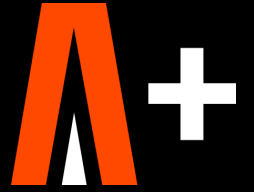




**Why should IT Companies
relocate to Cyprus?**

Why should IT Companies relocate to Cyprus?



1. Favorable Tax Regime / IP-Box
2. Easy relocation of non-EU personnel
3. Incentives / Benefits for the owners



Cyprus IP-BOX Regime



IP – INTELLECTUAL PROPERTY

An Asset which is a result of:

1. INNOVATION

“innovation” is developing a new idea *and* putting it into practice

2. CREATIVITY

“the ability to produce original and unusual ideas, or to make something new or imaginative”



Cyprus IP-BOX Regime

Introduction:

Cyprus IP regime is fully compliant with international developments in the tax treatment of IP income and OECD's guidance.

The IP regime has been reviewed by the EU Code of Conduct and has been assessed as fully compatible with EU standards.

Cyprus IP-BOX Regime and the Nexus Approach



The New IP Box Regime

The new provisions of the law are effective as from 1st July 2016, where 80% of the Qualifying Profits derived from a Qualifying Intangible Asset will be considered as a deductible expense, resulting in a maximum tax effective rate of 2,5%.

Cyprus IP-BOX Regime and the Nexus Approach



Qualifying Intangible Asset:

Asset which was acquired, developed or exploited by a person in the course of a business and which constitutes intellectual property with the exception of intellectual property related to marketing, and **which is the result of research and development** and also includes intangible assets for which only economic ownership exists.

Qualifying intangible assets include:

- i. **Patents as defined in the Patents Law;**
- ii. **Computer software;**

Qualifying intangible assets do not include brands, trademarks, image rights and any other intellectual property rights used to market products and services.

Cyprus IP-BOX Regime and the Nexus Approach



Qualifying Persons are the persons who are considered as:

- a. Cyprus tax residents;
- b. Tax resident PEs of non-tax resident persons and;
- c. Foreign PEs of a Cyprus Company which have chosen to be subject to tax in Cyprus.

Cyprus IP-BOX Regime and the Nexus Approach



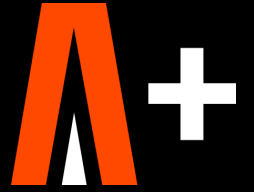
Qualifying Profits means the amount resulting from the application of the following formula:

$$\text{Qualifying Profit} = \frac{\text{QE+UE}}{\text{OE}} \times \text{OI}$$

Where:

- QE means the Qualifying Expenditure on the qualifying intangible asset
- UE means Up-lift Expenditure
- OE means the Overall Expenditure on the qualifying intangible asset
- OI means the Overall Income which derives from the qualifying intangible asset

Cyprus IP-BOX Regime and the Nexus Approach



Overall income arising from a qualifying intangible asset means the gross income accrued within a tax year reduced by the direct costs for the generation of such income.

Overall income includes but is not limited to the following:

- i. Royalties or other amounts relating to the use of a qualifying intangible asset;
- ii. Any amount for a licence for the exploitation of a qualifying intangible asset;
- iii. Any amount from an insurance or as compensation in relation to a qualifying intangible asset;
- iv. Income from the disposal of a qualifying intangible asset which is not of a capital nature;

Cyprus IP-BOX Regime and the Nexus Approach



- v. Embedded income of a qualifying intangible asset which arises from the sale of products, services or procedures that directly relate to this asset.

Direct Costs include:

- all the expenses incurred directly or indirectly, wholly and exclusively for the production of income in relation to a qualifying intangible asset,
- the notional interest deduction as per the provisions of Section 9B which is attributable to that intangible asset and
- the capital expenditure for the acquisition of the qualifying intangible asset which is allocated to the remaining balance of the asset's useful economic life with a maximum period of 20 years.

