TAX NEWS

In May 2012, the Cyprus House of Representatives voted new amendments to the Income Tax Law aiming to establish Cyprus as the ultimate royalty and holding structure jurisdiction.

The Cyprus Royalty company

- **The new tax regime provides for favourable tax treatment in relation to income generated from any type of intellectual property rights, patents and trademarks ("IP Rights") as well as providing for generous capital allowances for acquisition and development of such rights.**

Prior to the amendment:

Any income from IP Rights was taxed under the normal corporate tax rate of 10% on any resulting profit.

New regime:

80% of "Royalty Profit" *(royalty income less all expenses incurred wholly and exclusively for the production of royalty income)* generated from such IP Rights will be exempt from corporation tax. The remaining 20% will be subject to the normal corporation tax rate of 10%. Favourable tax treatment also covers the profit from any future sale of the IP Right.

Capital allowances:

The Cyprus Company holding the IP Rights will be able to write off the capital expenditure made on the acquisition or development of such rights in the first five years of use *(20% straight line starting from the first year of the use of the asset as well as the subsequent four years of usage).*

Effective tax rate:

The effective tax rate applicable on the Cyprus Royalty Company will not be higher than a maximum of 2% on its Royalty Profits. The effective rate can be further reduced by the deduction of capital allowances.

Other amendments

- **Group Relief**

Prior to the amendment:

Group Relief *(set-off losses of one company with the profits of another in the same tax group – 75% shareholding requirements)* was allowed only when all companies were part of the same tax group for the whole financial year in which the relief is claimed.

New regime:

A company incorporated by its mother company any time during a tax year will be considered as part of the group from the beginning of the year for group relief purposes.

- **Tax treatment of Interest Income and Interest Expense**

Prior to the amendment:

Any interest on loans received for the purpose of non-business assets *(i.e. shares in other companies)* was not considered as tax deductible expense.

New regime:

The new law abolishes the above restriction in case of 100% owned subsidiary provided that this subsidiary does not own assets that are not in the business *(otherwise the deductibility will be restricted to the percentage of the assets used in the business).*

- **Capital allowances**

Plant and machinery:

The new law provides for an increase of capital allowances to 20% on plant and machinery purchased during the tax years of 2012 to 2014.

Industrial and hotel buildings:

The new law also provides for an increase of capital allowances at the rate of 7% on industrial and hotel buildings purchased during the tax years of 2012 to 2014.