowances provide assurance to the taxpayers that any amounts not claimed can be carried forward and be used in the following years.

How can we help?

We can assist you in determining the extent to which these amendments may impact your business.



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