Cyprus IP-BOX Regime and the Nexus Approach



Qualifying expenditure in relation to a qualifying intangible asset is the sum of the total research and development expenditure incurred in any tax year wholly and exclusively for the development, improvement or creation of a qualifying intangible asset and which are directly related to the qualifying intangible asset.

Qualifying expenditure includes but is not limited to the below:

- i. Wages and salaries;
- ii. Direct Costs;
- iii. General expenses in relation to the installation of facilities used for research and development;
- iv. Expenses for supplies associated with research and development activities;
- v. Expenses associated with research and development that has been outsourced to non-related parties

Cyprus IP-BOX Regime and the Nexus Approach



However it does not include:

- i. The cost of the acquisition of the intangible asset;
- ii. Interest paid or payable;
- iii. Costs in relation to the acquisition or construction of immovable property;
- iv. Amounts paid or payable directly or indirectly to a related person for the purpose of research and development, regardless of whether these amounts relate to a cost sharing agreement;
- v. Costs that cannot be proved to be directly connected to a qualifying intangible asset.

Cyprus IP-BOX Regime and the Nexus Approach



Any expenses incurred due to the outsourcing of relevant research and development activities to non-related persons as well as expenses related to research and development but of a general and theoretical nature which cannot be allocated to the qualifying expenditure of a specific qualifying asset with which they have a direct link, can be allocated proportionately to the qualifying intangible assets or products.

Uplift expenditure means the lower of:

- (a) 30% of the Qualifying Expenditure and
- (b) the total amount of the cost of acquisition and the cost of outsourced research and development activities to related persons.

Cyprus IP-BOX Regime and the Nexus Approach



Overall expenditure means the sum of the qualifying expenditure and the total amount of the cost of acquisition and the cost of outsourcing research and development activities to related persons, incurred in any tax year.

Capital allowances

All intangible assets (excluding goodwill), irrespective of whether they are qualifying assets or not, are eligible for tax amortization (capital allowances) over their useful economic life with a maximum of 20 years.

As of 1 January 2020, the taxpayer has the option not to claim capital allowances in a given year. Moreover, capital allowances that have not been claimed in a year are claimed over the remaining useful life of the asset.

Cyprus IP-BOX Regime and the Nexus Approach



Obligation for preparation of a balancing statement

Up to 31 December 2019, upon the disposal of an IP asset, the taxpayer would also be obliged to prepare a balancing statement to calculate the taxable gain/loss as follows:

- Disposal proceeds less tax written down value of the asset (TWDV), whereby TWDV is the cost of the IP asset less accumulated capital allowances claimed.

As of 1 January 2020, taxpayers disposing their IP assets have no obligation to prepare a balancing statement. Therefore a (capital nature) disposal of an IP asset, should not trigger any Cyprus tax implications.

Cyprus IP-BOX Regime and the Nexus Approach



Analysis

One of the most important aspects of the formula for the calculation of Qualifying Profits is the Qualifying Expenditure which derives from the exploitation and Research & Development of the Intellectual Property. As per regulations issued by the Ministry of Finance, in case of outsourcing relevant research and development activities to related persons, these expenses should not be included in the formula as a Qualifying Expenditure.

Cyprus IP-BOX Regime and the Nexus Approach



Analysis

Cyprus offers maximum protection and certainty for IP owners due to the ratification of all major IP treaties and protocols. In addition to asset protection, Cyprus' wide network of double tax treaties will considerably reduce foreign withholding taxes on royalty income.

The Cyprus IP Box Regime being in line with the provisions of the OECD, maintains its status as one of the most favourable regimes for intangible assets and together with all the benefits offered by the Cyprus Tax System, Cyprus remains the ideal place for businesses investing in IP Assets.



