

INTELLECTUAL PROPERTY BOX REGIME

HALIOS
CAPITAL



Intellectual Property (IP) is a vital asset for any organization, providing a key competitive edge. Choosing the right location for managing and developing IP is crucial for safeguarding these assets and optimizing tax benefits.

Cyprus emerges as a premier destination for IP holding and development companies, offering an attractive IP tax regime. The country's status as an EU Member State, along with its adherence to all major IP treaties and protocols, ensures comprehensive legal protection and significant tax benefits for IP owners.

Benefits

- 80% of the Qualifying Profits are exempted from tax.
- Effective tax rate as low as 2.5%
- Amortization period of up to 20 years
- Wider range of Qualifying Revenue
- 0% tax on the gain from disposal of IP assets as a capital nature transaction

Qualifying Assets:

- Patents
- Copyrighted software programs
- Non-obvious, useful and novel intangible assets

Provisions of the IP regime

The new IP regime operates on the "Nexus Approach", which links the tax benefits of the regime to R&D expenses incurred.

80% of Qualifying Profits from these assets can be deducted from taxes, aligning benefits with innovation efforts.

$$\text{Qualifying Profits} = \text{Overall Income} \times \frac{(\text{Qualifying Expenditure} + \text{Uplift Expenditure})}{\text{Overall Expenditure}}$$

Overall Income:

The overall income is the total income earned from an intangible asset after subtracting any direct expenses associated with it. This includes royalties received for using the asset, income from selling the asset, and any embedded income it generates. Capital gains from selling the asset are not part of the overall income and are completely tax-free.

Uplift Expenditure:

The UE is the lower of two values: either 30% of the QE or the total acquisition cost of the asset plus any R&D costs paid to related parties. This helps determine the maximum amount of qualifying expenditure that can be considered for tax purposes.

Qualifying Expenditure:

It includes expenses directly related to the development, improvement or creation of the intangible asset. This covers salaries, direct costs, general expenses linked to R&D activities costs paid to external parties. However, QE does not include the initial purchase cost of the asset, interest payments, payments to related parties for R&D, or costs not directly linked to a specific asset.

Overall Expenditure:

Overall expenditure (OE) is the total qualifying expenditure incurred in a tax year, including both QE and the acquisition costs of the asset plus any R&D costs paid to related parties.

Numerical Example

Assumptions	
Overall Income for IP asset (OI)	10,000,000
Qualifying Expenditure (QE)	2,000,000
Uplift Expenditure (UE)	600,000
Overall Expenditure (OE)	2,890,000
Calculating Qualifying Profit (QP)	
Nexus Fraction (QE + UE) / OE	89.97%
Qualifying Profits (QP)	8,996,540
Tax Exemption Rate on QP	80%
Deductible Amount	7,197,232
Taxable Profit	1,799,308
Remaining Taxable Profit	1,003,460
Total Taxable Profit	2,802,768
Corporate Tax Rate at 12.5%	350,346
Effective Corporate Tax Rate *	3.50%

* Effective Tax Rate can be reduced to 2.50% with a Nexus Fraction of 100%

Our Expertise at Your Service:

We are a group of experienced professionals specializing in the practical use of the Cyprus IP Box Regime legislation. One of our goals is to assist companies and founders in leveraging modern tax rules to maximize the benefits of generating intellectual property rights in Cyprus.

- **Comprehensive Review:** We can assess your current business situation and provide expert advice on optimizing your business structure to take full advantage of the reduced corporate tax rate.
- **Tax Compliance:** Our team of professionals will handle all aspects of tax compliance, ensuring your IP-related activities are accurately tracked and reported.
- **Expert Guidance:** We will guide you through the IP calculations, ensuring they align with relevant regulations and helping you determine timely IP-related deductions.

Contact us to discover how we can help you unlock the full potential of the Cyprus IP Tax Regime for your business.

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