

TAX GUIDES 2026 · GUIDE 03

Cyprus IP Box Guide

Qualifying intellectual property, the modified nexus approach and practical implementation, with worked calculations and an evidence framework

About this guide

This publication forms part of the **ATZ FinHub Tax Guides 2026** series, prepared for business owners, finance teams, private clients and their advisers who work with, or are considering, Cyprus. The series is organised so that each guide can be read on its own, while the cross-references point to the companion guides for deeper treatment.

Guide	Title	Focus
01	Cyprus General Tax Guide	The complete framework: reforms, rates, individuals, companies, VAT, payroll, property, compliance
02	Cyprus and EU VAT Guide	Domestic VAT, cross-border goods and services, OSS/IOSS, SME scheme, property, ViDA
03	Cyprus IP Box Guide	Qualifying assets, modified nexus, worked calculations, records and filing
04	Individuals, Self-Employed and Immigration	Personal tax, residence and non-dom, reliefs, social insurance, residence and work permits
05	Cyprus Companies Tax Guide	Corporate tax computation, incentives, groups, transfer pricing, withholding, compliance calendar
06	Global Tax Rates Guide	Headline corporate, personal and consumption taxes for 80+ jurisdictions with comparison notes

Information date

The information in this guide reflects legislation, regulations and published administrative practice reviewed to **24 September 2026**. Tax law changes frequently; proposals announced but not enacted are identified as such. Rates and thresholds should be re-checked for the actual transaction or filing date.

How to read the tables

Rates are stated as headline statutory rates unless otherwise indicated. A rate is not an eligibility decision: conditions, caps, anti-avoidance rules and documentation requirements are summarised alongside each item and must be confirmed for the specific facts. Worked examples state their assumptions and are illustrative only.

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01

The IP Box at a glance

The Cyprus IP Box is a deduction regime, not a separate tax rate. It allows 80% of the qualifying profit from qualifying intangible assets to be deducted, so that a company taxed at the 2026 corporation tax rate of 15% pays an effective 3% on that profit where all of the underlying research and development was carried out by the company itself.

80%

Deemed deduction on qualifying profit from qualifying intangible assets

3%

Effective corporation tax on qualifying profit at a 100% nexus fraction (15% × 20%)

30%

Maximum up-lift of qualifying expenditure in the nexus fraction

20 years

Maximum tax amortisation period for capital expenditure on intangibles

• What the regime does

Income Tax Law 118(I)/2002, article 9(1)(k), allows a Cyprus tax resident company (or a Cyprus permanent establishment of a non-resident) to deduct 80% of the qualifying profit derived from a qualifying intangible asset. The qualifying profit is the net profit from the asset, after direct expenses and tax amortisation, multiplied by the modified nexus fraction. The fraction measures how much of the research and development behind the asset was performed by the taxpayer itself or outsourced to unrelated parties, as opposed to being acquired or subcontracted to related parties.

Because the 80% deduction reduces the tax base rather than the rate, the regime operates within the ordinary corporation tax computation. The remaining 20% of qualifying profit is taxed at 15% from 1 January 2026 (12.5% up to 31 December 2025), which produces the widely quoted 3% effective rate (2.5% up to 2025). The 3% figure applies only to net qualifying profit at a 100% nexus fraction. It is not a rate on turnover, it does not cover unrelated income of the same company and it does not include any tax at shareholder level.

The IP Box in one table

Question	Answer for tax year 2026
Who can claim	Cyprus tax resident companies, Cyprus permanent establishments of non-residents and, in principle, other persons subject to Cyprus income tax that own qualifying assets. In practice the regime is used by companies.

Question	Answer for tax year 2026
Which assets	Patents and patent equivalents, copyrighted software, utility models, plant and genetic material protection, orphan drug designations, patent extensions and, for small taxpayers, other certified non-obvious, useful and novel assets. Marketing intangibles such as trademarks and brands are excluded.
Which income	Royalties and licence fees, embedded income from the sale of products or services that use the asset, compensation for infringement and trading gains on disposal of the asset. A gain on the disposal of the asset as a capital item is generally outside corporation tax (Chapter 03).
Deduction	80% of qualifying profit (net profit × modified nexus fraction). The taxpayer may elect not to claim all or part of the deduction in a given year.
Nexus fraction	$(\text{Qualifying expenditure} + \text{up-lift}) \div \text{overall expenditure}$, capped at 100%. Up-lift is the lower of 30% of qualifying expenditure and the sum of acquisition costs and related-party outsourcing costs.
Losses	Only 20% of a loss arising under the regime may be carried forward or surrendered as group relief.
Amortisation	Capital expenditure on acquisition or development is amortised over the useful life of the asset, with a maximum of 20 years; assets with an indefinite life are amortised over 20 years.
Interaction with R&D super-deduction	The additional 20% deduction for research and development expenditure (2022 – 2030) is not available to a taxpayer that claims the IP Box deduction.

● How the regime developed

Cyprus introduced its first intellectual property regime in 2012, with retrospective effect from 1 January 2012. That regime exempted 80% of the net income from the exploitation of intellectual property and 80% of the profit on its disposal, allowed the cost of the asset to be written off over five years and covered a wide range of assets, including trademarks. Following the OECD Base Erosion and Profit Shifting project and the agreement on the modified nexus approach under Action 5, the old regime was closed to new entrants on 30 June 2016, with grandfathering for existing assets until 30 June 2021.

Old regime, transition and new regime

Feature	Old regime (to 30 June 2016)	New nexus regime (from 1 July 2016)
Legal basis	Income Tax Law amendments of 2012, effective from 1 January 2012	Income Tax Law 118(I)/2002, article 9(1)(k), aligned with OECD BEPS Action 5
Qualifying assets	All intangibles under the Patent Rights Law, the Intellectual Property Law and the Trade Marks Law, including trademarks	Patents, copyrighted software, utility models and similar; marketing intangibles excluded
Benefit	80% of net income and 80% of net disposal profit exempt	80% deduction on qualifying profit as determined by the nexus fraction
Link to own R&D	None	Central: the nexus fraction reduces the benefit for acquired IP and related-party outsourcing
Amortisation	Straight line over five years (20% per year)	Over useful economic life, maximum 20 years

Feature	Old regime (to 30 June 2016)	New nexus regime (from 1 July 2016)
Grandfathering	Available for assets that qualified by 30 June 2016, until 30 June 2021	Not applicable; all claims from 1 July 2021 fall under the nexus regime

The transitional period ended on 30 June 2021. No asset can be claimed under the old regime for tax year 2026.

• Why the regime still matters after the 2026 reform

The 2026 tax reform raised the corporation tax rate from 12.5% to 15%, which increased the effective IP Box rate from 2.5% to 3%. The reform did not change the mechanics of the regime, the 80% deduction or the nexus rules. At the same time, the abolition of the deemed distribution rules for profits of 2026 onwards, the reduction of Special Defence Contribution on dividends to 5% for domiciled residents and the continued exemption for non-domiciled residents mean that the combined company and shareholder burden on IP profit can remain low for owner-managed groups. Chapter 08 shows the after-tax cash for different shareholder profiles.