Non-EU employees relocating to Cyprus



Non-EU employees relocating to Cyprus

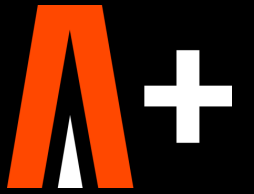
Eligible Companies

In order for companies of foreign interest, to employ non-EU country nationals in Cyprus, the following must apply:

1. The majority of the company's shares are owned by third-country nationals.
2. If the majority of the company's shares are not owned by third-country nationals (i.e equal to or less than 50%) then the company is eligible if the foreign participation represents an amount of at least €200.000.

In both cases above (1&2), the ultimate beneficial owner (UBO) must deposit an amount of €200,000 in an account held by the company in a credit institution licensed by the Central Bank (payment institutions are not included). Alternatively, the company can submit evidence of an investment amounting to €200,000, for the purposes of operating its business in Cyprus (e.g. office purchase, office equipment purchase, etc.).

If more UBOs exist, then this amount can be deposited or invested by a single UBO or collectively.



Non-EU employees relocating to Cyprus

3. Public companies registered on any recognised stock exchange.
4. Companies of international activities (formerly off-shore), which operated before the change of regime, whose data are held by the Central Bank.
5. Cypriot shipping companies.
6. Cypriot high-tech/innovation companies*
7. Cypriot pharmaceutical companies or Cypriot companies active in the fields of biogenetics and biotechnology.
8. Companies of whom the majority of the total share capital is owned by persons who have acquired Cypriot citizenship by naturalization based on economic criteria, provided that they prove that the conditions under which they were naturalized continue to be met.



Non-EU employees relocating to Cyprus

For cases 3-8, the investment criterion is also applicable and the company's initial investment in the Republic of at least €200,000, must be proven by presenting the appropriate certificates (e.g., bank statement at the time of deposit of the amount or proof of investment (purchase of office space and/or office equipment)).

** An enterprise qualifies as 'High Technology Company' if:*

- a) it is already established and has a presence in the market, and*
- b) it has a high level or experimental R&D intensity, and*
- c) it developed product/s that fall into one of the following categories: products related to aviation and space industry, computers, electronic and telecommunication products, pharmaceuticals, biomedical, research and development equipment, electrical machinery, chemicals, non-electrical machinery.*

Non-EU employees relocating to Cyprus



New policy for the employment of third country highly skilled nationals:

Criteria:

- Minimum gross monthly salary of €2,500.
- University diploma or degree or equivalent qualification or confirmation of relevant experience in a corresponding job of at least 2 years.
- Employment contract of not less than 2 years duration.

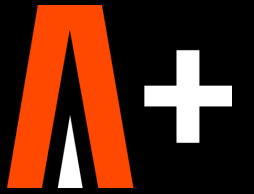
Number of employees allowed

Maximum number of third-country nationals that can be employed is set at 70% of all employees over a period of 5 years, from the date of joining the Business Facilitation Unit. Re-assessment after 5 years, on a case by case basis, if criterion of 30% Cypriot employees is not met.

Duration of residence and employment permits

Up to 3 years.

Non-EU employees relocating to Cyprus



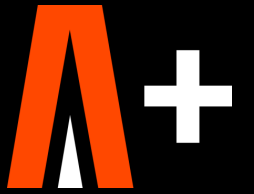
Employment of support staff:

Employment of third-country nationals is permitted, provided that it does not exceed 30% of all support staff and provided that the third-country national and the employer have entered into an employment contract duly ratified by the competent authority in accordance with the existing applicable law.

The salary level is determined on the basis of the existing applicable legislation.

Duration of residence and employment permits

Up to 3 years



Non-EU employees relocating to Cyprus

Right to family reunification of third-country nationals included in third-country employment policy

Immediate and free access to the labour market for spouses whose financial supporter has obtained a residence and work permit in the Republic, and who receive a minimum gross monthly salary of € 2,500 (excluding support staff).



Naturalization

As part of the Cyprus Government's strategy for attracting businesses and talents, the government has announced the following as to the right to apply for naturalization:

1. To amend the Aliens and Immigration Law as to reduce the required years of residence and work in the Republic from 7 to 5 and under certain conditions to 4 years if they fulfil the criteria for holding a recognized certificate of a very good knowledge of Greek Language.
2. To introduce provisions when someone is out of Cyprus for work purposes, this should be considered in the calculation of the time spent in the Republic.



