

**Basis of taxation**

All companies tax residents of Cyprus are taxed on all their income accrued or derived from all sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is resident of Cyprus if it is managed and controlled in Cyprus.

**Corporation tax rates**

	Type	Tax rate %
Companies	12.5	

**Exemptions**

The following income is exempted from tax:

Type of income	Exemption limit
Profit from the sale of securities.	The whole amount
Dividends	The whole amount
Interest related to a permanent establishment abroad, under certain conditions.	100% of the amount
Profits of a permanent establishment abroad, under certain conditions.	The whole amount

**Tax deductions**

All expenses incurred wholly and exclusively in earning the income of the company including:

Type of expense	Exemption limit
Donations to approved charities (with receipts)	The whole amount
Employer's contributions to social insurance and approved funds	The whole amount
Establishment expenses for business purposes.	1% of the gross income

but not including:

Expenses of a private motor vehicle	Exemption limit
Interest on a loan for the acquisition of a private motor vehicle	The whole amount

Professional whole amount

### Losses carried forward

The tax loss incurred during a tax year and which cannot be set-off against other income is carried forward and is set-off against future profits with no time restriction. This provision is applicable for all losses incurred from 1997 tax year onwards.

The current year loss of one company can be set off against the profit of another provided the companies are both Cyprus tax resident companies of a group.

Group is defined as:

- (a) One company holding at least 75 percent of the shares of the other company
- (b) At least 75 percent of the voting shares of the companies are held by another company

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company for future utilization.

Losses from a permanent establishment abroad can be set-off with profits of the company in Cyprus.

Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses previously allowed.

### Reorganizations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganization.

Reorganizations include:

- a. mergers and demergers
- b. partial divisions
- c. transfer of registered office
- d. transfer of assets
- e. exchange of shares

**Annual wear and tear allowances on fixed assets**

The following allowances are given as a percentage on the cost of acquisition and are deducted from the chargeable income.

Fixed assets	%
Plant and machinery	10
furniture and fittings	10
televisions and videos	10
industrial carpets	10
Boreholes	10
machinery and tools used in an agricultural business	5
computer hardware and operating systems	20
application software	30
commercial motor vehicles (vans, trucks)	20
motor cycles	20
excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
expenditure on computer software acquisition	10
<b>Buildings</b>	%
commercial buildings	3
industrial, agricultural and hotel buildings	4
Flats	3
metallic greenhouse structures	10
wooden greenhouse structures	30
<b>Boats</b>	%
sailing vessels	4.5
steamers, tugs and fishing boats	6
ship motor launches	2.5
new cargo vessels	8
new passenger vessels	6
used cargo/passenger vessels	4
<b>Tools</b>	%
tools in general	1/3

### Special Type of Companies

#### Shipping companies

No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships the exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration local or international ship management and crew management businesses have the option to be taxed either at the rate of 4,25 percent or at rate equal to 25 percent of the rates used to calculate the tonnage tax of vessels under management which are registered outside Cyprus. If no election is made tonnage tax will be imposed. The election is made annually by 30 November of the previous year.

#### Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5 percent on gross premium. In this case the difference is paid as additional corporation tax.

#### International Collective Investment Schemes

##### (ICIS)

The sole object of an ICIS is the collective investment of the funds of its unit-holders.

An ICIS can take the following legal forms:

- ☐ international fixed capital company
- ☐ international variable capital company
- ☐ international unit trust scheme and
- ☐ international investment limited partnership.

ICIS are liable to corporation tax similar to all other legal entities depending on the legal status of the ICIS.

## Intellectual Property

I.P. Rich organizations can achieve in Cyprus an effective tax rate of lower than 2% from their I.P. exploitation and at the same time enjoy the protection afforded by the EU and all major International I.P. treaties and protocols:

### 1. Cyprus is an ideal I.P. Location

Choosing the right location for the centralization and management of I.P. is a very important strategic business decision. The Ideal location to establish an IP structure is one that can serve the organizations business strategy/model, safeguard and protect its IP and contribute to its tax optimization.

