Cyprus Intellectual Property (IP) Tax Regime – Simplified Overview

Overview & Compliance

Cyprus's updated IP tax regime follows OECD BEPS standards. It applies the **nexus approach**, meaning tax relief is based on actual R&D activities done by the taxpayer. The regime applies to IP assets developed **after 1 July 2016**.

What Qualifies as Eligible IP?

To qualify, the IP must be legally protected, developed or used in business, and stem from R&D. Examples include:

- Patents (under Cyprus law)
- Computer software
- Other IP types such as:
    - Utility models
    - Plant/genetic IP rights
    - Orphan drug designations
    - Patent term extensions
    - Certified novel/useful inventions (revenue ≤ €7.5M, or €50M for groups)

Not eligible: trademarks, brand names, image rights, or marketing-related IP.

Tax Deduction on Profits

- 80% of qualifying profits from IP is tax deductible
- Effective tax rate becomes **2.5%**
- Option to skip full or partial deduction each year
- Only 20% of a loss can be carried forward or group surrendered

How Profits Are Calculated (Nexus Formula)

Formula: Qualifying Profits = Overall Income × (Qualifying Expenditure + Uplift) / Overall Expenditure

Definitions:

- **OI:** Income from IP minus direct costs
- **QE:** Direct R&D costs tied to the IP
- **UE:** Lesser of 30% of QE or costs for acquiring/outsourcing to related parties
- **OE:** QE + acquisition costs + R&D outsourced to related parties

Covered income sources include licensing, sales, compensation, and embedded income from IP-based products.

What Costs Qualify?

Included:

- Salaries
- Direct supplies and costs
- Utilities and research facilities
- R&D outsourced to **non-related parties**

Excluded:

- IP acquisition costs
- Interest payments
- Related-party R&D costs
- Property construction costs
- Non-traceable or indirect costs

Record-Keeping Requirements

Taxpayers must maintain **separate books and records for each IP asset**, detailing all income and expenses.

Capital Allowances for Non-Qualifying IP

- Tax depreciation allowed over useful life (max 20 years)
- Gains taxed; losses are deductible on disposal
- Option to skip claiming capital allowances in a tax year

Key Takeaways

- Attractive regime for R&D-intensive companies
- Strict focus on genuine innovation (not branding)
- Effective tax rate as low as **2.5%**
- Fully aligned with international tax standards