DIGITAL NOMAD VISA

Beneficiaries

Third-country nationals that are self-employed or salaried employees, working remotely with employers/clients outside Cyprus, using information and communication technologies.

Residence Status

- They have the right to stay in Cyprus for up to one year, with the right to renew for another two years.
- They can be accompanied by their family members, who are granted, upon request, a residence permit that expires at the same time as that of the financial supporter. During the stay in Cyprus, the spouse or partner and the minor members are not allowed to engage in any form of economic activity in the country.
- If they reside in Cyprus for one or more periods totaling more than 183 days within the same tax year, they are considered tax residents of Cyprus, provided that they are not tax residents in any other Country.

DIGITAL NOMAD VISA



Main preconditions

- Evidence that he/she has sufficient funds - a stable income to cover living expenses during the stay in the country, without recourse to the national social welfare system.

The amount of sufficient funds is set at three and a half thousand euros (€3.500) per month and can be proven by:

- (i) the employment or works contract or proof of employment, in the case of dependent work, services or works
- (ii) a bank account. If sufficient funds come from paid employment services, services or works, the above minimum amount refers to net income after payment of the required taxes in the country of employment.

The above amount is increased by 20% for the spouse/partner and by 15% for each child.

- Medical Insurance
- Clear criminal record from the country of residence.