PLANNING POINT

Model the regime on net qualifying profit, not on revenue. A software company with €1,200,000 of licence income, €700,000 of directly related costs and a 100% nexus fraction pays €15,000 of corporation tax on its IP profit, which is 3% of the €500,000 net profit but only 1.25% of revenue. Presenting the benefit as a percentage of revenue invites misunderstanding by lenders, buyers and tax authorities.

CAUTION

The nexus fraction is cumulative and asset-specific. A company that buys a mature software platform and then employs developers in Cyprus does not obtain a 100% fraction in year one. The acquisition cost stays in the denominator for the life of the asset and the fraction improves only as own development expenditure accumulates. Chapter 05, Scenario C, shows the trajectory.

• The operating questions

Before modelling a rate, the business should be able to answer four questions consistently across its contracts, accounts, payroll, transfer pricing file and tax return. The answers determine whether there is a qualifying asset at all, how much of the profit belongs to it and what fraction of that profit benefits.

- 01 What does the company own?** Identify each right, its legal and economic owner, the date it was created or acquired and the products or services that exploit it.
- 02 Who creates and improves it?** Map the employees, contractors and group companies performing development, and classify their cost as own, unrelated-party or related-party expenditure.
- 03 How does it earn money?** Separate royalties, embedded income in product sales, service income that uses the asset only incidentally and unrelated trading income.
- 04 Who bears the cost and risk?** Confirm that the entity claiming the deduction funds the development, controls the decisions and bears the consequences of failure, so that the transfer pricing position supports the profit attribution.

02

Qualifying assets and qualifying persons

The regime applies only to intangible assets that result from research and development activity, as listed in the law. A company must identify the specific right it exploits, establish that it owns that right legally or economically and, for the small-taxpayer category, satisfy revenue limits and obtain certification.

• The statutory list of qualifying assets

A qualifying intangible asset is an asset acquired, developed or exploited by a person in the course of carrying on a business, which is the result of research and development activity and which falls within one of the categories in the table below. The asset may be legally or economically owned. The definition follows the OECD nexus approach closely and deliberately excludes intangibles whose value derives from marketing rather than from technical innovation.

Categories of qualifying intangible assets

Category	Scope and practical notes
Patents	Patents granted under the Patent Rights Law or under foreign or European patent systems. A pending application is normally evidenced by the filing record; the treatment of income earned before grant should be documented and, where material, confirmed by ruling.
Copyrighted software	Computer programs protected by copyright, including source and object code, whether or not registered. This is the most common category in practice and covers SaaS platforms, mobile applications, algorithms embedded in products and proprietary tools licensed to customers.
Utility models	Rights protecting inventions that meet a lower threshold than a patent, granted in jurisdictions that recognise them.
Plant and genetic material	Intangible assets that grant protection to plants and genetic material.
Orphan drug designations	Designations granted for medicinal products developed for rare conditions.
Patent extensions	Extensions of patent protection, such as supplementary protection certificates.
Other non-obvious, useful and novel assets	Intangibles that are certified as non-obvious, useful and novel by a designated authority, available only to taxpayers whose annual IP-related revenue does not exceed €7,500,000 and whose group total annual revenue does not exceed €50,000,000, both measured as a five-year average.

Source: Income Tax Law 118(I)/2002, article 9(1)(k) and the associated definitions.

Excluded assets

Marketing-related intangible assets do not qualify. This covers trademarks, brands, trade names, image rights, customer lists, customer relationships and similar assets whose value arises from reputation or market presence. A licence fee for the use of a brand alongside software does not become qualifying income merely because it is bundled with the software licence; the marketing element must be separated and priced. Know-how and trade secrets that are not patented and not certified under the small-taxpayer category also fall outside the regime, although the software in which such know-how is embodied may qualify.

Common assets and activities: first classification

Asset or activity	Initial treatment	Evidence required
Registered patent (Cyprus, EPO, USPTO)	Qualifying	Registration certificate, ownership chain, development history
Proprietary SaaS platform	Qualifying (copyrighted software)	Source code repository, authorship, employee and contractor assignments, release history
Mobile application with in-app subscriptions	Qualifying (copyrighted software)	As above; allocation of subscription income between software and services
Trademark or brand licence	Excluded (marketing intangible)	Separate pricing of brand element in bundled contracts
Customer database	Excluded	Separate valuation where transferred with a business
Purchased off-the-shelf software used internally	Not an IP income stream	No claim; the company uses a tool rather than exploiting a right
IT support and staff augmentation services	Ordinary service income	Technical staff alone do not evidence exploitation of qualifying IP
Unpatented industrial process	Qualifying only if certified (small taxpayer)	Certificate from designated authority; revenue tests

● The small-taxpayer category

The category of other non-obvious, useful and novel assets exists so that smaller innovative businesses can benefit without incurring the cost of patenting. Three conditions apply cumulatively: the asset must be certified as non-obvious, useful and novel by a designated authority; the taxpayer's annual IP-related revenue must not exceed €7,500,000; and the total annual revenue of the group to which the taxpayer belongs must not exceed €50,000,000. Both revenue figures are tested on a five-year average. These limits apply only to this category. A large software business relying on copyrighted software or patents is not subject to them.

CAUTION

The five-year average is a rolling test. A fast-growing business that relied on the certified-innovation category should monitor both limits annually and consider whether patent protection or copyright in software provides a more durable basis for the claim before the limits are breached.

● Qualifying persons and ownership

The deduction is available to persons subject to Cyprus income tax on the income from the asset, in practice Cyprus tax resident companies and Cyprus permanent establishments of foreign companies. A company is Cyprus tax resident if it is managed and controlled in Cyprus and, from 2026, a company incorporated in Cyprus is by default treated as tax resident unless a double tax treaty provides otherwise. Individuals and partnerships carrying on a business could in principle own qualifying assets, but the regime is designed around corporate ownership and the profit extraction analysis in Chapter 08 assumes a company.

Ownership may be legal or economic. Economic ownership arises where the taxpayer bears the costs and risks of development and is entitled to the economic benefits, even if legal title is registered elsewhere, for example where a group company holds registrations on behalf of the developer. The economic owner is also the person entitled to the tax amortisation and, under the 2026 R&D super-deduction rules, to the additional deduction where that regime is used instead of the IP Box.

Legal owner

The person holding registered title or, for copyright, the author or the person to whom copyright has been assigned in writing.

Economic owner

The person who funds the development, controls the development decisions, bears the risk of failure and is entitled to the income; identified through the DEMPE functions (development, enhancement, maintenance, protection and exploitation) used in transfer pricing.

Qualifying expenditure

Research and development expenditure incurred by the taxpayer itself, through a taxable foreign permanent establishment, or outsourced to unrelated persons, that is directly connected with the creation, development or improvement of the asset.

● Software businesses: specific issues

For a software company the qualifying asset is the copyright in the code, not the product name, the customer relationships or the hosting infrastructure. Three practical issues arise repeatedly.

Assignment of rights

Under general copyright principles the employer owns software written by employees in the course of their employment, but contractors own what they write unless the contract assigns it. Every contractor agreement should contain an express, present assignment of copyright and related rights to the company. Missing assignments are the most common defect found in due diligence and can undermine both the ownership analysis and the classification of contractor spend as qualifying expenditure.

