
European Tax Newsalert

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Cyprus approves incentives for finance and IP companies

The Cyprus House of Representatives on May 24 approved several new corporate tax incentives. These incentives, which are effective January 1, 2012, might interest companies seeking to establish financing or intellectual property (IP) holding companies in Cyprus.

Intellectual property regime

The new legislation amends the country's income tax law and provides income tax exemptions for IP-related income.

Under the new legislation:

- 80 percent of any income generated from IP owned by Cypriot-resident companies (net of any direct expenses) is exempt from income tax.
- 80 percent of profit generated from the disposal of IP by Cypriot-resident companies (net of any direct expenses) is exempt from income tax.
- The definition of IP includes all intangible assets, including copyrights, patents, and trademarks.



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- Capital expenditures related to IP acquisition or development may be deducted in the tax year in which the expense was incurred and the next four years (i.e., over five years total) on a straight-line basis.

Deductibility of interest expense

The legislation treats interest expense incurred for the direct or indirect acquisition of 100 percent of a subsidiary's share capital as deductible for income tax purposes, provided the subsidiary company does not own any assets that are not used in the business. Loans receivable are deemed to constitute assets that are used in the business.

When the subsidiary company owns assets that are not used in the business, the Cyprus tax-resident parent company cannot deduct the interest expense incurred that corresponds to such assets.

These provisions apply to share acquisitions on or after January 1, 2012. Interest expense with respect to shares acquired before January 1, 2012, is not covered under the new provisions and it remains non-deductible for a seven-year period.

Arm's length transactions

The arm's length rules will not apply to transactions between a Cyprus resident parent company and its 100-percent-owned direct Cyprus resident subsidiary.

Group relief

When a parent company incorporates a subsidiary company, the subsidiary company will be considered a group member for the entire tax year in which it is incorporated. Therefore, it will be able to claim group relief for that particular tax year.

Tax depreciation

For property and equipment acquired during the 2012, 2013, and 2014 tax years, companies may claim accelerated tax depreciation at a 20 percent rate (excluding assets that are already eligible for a higher annual rate of tax depreciation).

Companies may depreciate industrial and hotel buildings acquired during the 2012, 2013, and 2014 tax years at a 7 percent rate per year for tax purposes.

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