

CYPRUS TAX INCENTIVES FOR IT COMPANIES, INNOVATIVE BUSINESSES AND STARTUPS AND OTHER PERSONAL TAX INCENTIVES TO ATTRACT SKILLFUL WORKFORCE IN CYPRUS

The Cypriot information and communication technology market including Information Technology (IT) equipment, IT services, software, and telecommunications markets has noted significant growth. Even though the COVID-19 global pandemic has had a significant negative impact on the Cypriot economy, the particular market is anticipated to continue growing, improving the growth pattern noted over the past few years.

Despite the challenges created as a result of the global pandemic, opportunities were introduced for the IT market as Cypriot companies have taken into consideration the strategic importance of infrastructure optimization and how this is necessary to remain competitive.

Identifying this growth, the government of Cyprus has taken numerous coordinated measures to support the IT market, including the establishment of the Deputy Ministry of Research, Innovation and Digital Policy. Governmental efforts also focus on the objective to transform Cyprus from primarily a tourist destination to a sustainable business and trading hub for Europe.

On 15 October 2021 the Cyprus government presented an Action Plan for attracting companies to make the island a Sustainable Business and Trade Centre of the broader region and Europe. For the above-mentioned Action Plan please further refer to our previous publication [here](#).

Tax incentives in Cyprus relevant to Innovative or Intellectual property companies

As the IT industry requires expertise in the implementation and utilization of new technologies, a number of tax exemptions and regulations incorporated into the Cyprus Income Tax law provide significant advantages for new and existing investors in the IT market.

We set below some important tax advantages which are provided in the Cyprus Income Tax law (ITL) and which may be available to your business. These cover a wide range of businesses including technology companies as well as companies whose principal activities are the use and exploitation of patents, trademarks, trade secrets, copyrights, computer software and other inventions.

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Incentives	Details
Investments in Innovative Businesses	<p>Introduced in the ITL in 2017 and have been further extended until 30 June 2024 as voted by the Cyprus Parliament.</p> <p>A “qualifying” investor (independent from the enterprise) that makes a “risk-finance investment” in an “innovative small and medium-sized enterprise (SME)” is eligible for a deduction of the costs of the investment against his/her taxable income.</p> <p>Limitations exist such as a maximum of €150.000 per year capped to 50% of the investor’s taxable income. Not claimed investment cost may be carried forward to the next five years (also subject to the same restrictions).</p>
Research and development expenses	<p>ITL has been amended to allow for enhanced tax deduction for Research & Development (R&D) expenses (effective as of 20 July 2022), as follows:</p> <ul style="list-style-type: none"> ➤ <u>Accelerated deduction to 120%:</u> As per the amending law, expenses incurred in 2022, 2023 and 2024 including capital in nature expenses for which a deduction is granted as per the previous regulation, an additional tax deduction is granted equal to 20% of the relevant expenses. Hence the deduction from taxable income accelerates to 120%. ➤ <u>Wear & Tear Allowances:</u> Wear and tear on capital expenditure (i.e. capital asset) is allowed over the useful economic life of the asset with a maximum of 20 years.
Cyprus regime IP	<p>The Cyprus IP regime provides for 80% exemption of the “Qualifying Profits” generated from “Qualifying Assets”, an exemption which reduces the effective rate of the taxable activity to 2.5% with the use of a nexus formula.</p> <p>The gain/loss from the disposal of an IP asset used in the business of the IP company is considered a capital in nature disposal which is exempt from the ITL.</p> <p>It is important for businesses which generate income from IP assets to keep careful track of the relevant income and expenditure which is taken into account in the application of the nexus formula, given that no precise definition is provided within the tax legislation on this matter.</p> <p>Additionally, where the income earned by a business from the sale of goods, provision of services or use of any processes is directly related to “Qualifying Assets”, such income may include an element of embedded income, connected with the right to use of the “Qualifying Asset”. A Transfer Pricing (TP) study in accordance with the OECD TP guidelines must be prepared to determine such element in order to claim a tax exemption on such embedded income.</p>

Incentives	Details
Notional Interest Deduction	<p>Notional Interest Deduction (NID) is allowed on newly issued and paid equity, financing a taxable activity of the company. The NID may not exceed the 80% of the taxable profit generated from the taxable activity. Especially for IP companies, the effective tax rate on their taxable income may be further reduced.</p>
First employment exemption ranging from 20% to 50%	<p>The ITL includes some income tax exemptions for employment income which have been enhanced with effect as of 26 July 2022 and which are being assessed at a Governmental level to be further enhanced in terms of applicability to target more individuals repatriating to Cyprus.</p> <ul style="list-style-type: none"> ➤ <u>20% exemption</u> An exemption of 20% or €8,550 (whichever is the lower) is provided on the remuneration of employees whose first employment in Cyprus commenced after 26 July 2022. Such exemption is provided for a period of seven (7) years, provided the employees, for three (3) consecutive years immediately before the commencement of their employment in Cyprus, were employed outside of Cyprus by a non-Cyprus resident employer. <p>The exemption will be first granted in the tax year following the tax year of commencement of employment. The law does not require the individual to become a Cyprus tax resident to benefit from the new 20% exemption, nor the employer to be a Cyprus tax resident employer. Additionally, individuals will not be granted this exemption, if they are granted the 50% exemption mentioned below.</p> <ul style="list-style-type: none"> ➤ <u>50% exemption</u> An exemption of 50% is provided on the remuneration of employees, whose remuneration from first employment in Cyprus began from 1 January 2022 onwards. <p>Such exemption is provided for a period of seventeen (17) years, provided that their remuneration per year exceeds €55,000 and the employees were not residents of Cyprus for a period of at least ten (10) consecutive years immediately before the commencement of their employment in Cyprus.</p> <p>The first employment in Cyprus starts from 1 January 2022 onwards and the period of seventeen (17) years starts from the month of employment in Cyprus.</p>

We are at your disposal to discuss how the above incentives may affect your business and your personal investment plans. For further tax assistance, please contact tax@hlb.com.cy.



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