Open-source and third-party components

Software commonly incorporates open-source libraries and licensed third-party components. The company's qualifying asset is its own original work and the compilation, and licence conditions (particularly copyleft licences) must be reviewed to confirm that the company can license its product commercially. Third-party licence fees are direct costs of the asset, not qualifying expenditure, and where a component is acquired outright its cost is acquisition expenditure for nexus purposes.

AI-assisted development

Code generated with the assistance of AI tools does not change the classification of the developers' salaries as qualifying expenditure, but the company should document the human authorship and review of the output and the terms on which the tool is used, so that ownership of the resulting copyright can be evidenced.

PLANNING POINT

Maintain an IP register from the first year of development. For each asset record the right, the owner, the creation date, the repository or registration reference, the products that exploit it and the income streams. The register is the anchor for the nexus tracking schedules in Chapter 04 and for the evidence file in Chapter 09.

● Acquiring or transferring an asset

Acquisition can provide qualifying ownership, but it affects the nexus fraction because the price paid is overall expenditure that is never qualifying expenditure. Where an asset is acquired in exchange for new shares in the acquiring company, the capital expenditure recognised for tax purposes cannot exceed the market value of the asset at the date of acquisition, and that value must be documented to the satisfaction of the Commissioner of Taxation. Capital allowances are then calculated on that capped amount.

A transfer into Cyprus from a foreign group company may trigger exit tax or disposal tax in the transferor's jurisdiction, may require a transfer pricing valuation on both sides and, under DAC6, may fall within hallmark E2 on the transfer of hard-to-value intangibles. A group reorganisation that is tax neutral in Cyprus under the reorganisation provisions of the Income Tax Law can still change the nexus position of the receiving company, and the continuity of expenditure records should be addressed before the transfer is executed.

- ✔ Obtain an independent valuation of the asset at the date of transfer.
- ✔ Identify precisely which rights are transferred (code, patents, data, brand) and price the excluded marketing elements separately.
- ✔ Confirm the transferor's exit or disposal tax and any withholding on the consideration.
- ✔ Record the acquisition cost as overall expenditure in the nexus schedule from day one.
- ✔ Assess DAC6 reporting for hallmarks C1 and E2 and file within 30 days where required.

03

Qualifying profits and overall income

The deduction is calculated on the net profit from the qualifying asset, after all directly related expenses and tax amortisation, and only then multiplied by the nexus fraction. Establishing overall income correctly is the step where most calculation errors arise.

● Overall income from the asset

Overall income is the gross income derived from the qualifying intangible asset during the tax year, less the direct costs of earning that income. The categories of income are broad and include amounts that are not labelled as royalties in the accounts.

Categories of overall income

Type of income	Description	Typical evidence
Royalties and licence fees	Amounts received for the use of, or the right to use, the qualifying asset, including software licence and subscription fees.	Licence agreements, invoices, revenue ledger
Embedded income	The portion of the income from the sale of products or the provision of services that is attributable to the qualifying asset, for example the software element of a bundled SaaS subscription that also includes hosting and support.	Allocation model, pricing analysis, transfer pricing benchmark
Compensation	Amounts received as compensation for infringement of the asset, including damages and settlements.	Court orders, settlement agreements
Gains on disposal	Trading gains on the sale of the qualifying asset. A gain on the sale of the asset as a capital item is generally outside corporation tax and is not overall income (see below).	Sale agreement, valuation, capital or trading analysis
Notional income	Where an asset is used by the taxpayer in its own business, a notional arm's length royalty may be attributed to the asset and treated as embedded income.	Transfer pricing analysis

Embedded income and allocation

Most software and technology businesses do not receive stand-alone royalties. They sell subscriptions, devices, platforms or services in which the qualifying software is one component. The law recognises embedded income, but the taxpayer must allocate the total price between the qualifying asset and the other elements (hosting, implementation, support, hardware, brand, data) on a reasonable and consistent basis. Acceptable approaches include a residual method (total margin less an arm's length return for the routine functions), a comparable royalty rate applied to the relevant revenue, or a cost-plus allocation for the non-IP services with the balance attributed to the software.

WORKED EXAMPLE

A Cyprus company sells a SaaS platform for €1,200,000 per year. Implementation projects are separately invoiced and excluded. The company applies a cost-plus allocation to the routine functions with the residual attributed to the software: its transfer pricing benchmark of independent hosting and support providers supports a 5% mark-up on the cost of those functions, which is €200,000 in the year. Both the revenue and the costs of the routine functions are allocated together, so that the routine element is taxed on its margin and no cost is deducted twice.

Allocation	Routine services (€)	Embedded IP income (€)	Total (€)
Revenue allocated	210,000	990,000	1,200,000
Attributable costs (hosting and support)	(200,000)	—	(200,000)
Ordinary taxable service margin	10,000	n/a	10,000
Corporation tax at 15% on the routine margin	1,500	—	1,500

The €990,000 of embedded income then enters the IP computation, from which the software's own direct costs (development salaries, third-party licences, amortisation) are deducted; the €200,000 of hosting and support costs already allocated to the routine services are not deducted again. The routine return is supported by the benchmark, the functional analysis showing that hosting and support involve no development or control of the asset, and the cost centre records; the method is documented in the transfer pricing file and applied consistently in following years.

• Deduction of directly related expenses

All expenses incurred wholly and exclusively in earning the overall income and directly related to the asset are deducted before the nexus fraction is applied. This includes current research and development salaries and contractor costs, licence fees for third-party components, hosting costs directly attributable to delivering the software, patent maintenance fees, legal costs of protection, a reasonable allocation of overheads, interest on financing directly attributable to the asset, the tax amortisation of capitalised development or acquisition costs and, where new equity funded the asset, the attributable allowable notional interest deduction (Chapter 06). Costs should not be allocated to ordinary income simply to increase the profit that attracts the 80% deduction; the Tax Department expects a consistent and defensible allocation methodology.

Computation ladder from revenue to taxable IP profit

Step	Item	Illustration (€)
1	Gross income attributable to the qualifying asset	1,200,000
2	Less: current R&D salaries and contractors directly related to the asset	(450,000)
3	Less: hosting, third-party licences and other direct costs	(90,000)
4	Less: allocated overheads	(60,000)
5	Less: tax amortisation of capitalised development cost	(100,000)
6	Overall income (net profit from the asset)	500,000
7	Multiply by modified nexus fraction (100% in this illustration)	500,000
8	Less: 80% deemed deduction	(400,000)
9	Taxable IP profit	100,000
10	Corporation tax at 15%	15,000

Step 5 deducts only the current year's amortisation charge. The cumulative development cost also appears in the nexus schedule (Chapter 04), where expenditure is recorded when incurred whether it is expensed or capitalised; it is not deducted again from income. The ladder is a separate illustration from the embedded income example above and starts from the income already attributed to the asset.

● Tax amortisation of intangibles

Expenditure of a capital nature on the acquisition or development of an intangible asset is amortised for tax purposes in a reasonable manner over the useful economic life of the asset, determined under accepted accounting standards, with a maximum period of 20 years. Assets with an indefinite useful life are amortised over 20 years. The taxpayer may elect not to claim all or part of the available amortisation in a particular year; unclaimed capacity is carried forward and spread over the remaining useful life. This election is useful where the company has losses or wishes to preserve the deduction for years with higher profit.