### 2. The Cyprus I.P. Tax Regime

The IP tax regime covers a wide range of intangibles including:

- a) Copyrights, which may take any of the following forms:
  - i. Literary works
  - ii. Dramatic works
  - iii. Musical works
  - iv. Scientific works
  - v. Artistic works

- vi. Sound recording
  - vii. Films
  - viii. Broadcasts
  - ix. Publications
  - x. Software programs
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- b) Patented Inventions
  - c) Trademarks (and services mark), designs and models that are used or applied on products.

The above is a non-exhaustive list.

Registrable IPs need not be registered in Cyprus to benefit from IP regime.

### **3. Tax benefits of the Cypriot I.P. Companies**

The new provisions provide exemptions from tax of income related to IP. More specifically:

- 1. 80% of worldwide royalty income generated from IP owned by Cypriot resident companies (net of any direct expenses\*) is exempted from income tax.
- 2. 80% of profit generated from the disposal of IP owned by Cypriot resident companies (net of any direct expenses\*) is exempted from income tax.
- 3. Any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line.
- 4. All the above exemptions are also available for IPs acquired or developed before January 2012.

*\*Direct expenses include finance costs to acquire / develop IP and annual tax amortization.*

### **4. Example**

Assume that a Cyprus IP company licenses its IP to its operating overseas companies and in return it receives royalty income of €100.000 per year.



Annual Royalty income

€100.000

Direct expenses	(€20.000)
Net Income	€80.000
80% deemed deduction	(€64.000)
<b>Taxable income</b>	<b>€16.000</b>
@12.5% income tax	€2.000
<b>Effective tax rate</b>	<b>12.5%</b>

**CONCLUSION**

The new regime provides very attractive opportunities for structuring the exploitation of IP assets through Cyprus and in particular through the use of Cyprus-resident IP owners, especially in the context of Cyprus extensive network of double tax treaties under which foreign withholding taxes on royalty income are either eliminated altogether or substantially reduced. In

most cases immediate economic and tax savings can be achieved by transferring intellectual rights currently held by entities located in low or no tax jurisdictions to Cyprus resident companies in order to take advantage of the new exemptions. The transfer of IP rights into a Cyprus company will not give rise to any form of taxation in Cyprus and the new benefits and substantial exemptions will become available as soon as the asset is transferred.

Where a Cyprus company is granted the right to use a patent, trademark or innovation outside Cyprus there is no withholding tax on payments to the licensor and the Cypriot company is taxed at the corporate income tax rate on the profit margin that it realizes on the use of the right.

### **EU Interest and Royalty Directive**

The EU Interest and Royalty Directive came into effect on 1 January 2005. It provides that interest and royalty payments in one EU member state are exempt from any withholding taxes imposed on those payments in that state, provided that the beneficial owner of the interest is a company in another EU state.

For the directive to apply the companies must be associated. The interest or royalty must be on an arm's length basis. The directive will not apply to what is considered to be in excess of an arm's length amount.

Greece, Czech Republic, Slovakia, Poland, Portugal, Spain, Latvia and Lithuania have been granted a transitional period in which to apply the directive. They can charge a maximum withholding tax of 5 percent until 2011. The overall tax burden on interest and royalties remitted to Cyprus from these countries is not affected by the transitional provisions as Cyprus grants a tax credit for the taxes withheld by these countries.

### **Film rental**

The gross amount of any rental in respect of the showing of cinematograph films in Cyprus derived by any person who is not a tax resident, is subject to a 5 percent withholding tax.

### **Income from profession or vocation**

The gross income derived by an individual not resident in Cyprus, from the exercise in Cyprus of a profession or vocation or of public entertainers including football clubs and other athletic clubs is subject to a 10 percent withholding tax.