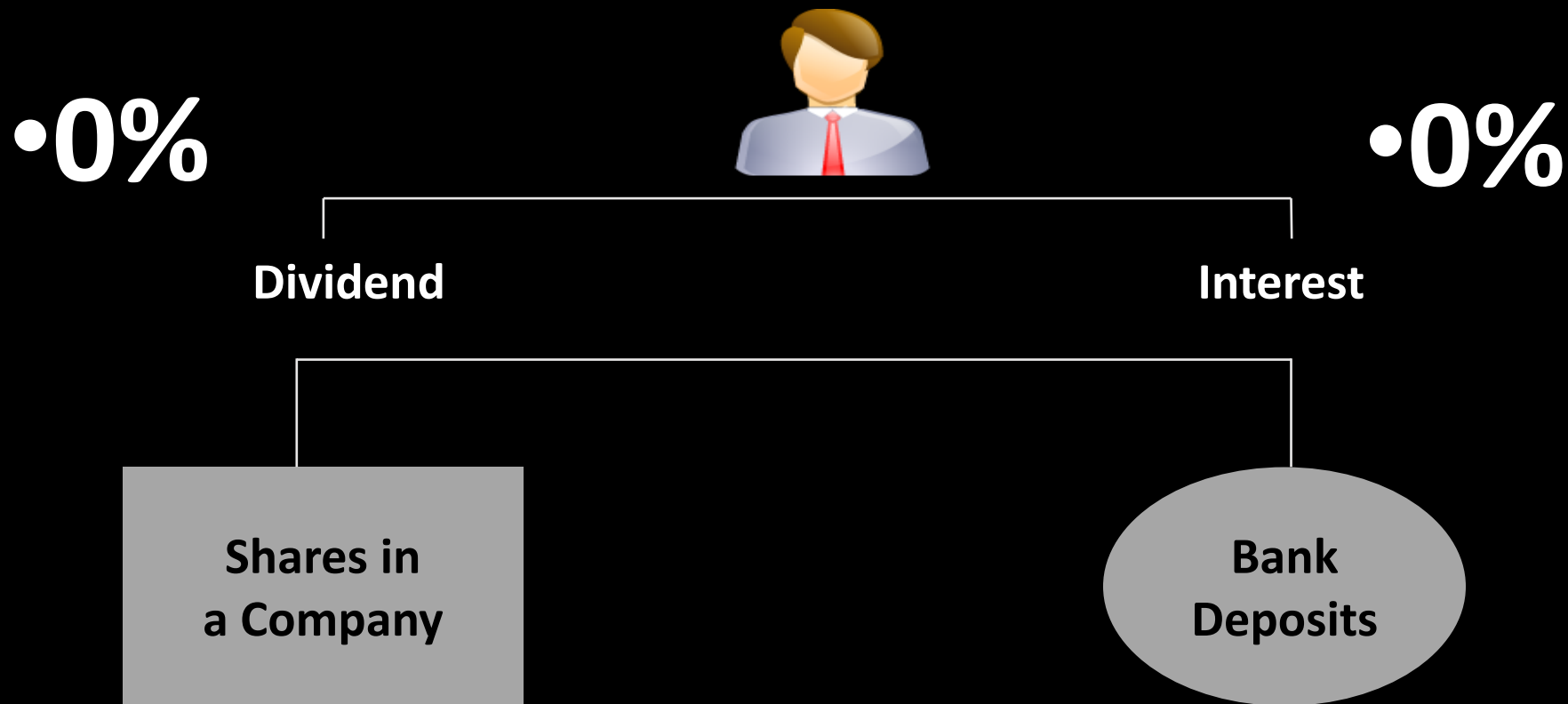


The Cyprus “Non-Domicile” concept & Tax Incentives



The Cyprus “Non-Domicile” concept

0% Tax in Cyprus on worldwide dividend and interest income





The “Non-domicile” concept

Who is considered as ‘Domiciled’ in Cyprus?

- A. An individual who has a **domicile of origin** in the Republic of Cyprus, which it is the domicile of his/her father at the time of birth. This is subject to conditions.
- B. An individual who is considered a Cyprus tax resident as per the Income tax law for a ***period of at least 17 years out of the last 20*** years before the relevant tax year, irrespective of his domicile of origin.

Therefore, an individual who does not meet any of the above, is considered as “Non-Domicile” and can benefit from the exemptions applicable for dividends and “passive” interest income.



New conditions for Cyprus Tax Resident Individuals:

The “60 Days rule”

The Cyprus government in an effort to enhance the competitiveness of the “Non-Domicile Scheme” which was introduced in 2015, has amended the criteria applicable for the tax residency of an individual in Cyprus by adding a second test, “the 60 days rule”. The new legislation was published in the official Cyprus Gazette on 28 July 2017, applicable for the tax year 2017 and beyond.

Before the amendment of the legislation

“Resident in the Republic” when applied to an individual means an individual who stays in the Republic for a period or periods exceeding in aggregate 183 days in the year of assessment and “non-resident or resident outside the Republic” shall be interpreted accordingly.



The “60 days rule”

The Income Tax Law has been amended so that an individual, who does not remain in any other jurisdiction for a period exceeding 183 days in aggregate in the same tax year and who is not tax resident in any other state for the same tax year, shall be considered a tax resident of Cyprus, provided that **ALL** the following conditions are met:

- He should remain in Cyprus for at least **60 days** during the tax year;
- He should **pursue any business in Cyprus** or **work in Cyprus** or be a **director in a company tax resident in Cyprus** at any time during the tax year, provided that such is not terminated during the year;
- He should maintain a **permanent home in Cyprus**, which is either owned or rented by him.



Tax incentives for foreign individuals to relocate and become Cyprus tax residents

- 50% exemption from income tax for individuals exercising employment in Cyprus and whose annual remuneration exceeds EUR 55,000.
- 100% exemption of the profit from the sale of securities which include shares, bonds and options.
- 100% exemption from Cyprus income tax for any income from employment exercised outside Cyprus by a Cyprus tax resident individual for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus tax resident employer.
- Overseas pensions are tax at a flat rate of 5% on amounts in excess of EUR3,420.
- No Inheritance tax, Wealth tax or Gift taxes in Cyprus.
- No Capital Gains Tax on the sale of immovable property situated outside Cyprus.



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