Where development costs are expensed in the accounts (as is common under IAS 38 for the research phase and for many software businesses) they are deducted as current expenses in the year incurred, and there is no separate tax amortisation. Where development costs are capitalised under IAS 38, the tax amortisation follows the accounting useful life subject to the 20-year cap. Accounting depreciation and tax amortisation should be reconciled each year.

PLANNING POINT

Amortisation reduces the net profit that attracts the 80% deduction, so its tax value inside the IP Box is only 3% of the amount claimed at full nexus (compared with 15% against ordinary income). Where a company has both IP profit and ordinary trading profit, the allocation of costs between the two streams has a material effect and should follow the actual use of the asset rather than tax convenience.

● Gains on disposal

Where the qualifying asset is held as a trading asset, the gain on disposal is overall income and benefits from the 80% deduction after applying the nexus fraction. Where the asset is held as a capital asset, the position is different. For intangible assets within article 9(1)(l) of the Income Tax Law the obligation to prepare a balancing statement on disposal was removed with effect from 1 January 2020, so no balancing

charge or balancing allowance arises on the difference between the proceeds and the tax written-down value, and a genuine capital gain on the asset is generally outside corporation tax. The distinction between a capital and a trading disposal therefore drives the result and must be analysed on the facts (frequency of transactions, intention at acquisition, the nature of the business) before a sale is negotiated. This statement should not be extended without analysis to goodwill or to assets that were claimed under the old regime, and the old regime's 80% exemption of net disposal profit is no longer available. The sale of shares in the company that owns the asset is a separate transaction: gains on the disposal of securities are exempt from corporation tax, subject to the immovable property rules.

● The 2026 corporation tax rate and the election

From 1 January 2026 the corporation tax rate is 15%. The IP Box deduction reduces the taxable IP profit to 20% of the qualifying profit, so the effective rate on qualifying profit is 3% at full nexus. The taxpayer may elect not to claim the deduction, or to claim only part of it, in any tax year. The election is relevant where the company would prefer the 20% R&D super-deduction (Chapter 06), where the asset is in a loss position (subject to the caution in Chapter 06 on the interaction between the election and the 20% loss restriction), or where a foreign shareholder's controlled foreign company rules or Pillar Two position make a higher Cyprus tax preferable.

CAUTION

Interest income of companies is always subject to corporation tax from 1 January 2026. From the same date, interest and royalties accrued to an associated company or permanent establishment that is tax resident in a low-tax jurisdiction (a jurisdiction whose nominal corporate tax rate is less than half the Cyprus rate) are not deductible in Cyprus, whether or not paid, subject to the statutory exceptions and to an anti-conduit rule for amounts routed indirectly to such a recipient. The measure applies to in-scope interest and royalties paid to associated recipients; it does not apply to every payment to a low-tax state. A genuine development service fee is not automatically denied because the supplier is in a low-tax jurisdiction: the classification of the payment (royalty or service fee), the connectedness of the recipient and its substance are each determined separately. An IP company that licenses in components from, or pays development fees to, a group company in such a jurisdiction must therefore analyse each payment (see Chapter 07).

04

The modified nexus fraction

The nexus fraction links the benefit to the research and development that the taxpayer itself performed or paid unrelated parties to perform. It is calculated cumulatively for each asset from the expenditure incurred over its life, and it can never exceed 100%.

QE + UE Numerator: qualifying expenditure plus up-lift expenditure	OE Denominator: overall expenditure, including acquisition and related-party costs	30% Up-lift ceiling as a percentage of qualifying expenditure	100% Maximum fraction; the up-lift cannot push the result above one
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• The formula

Qualifying profit equals overall income from the asset multiplied by the fraction (qualifying expenditure + up-lift expenditure) ÷ overall expenditure. The 80% deduction is then applied to the qualifying profit. Each term has a statutory meaning, and the classification of every euro of development spend into one of three categories is the core of the annual compliance exercise.

Terms of the nexus fraction

Term	Meaning
Qualifying expenditure (QE)	Total research and development expenditure incurred in any tax year, wholly and exclusively for the development, improvement or creation of the qualifying asset, which is directly related to the asset. It includes salaries and direct costs of the taxpayer's own R&D, R&D performed through a taxable foreign permanent establishment of the taxpayer, R&D outsourced to unrelated persons and general R&D expenditure that cannot be attributed to a specific asset but is apportioned on a reasonable basis.
Excluded from QE	The cost of acquiring the asset, interest, the cost of acquiring or constructing buildings, and any amount that is not directly connected with the asset. R&D outsourced to related parties is excluded even if the related party performs the work in Cyprus.
Up-lift expenditure (UE)	The lower of 30% of qualifying expenditure and the total of acquisition costs of the asset plus R&D outsourced to related parties. The up-lift allows a limited amount of acquisition and related-party cost without diluting the fraction.

Term	Meaning
Overall expenditure (OE)	Qualifying expenditure plus acquisition costs of the asset plus R&D outsourced to related parties. Interest and building costs are excluded from both numerator and denominator.
Related party	Determined under the full connected-person definition in article 33(3) of the Income Tax Law. A person is connected with the taxpayer where, broadly, one controls the other or both are under common control, where a person (alone or with relatives and other connected persons) holds at least 25% of the share capital or voting rights, or where the relationship arises through relatives (spouses, siblings, ancestors and descendants and their spouses) or through partnership. The 25% ownership tests, relatives and control must all be applied; the separate 50% relationship test used for the transfer pricing documentation thresholds is not the test for the nexus fraction.

● How the up-lift works

The 30% up-lift compensates for the exclusion of related-party outsourcing and acquisition costs. If those costs together do not exceed 30% of qualifying expenditure, the up-lift absorbs them entirely and the fraction is 100%. If they exceed 30% of qualifying expenditure, the up-lift is capped at 30% and the fraction falls below one. The up-lift is therefore a ceiling on acquisition and related-party cost that a company can carry while retaining the full benefit, and it is a useful planning parameter.

Illustration of the up-lift on €800,000 of qualifying expenditure

Case	QE	RP + AC	Up-lift	OE	Nexus fraction
No outside cost	800,000	0	0	800,000	100.0%
Outside cost within the ceiling	800,000	200,000	200,000	1,000,000	100.0%
Outside cost at the ceiling	800,000	240,000	240,000	1,040,000	100.0%
Outside cost above the ceiling	800,000	400,000	240,000	1,200,000	86.7%
Outside cost dominant	800,000	2,000,000	240,000	2,800,000	37.1%

RP = R&D outsourced to related parties; AC = acquisition cost; up-lift = lower of $30\% \times \text{QE}$ and $\text{RP} + \text{AC}$. Fractions rounded to one decimal place. In the fourth case $(800,000 + 240,000) \div 1,200,000 = 86.67\%$; in the fifth $(800,000 + 240,000) \div 2,800,000 = 37.14\%$.

● Cumulative tracking

The fraction is calculated on cumulative expenditure from the time the asset was first developed or acquired, not on the expenditure of a single year. A company must therefore maintain a running ledger for each asset with opening balances, additions in the year, reclassifications and closing balances for each of the three categories. In the first years of a claim the fraction can move significantly as new expenditure is added; over time it stabilises. Where historic records before the introduction of the nexus regime are incomplete, the missing years should be reconstructed from payroll, contractor invoices and project records rather than assumed to be 100% qualifying.

Asset-by-asset or product-by-product

The default is to track expenditure and income for each qualifying asset. Where a company has many assets that are developed together and exploited in a single product or product family, so that separate tracking is not practicable, it may track by product or product family, provided that the grouping is reasonable, consistently applied and documented. The Tax Department can challenge a grouping that pools profitable and loss-making assets, or assets with very different nexus profiles, simply to improve the result.

WORKED EXAMPLE

A company started developing a platform in 2022. Its cumulative ledger at 31 December 2026 shows own R&D of €1,100,000 (QE), unrelated contractor development of €300,000 (QE), development fees paid to a related company in 2023 and 2024 of €350,000 (RP) and no acquisition cost. Qualifying expenditure is €1,400,000. The up-lift is the lower of $30\% \times €1,400,000 = €420,000$ and €350,000, that is €350,000. Overall expenditure is €1,750,000. The fraction is $(€1,400,000 + €350,000) \div €1,750,000 = 100\%$. If the related-party fees had been €600,000 instead, the up-lift would be capped at €420,000 and the fraction would be $€1,820,000 \div €2,000,000 = 91\%$.

• Classifying expenditure in practice

Classification of common development costs

Cost	Category	Comment
Salaries of Cyprus-based developers and researchers	QE	Include employer contributions; support with time records where staff work on several assets or on non-R&D tasks
Salaries of developers employed by a foreign PE of the company	QE only where the PE's profits are taxable in Cyprus	Foreign PE profits are ordinarily exempt, subject to the statutory exceptions; the company must have elected to bring the PE within Cyprus taxation (with credit for foreign tax) and the conditions for counting its R&D as qualifying expenditure must be met
Fees to independent freelance developers or an unrelated software house	QE only if the provider is not connected under article 33(3)	Test the 25% ownership, relatives and control tests before classifying the fees as unrelated; a provider that fails any test is a related party (RP); obtain written IP assignment
Fees to a group development company (related party)	RP	Excluded from QE, included in OE, eligible for up-lift
Purchase price of an existing platform, patent or code base	AC	Included in OE, eligible for up-lift; amortised over useful life
Licence fees for third-party components or libraries	Direct cost, not R&D	Deducted in computing overall income; outright purchases are AC
Cloud hosting, testing environments	QE where used for development; direct cost where used for delivery	Apportion on usage
Interest on loans financing development	Excluded from fraction	Deductible against overall income subject to the interest limitation rule

Cost	Category	Comment
Office premises and fit-out	Excluded from fraction	Rent is a deductible overhead; building costs are outside the fraction
Patent filing, prosecution and maintenance fees; legal costs of protection	Direct cost of the asset; QE only to the extent directly linked to the qualifying R&D	Qualifying expenditure is limited to expenditure directly connected with the research and development that creates or improves the asset; legal and protection costs that merely secure or maintain the right are direct costs deducted in computing overall income. Any inclusion in QE must be supported and applied consistently; a cost entered in the ledger as QE is still deducted only once in the income computation
Grants and subsidies received	Reduce the related expenditure	Net the grant against the cost it funds

● Related-party outsourcing: the design choice

The treatment of related-party outsourcing is the single most important structural decision for a group. A Cyprus company that pays a foreign group company to develop its software will carry that cost as overall expenditure without a matching qualifying amount, subject only to the 30% up-lift. Three responses are available, and each has consequences beyond the fraction.

- **Employ the developers in Cyprus.** Salaries become qualifying expenditure and the fraction moves towards 100%. Payroll costs, immigration and the 50% first-employment exemption for relocated staff are covered in Chapter 08 and Guide 04.
- **Operate the development team as a taxable foreign permanent establishment.** The profits of a foreign PE of a Cyprus company are ordinarily exempt from Cyprus tax, subject to the statutory exceptions (including a PE situated in an EU non-cooperative jurisdiction). A taxpayer may instead elect to bring the foreign PE within Cyprus taxation, with a credit for the foreign tax suffered on its profits. R&D performed through a foreign PE is qualifying expenditure only where that election has been made so that the PE's profits are taxable in Cyprus, and the conditions for including the PE's R&D expenditure in qualifying expenditure must then be satisfied. The election is minuted with the other annual elections (Chapter 09) and can bind later years.
- **Subcontract to genuinely unrelated developers.** Fees to independent contractors or software houses are qualifying expenditure, provided the provider is not a connected person under article 33(3): a software house in which the company, its shareholders or their relatives hold 25% or more, or which is otherwise under common control, is a related party even if it is not consolidated and even if it is treated as independent for other purposes. An intermediary that is nominally independent but controlled by the same persons does not convert related-party work into unrelated outsourcing. Where an earlier classification relied on a higher ownership threshold, the ledger should be reviewed and any affected fees reclassified as related-party expenditure.

CAUTION

Restructuring the development function changes both the fraction and the transfer pricing position. A group development company that previously earned a cost-plus return will need a new agreement, and any transfer of its work-in-progress or staff to Cyprus may itself be a transfer of hard-to-value intangibles. The evidence file (Chapter 09) should document why the new arrangement reflects economic reality, so that the general anti-avoidance rule does not apply. Scenario E in Chapter 05 quantifies the difference.

05

Worked calculations

Five scenarios show how the same mechanics produce very different outcomes depending on how the asset was developed. All figures are in euro, assume tax year 2026, a 15% corporation tax rate, eligible ownership and correctly classified expenditure, and ignore other income, losses and reliefs unless stated.

● Scenario A: software company with a 100% nexus fraction

A Larnaca software company developed its platform entirely with its own employees over four years. Cumulative qualifying expenditure at the end of 2026 is €1,500,000 with no acquisition cost and no related-party outsourcing. In 2026 it earns €1,200,000 of subscription income attributed to the software, incurs €700,000 of directly related costs (€450,000 of 2026 development salaries expensed in the accounts, €150,000 of hosting, licences and overheads, and €100,000 of tax amortisation of development cost capitalised in earlier years) and separately earns €150,000 of profit from implementation consultancy that does not use the asset. Reconciliation: the ledger records development spend when incurred, whether expensed or capitalised, so the 2026 salaries and the earlier capitalised cost are both within the €1,500,000; the amortisation charge is not added to the ledger again and the capitalised cost is deducted from income only through amortisation.

WORKED EXAMPLE

Computation	€
Overall income from the asset (1,200,000 – 700,000)	500,000
Nexus fraction (1,500,000 + 0) ÷ 1,500,000	100%
Qualifying profit	500,000
80% deemed deduction	(400,000)
Taxable IP profit	100,000
Corporation tax on IP profit at 15%	15,000
Consultancy profit taxed at 15%	22,500
Total corporation tax	37,500

The effective rate on the IP profit is 3.0%. Without the regime the IP profit would bear €75,000, so the saving is €60,000. The blended rate on the company's total profit of €650,000 is 5.8%, which illustrates why the 3% figure should never be quoted as a company-wide rate.

● Scenario B: partially outsourced development

A company's cumulative expenditure comprises own R&D of €500,000 and unrelated contractor development of €200,000 (together qualifying expenditure of €700,000), plus €350,000 of development fees paid to a related group company. There is no acquisition cost. Net overall income in 2026 is €750,000.

WORKED EXAMPLE

Computation	€
Qualifying expenditure	700,000
Up-lift: lower of 30% × 700,000 = 210,000 and 350,000	210,000
Overall expenditure (700,000 + 350,000)	1,050,000
Nexus fraction (910,000 ÷ 1,050,000)	86.67%
Qualifying profit (750,000 × 86.67%)	650,000
80% deemed deduction	(520,000)
Taxable IP profit	230,000
Corporation tax at 15%	34,500

The effective rate is 4.6% of net overall income, against €112,500 (15%) without the regime. Had the related-party fees been €200,000 rather than €350,000, the up-lift would have covered them in full and the fraction would have been 100%, producing tax of €22,500.

● Scenario C: acquired platform with subsequent own development

A company acquired a software platform from a third party for €2,000,000 at the start of 2026 and amortises it over ten years (€200,000 per year). During 2026 it spends €500,000 on its own developers improving the platform, of which €250,000 is expensed and €250,000 is capitalised under IAS 38 as development cost and will be amortised from 2027. Revenue attributable to the software is €1,100,000; direct costs deducted in 2026 are the €250,000 of expensed salaries, €50,000 of other costs and €200,000 of amortisation of the acquisition cost, giving net overall income of €600,000. The full €500,000 enters the nexus ledger as qualifying expenditure when incurred and the €2,000,000 as acquisition cost; the ledger is not reduced by amortisation.

WORKED EXAMPLE

Computation	2026	2029 (projected)	2033 (projected)
Cumulative qualifying expenditure	500,000	2,000,000	4,000,000
Acquisition cost	2,000,000	2,000,000	2,000,000
Up-lift (30% × QE, capped at AC)	150,000	600,000	1,200,000
Overall expenditure	2,500,000	4,000,000	6,000,000
Nexus fraction	26.0%	65.0%	86.7%
Net overall income (assumed constant)	600,000	600,000	600,000
Qualifying profit	156,000	390,000	520,000
80% deduction	(124,800)	(312,000)	(416,000)
Taxable IP profit	475,200	288,000	184,000
Corporation tax at 15%	71,280	43,200	27,600
Effective rate on net overall income	11.9%	7.2%	4.6%

The projections assume €500,000 of own development each year. Owning a qualifying asset does not produce a 3% rate; the fraction improves only as own expenditure accumulates relative to the fixed acquisition cost. The acquisition price never leaves the denominator.

● Scenario D: development-phase losses

A start-up spends €400,000 on developers in 2026 while earning €200,000 from early licences of its software, producing a net IP loss of €200,000 with a 100% nexus fraction. In 2027 it earns net overall income of €300,000.

WORKED EXAMPLE

Computation	2026	2027
Net overall income (loss) from the asset	(200,000)	300,000
IP loss restricted to 20% for carry-forward	(40,000)	—
Qualifying profit × 20% taxable portion	—	60,000
Less: restricted loss brought forward	—	(40,000)
Taxable IP profit	0	20,000
Corporation tax at 15%	0	3,000

Only €40,000 of the €200,000 loss is available, because the 80% deduction is applied symmetrically. The company may consider not claiming the IP Box deduction for 2026, which would allow the 20% R&D super-deduction on the €400,000 of development cost, and entering the regime in 2027. Whether a decision not to claim also removes the 20% restriction on the loss of that year is not expressly settled by article 9(1)(k), so a full-loss result should not be assumed on the basis of the election alone; Chapter 06 compares the options and sets out the confirmation required.

● Scenario E: group with related-party development

A Cyprus IP holding company owns the software. Its cumulative nexus ledger at the end of 2026 shows €400,000 of development fees paid to a related development company abroad (RP) and €100,000 of own qualifying expenditure (a small product team in Cyprus). Net overall income is €400,000 per year, assumed constant. From 2027 management moves all development in house, by converting the foreign company into a taxable foreign permanent establishment (with the election in Chapter 04) or by relocating the team to Cyprus, at €500,000 of own expenditure per year. The historic related-party expenditure stays in the ledger in its original category; it is not removed when future development moves in house.

WORKED EXAMPLE

Computation	2026: current structure	2027: development moved in house	Counterfactual: in-house from inception
Cumulative qualifying expenditure	100,000	600,000	500,000
Cumulative related-party outsourcing	400,000	400,000	0
Up-lift (lower of 30% × QE and RP)	30,000	180,000	0
Overall expenditure	500,000	1,000,000	500,000
Nexus fraction	26.0%	78.0%	100.0%
Qualifying profit on 400,000	104,000	312,000	400,000
80% deduction	(83,200)	(249,600)	(320,000)
Taxable IP profit	316,800	150,400	80,000
Corporation tax at 15%	47,520	22,560	12,000
Effective rate on net overall income	11.9%	5.6%	3.0%

Moving development in house saves €24,960 in 2027 on the same profit, not the €35,520 that the counterfactual column would suggest. The counterfactual is a different asset, developed in house from inception with no related-party history, and marks only the ceiling. Because the fraction is cumulative, the €400,000 of historic related-party expenditure stays in the denominator for the life of the asset; a further €500,000 of own development in 2028 would lift the fraction to $(1,100,000 + 330,000) \div 1,500,000 = 95.3\%$. The comparison is also incomplete without the foreign tax on the branch profits (creditable in Cyprus), the arm's length return the development entity must earn, any exit charges on the conversion and the payroll and immigration costs of relocation.

● **Sensitivity of the effective rate to the nexus fraction**

Because the deduction is 80% of qualifying profit, the effective rate on net overall income is $15\% \times (1 - 0.8 \times \text{nexus fraction})$. Every 10 percentage points of fraction is worth 1.2 percentage points of effective rate: on €1,000,000 of net IP profit, moving from 60% to 100% saves €48,000 per year, which can be compared directly with the cost of employing developers in Cyprus. The table holds net overall income constant; a change in the development arrangement also changes deductible cost, so the full forecast should be modelled.

Effective corporation tax on net overall income by nexus fraction (2026)

Nexus fraction	Taxable portion of net overall income	Effective rate	Tax on €400,000	Tax on €1,000,000
0%	100%	15.0%	60,000	150,000
50%	60%	9.0%	36,000	90,000
75%	40%	6.0%	24,000	60,000
90%	28%	4.2%	16,800	42,000
100%	20%	3.0%	12,000	30,000

06

Losses, NID, the R&D super-deduction and group relief

The IP Box sits alongside several other corporate reliefs. Some cannot be combined with it, some interact through the order of computation, and losses under the regime are restricted. The right combination depends on the stage of the business.

● Losses under the regime

Where the calculation for a qualifying asset produces a loss, only 20% of that loss may be carried forward to subsequent years or surrendered as group relief to other Cyprus tax resident group companies. The restriction mirrors the 80% deduction: a profit is 80% deductible, so a loss is 80% disallowed. The general rules then apply to the restricted amount. From tax year 2026 losses may be carried forward for seven years (five years up to 2025, so that losses of 2019 remain available against 2026 profits), and group relief is available between Cyprus tax resident companies where one holds at least 75% of the voting shares of the other, or both are at least 75% held by a third company, for the whole tax year.

Loss treatment: IP Box versus ordinary computation

Item	IP Box claimed	IP Box not claimed for the year
Loss of €200,000 from the asset	€40,000 available (20%)	Up to €200,000, subject to confirmation that the 20% restriction does not apply where no deduction is claimed
Carry-forward period	Seven years	Seven years
Group relief in the same year	€40,000 surrenderable	Up to €200,000 surrenderable, subject to the same confirmation
R&D super-deduction on development cost	Not available	Available for 2022 – 2030 expenditure
Set-off against the company's other trading profit	€40,000	Up to €200,000, subject to the same confirmation

CAUTION

Article 9(1)(k) restricts the loss arising under the regime to 20% and separately permits the taxpayer to elect not to claim all or part of the deduction. The law does not expressly state that a year in which no deduction is claimed falls outside the loss restriction, and the guide does not recommend a full-loss result on the basis of the election alone. Before a development-phase strategy relies on the full loss, the interaction between the annual election and the 20% restriction should be confirmed with the Tax Department, by advance ruling where the amounts are material.

PLANNING POINT

The deduction is elective year by year. A company in its development phase will normally consider not claiming the IP Box until the asset generates net profit, so that the R&D super-deduction remains available and the loss position is not diminished by the claim itself. The election should be recorded in the tax computation for each year, and the nexus ledger must still be maintained from the first year of expenditure so that the fraction is available when the claim starts.

• The R&D super-deduction

Article 9(1)(d) of the Income Tax Law grants an additional deduction of 20% of eligible research and development expenditure incurred in tax years 2022 to 2030, so that 120% of the actual cost is deducted. The additional deduction is given in the year the expense is incurred; for capital expenditure it is spread over the useful life of the asset (maximum 20 years). It is available to the economic owner of the resulting intangible asset, is not granted for property, plant and equipment, and is not available to a taxpayer that claims the deemed deduction under the IP Box. A company must therefore choose between the two regimes for a given year.

WORKED EXAMPLE

A company incurs €400,000 of eligible R&D expenditure in 2026 and earns net overall income from its software (after deducting that expenditure) of P, with a 100% nexus fraction. Under the IP Box the tax is $15\% \times 20\% \times P = 3\%$ of P. Under the super-deduction the tax is $15\% \times (P - €80,000)$. The two are equal where $P = €100,000$; below that the super-deduction is better and above it the IP Box is better.

Net overall income P	Tax under IP Box	Tax under super-deduction	Better option
€50,000	€1,500	Nil (loss of €30,000 carried forward)	Super-deduction
€100,000	€3,000	€3,000	Indifferent
€200,000	€6,000	€18,000	IP Box
€400,000	€12,000	€48,000	IP Box

In general the IP Box is preferable once net overall income exceeds one quarter of the year's eligible R&D expenditure (at a 100% nexus fraction). At lower fractions the break-even point rises.

• Notional interest deduction

New equity introduced into a Cyprus company from 1 January 2015 in the form of paid-up share capital or share premium attracts an annual notional interest deduction (NID) under article 9B of the Income Tax Law, equal to the new equity multiplied by the reference rate, being the yield on the ten-year government bond of the country in which the funds are employed (at 31 December of the preceding year) plus 5%. The NID cannot exceed 80% of the taxable income derived from the assets financed by the new equity, calculated after the tax adjustments and before the NID itself (it is not 80% of the accounting profit), and the taxpayer may waive all or part of it. Anti-avoidance provisions apply, and the amount actually allowable depends on the tracing of the new equity to the assets and the arm's length and anti-avoidance tests in article 9B.

A company that funds its development with new equity may claim both NID and the IP Box, but the order of computation is fixed. Under regulation 4(2) of the Intangible Assets Regulations (KDP 336/2016), the attributable allowable NID is a direct expense in arriving at the overall income from the qualifying asset: overall income is the gross IP income less the direct expenses, including tax amortisation and the NID

attributable to the asset; the nexus fraction is then applied and the 80% deduction is taken last. The NID is therefore deducted before the 80% deduction, not after it. Applying the full IP Box deduction first and subtracting the NID from the remaining 20% overstates the relief and is not an acceptable computation. The allocation of the NID between IP and non-IP income, and the operation of the article 9B cap, must be substantiated in the computation and, where material, confirmed with the Tax Department.

WORKED EXAMPLE

A shareholder subscribes €1,000,000 of new share capital in 2025, which funds Cyprus development. Assuming a reference rate of 8.5% (an illustrative bond yield of 3.5% plus 5%) and that the resulting €85,000 is confirmed as allowable NID attributable to the qualifying asset (the assumed allowable NID), the computation runs as follows. The software produces gross IP income less other direct expenses of €500,000 at a 100% nexus fraction; the assumed allowable NID of €85,000 is a further direct expense, giving overall income of €415,000 (the article 9B cap of $80\% \times €500,000 = €400,000$ is not breached). The IP Box deduction is $80\% \times €415,000 = €332,000$, leaving taxable IP profit of €83,000 and tax of €12,450, compared with €15,000 without the NID. The NID is worth 3% of its amount inside the IP Box, against 15% against ordinary profit, so equity should be directed to non-IP activities where the company has both. The €12,450 result holds only if the €85,000 is independently confirmed as allowable; a smaller allowable NID reduces the saving proportionately.

● Capital allowances and other deductions

Capital expenditure on the intangible itself is relieved through tax amortisation (Chapter 03). Capital expenditure on scientific research and R&D that produces no separate asset is deductible over the life of the resulting asset (maximum 20 years), with the additional 20% for 2022 – 2030 where the super-deduction is chosen. Plant, computers and equipment used in development attract the ordinary annual wear and tear allowances (20% for computer hardware and operating systems, 33⅓% for application software, 10% for plant and machinery, and application software costing less than €1,709 is written off in the year of acquisition), which are direct costs of the asset where the equipment is used for its development or delivery. Interest is deductible subject to the interest limitation rule, under which exceeding borrowing costs above 30% of taxable EBITDA are disallowed, with a safe harbour of €3,000,000 per company or Cyprus group.

Combining the IP Box with other reliefs

Relief	Combinable with IP Box?	Comment
Tax amortisation of the intangible	Yes	Deducted in computing overall income; election to defer available
R&D super-deduction (20%)	No, not in the same year	Choose annually; super-deduction usually better in loss years
Notional interest deduction	Yes, with care	Attributable allowable NID is a direct expense in computing overall income, before the nexus fraction and the 80% deduction; allocation and the article 9B cap must be substantiated
Group relief	Yes, restricted	Only 20% of an IP loss may be surrendered
Foreign tax credit	Yes	Credit limited to the Cyprus tax on the same income (Chapter 07)
Innovative SME investment deduction	Yes, at investor level	Available to investors in approved innovative SMEs up to 31 December 2026

07

Substance, transfer pricing and international considerations

An IP Box claim is only as strong as the substance and pricing behind it. The profit attributed to the Cyprus company must be consistent with the functions it performs, the treaty and withholding position must be checked for every source country, and large groups must model the interaction with Pillar Two.

• DEMPE and economic substance

Under the OECD Transfer Pricing Guidelines, the return from an intangible belongs to the entities that perform and control the development, enhancement, maintenance, protection and exploitation (DEMPE) functions and bear the related risks, not merely to the legal owner. The nexus fraction already tests where development is performed; the transfer pricing rules additionally test who controls it. A Cyprus company with directors who approve budgets and hiring, a technical lead who sets the roadmap and employees who perform or supervise development is well placed. A company that holds title and receives royalties while every decision is taken abroad is exposed both to profit reallocation and to the general anti-avoidance rule, under which arrangements not put in place for valid commercial reasons reflecting economic reality are ignored.

- ✓ Board and technical management in Cyprus with documented decisions on development priorities, funding and licensing.
- ✓ Employment contracts, payroll and office premises in Cyprus proportionate to the development claimed as own expenditure.
- ✓ Intercompany agreements (development services, licences, cost contribution) signed before the work starts and priced at arm's length.
- ✓ Financial capacity in the Cyprus company to bear the risk of unsuccessful development.

• Transfer pricing documentation

Cyprus tax resident persons and Cyprus permanent establishments that engage in controlled transactions must document them under the transfer pricing rules in force since 1 January 2022. Every taxpayer with related-party transactions submits a Summary Information Table with its income tax return. A Cyprus Local File is required where controlled transactions of a category exceed the annual thresholds; from 2026 the threshold for receipt or payment of IP licences and royalties, services and other transactions is €2,500,000 (€1,000,000 up to 2025), for financing €10,000,000 and for goods €5,000,000. The Local File must be prepared by the return filing deadline, reviewed by a person holding an ICPAC practising certificate and produced within 60 days of a request. Taxpayers below the thresholds must maintain minimum transfer

pricing documentation covering a functional analysis, the functional profile, the method selected and the arm's length determination. A Master File is required only for Cyprus ultimate or surrogate parent entities of groups within country-by-country reporting.

Typical controlled transactions of an IP company

Transaction	Usual method	IP Box relevance
Development services bought from a group company	Cost plus (routine developer) or profit split (where the provider controls development)	Related-party expenditure in the nexus fraction; must be arm's length to be deductible
Licence of the asset to group distributors	Comparable uncontrolled price or residual profit split	Royalty rate determines overall income
Embedded use of the asset by a group operating company	Notional royalty or residual method	Establishes embedded income
Intragroup financing of development	Safe harbour rates where eligible, otherwise benchmarked	Interest is deductible but outside the fraction
Transfer of the asset into or out of Cyprus	Valuation (income approach), hard-to-value intangible rules	Acquisition cost or disposal gain; DAC6 hallmark E2

An advance pricing agreement may be requested for current or future controlled transactions; the Tax Department aims to conclude an APA within 10 to 24 months and it may be revised or revoked if the underlying assumptions change.

● Pillar Two and large groups

Cyprus has implemented the EU global minimum tax directive: the income inclusion rule applies for financial years beginning on or after 31 December 2023, the undertaxed profits rule and the domestic minimum top-up tax for financial years beginning on or after 31 December 2024. Groups with consolidated revenue of €750,000,000 or more in at least two of the four preceding financial years must compute a jurisdictional effective tax rate; where the Cyprus rate is below 15%, top-up tax is collected, in Cyprus through the domestic minimum top-up tax. A Cyprus IP company in such a group that pays 3% on its IP profit will, absent other Cyprus taxes and after the substance-based income exclusion for payroll and tangible assets, generate top-up tax that removes most of the benefit. The de minimis exclusion applies where the group's average revenue in Cyprus is below €10,000,000 and its average qualifying income is below €1,000,000. Groups below the €750,000,000 threshold are unaffected, which describes the large majority of IP Box users. In-scope groups face a GloBE information return 15 months after year end (18 months for the first year) and a notification obligation in Cyprus within the same period.

● Foreign withholding tax on royalties

Royalties paid to a Cyprus company from abroad may suffer withholding tax in the source country, reduced or eliminated under the relevant double tax treaty or, within the EU, the Interest and Royalties Directive for associated companies. Foreign tax paid on income subject to Cyprus corporation tax is credited against the Cyprus tax on that income, whether or not a treaty exists, but the credit cannot exceed the Cyprus tax on the same income. Because the IP Box reduces the Cyprus tax on royalty income to 3% at full nexus, any source withholding above that rate is an unrecovered cost and should be built into pricing.

Maximum treaty withholding on royalties paid to Cyprus from selected countries

Paid from	Royalties	Paid from	Royalties	Paid from	Royalties
Austria	Nil	India	10%	Romania	0/5%
Belgium	Nil	Ireland	0/5%	Russia	Nil*
Canada	0/10%	Italy	Nil	Singapore	10%
China	10%	Luxembourg	Nil	Spain	Nil
Czech Republic	0/10%	Malta	10%	Sweden	Nil
Denmark	Nil	Netherlands	Nil	Switzerland	Nil
France	0/5%	Poland	5%	Ukraine	5/10%
Germany	Nil	Portugal	10%	United Arab Emirates	Nil
Greece	0/5%	Qatar	5%	United Kingdom	Nil
Hungary	Nil	Kazakhstan	10%	United States	Nil

Maximum rates under the treaties as at 2026; the source country's domestic law may be lower and split rates depend on the type of right (for example, copyright of literary or artistic work versus patents and software). Beneficial ownership and, in some treaties, a subject-to-tax or anti-abuse condition must be satisfied. * Russia: the operation of the Cyprus–Russia treaty, including its royalty article, has been affected by the suspension of treaty provisions announced by Russia; the printed treaty rate is the text rate only and is not a usable operative rate. The currently operative Russian source-country treatment and the available relief route must be confirmed before any rate is relied upon. Guide 06, Global Tax Rates Guide, contains the full table.

● Cyprus withholding on outbound royalties

Cyprus imposes 10% withholding tax on royalties for rights used within Cyprus (5% for cinematographic films) paid to non-residents, subject to treaty reduction and the EU Interest and Royalties Directive. Royalties for rights used outside Cyprus are not subject to withholding, except that a 10% withholding applies to royalties paid to companies in EU non-cooperative (blacklisted) jurisdictions where the 50% ownership test is met; this defensive withholding regime is distinct from the deduction rule that follows. From 1 January 2026 royalties and interest accrued to an associated company or permanent establishment that is tax resident in a low-tax jurisdiction, being a jurisdiction whose nominal corporate tax rate is less than half the Cyprus rate, are not deductible in Cyprus, whether or not paid. The denial is subject to the statutory exceptions (for interest, amounts payable on securities listed on a recognised stock exchange, and amounts that are themselves subject to the Cyprus withholding tax provisions) and to an anti-conduit rule for interest and royalties that relate indirectly to such a recipient. Where a jurisdiction is both blacklisted and low-tax, the law contains ordering rules under which the applicable withholding provisions take precedence and the deduction denial is then not applied to the same amount. The rule concerns in-scope interest and royalties: a fee for genuine development services is not a royalty and is not denied merely because the provider is in a low-tax state, although its arm's length pricing and the substance of the provider must still be evidenced.

● DAC6 and foreign anti-abuse rules

Cross-border arrangements involving a Cyprus IP company may be reportable under the mandatory disclosure rules (Law 41(I)/2021) within 30 days of being made available, ready for implementation or first implemented. Hallmark C1(d) covers deductible cross-border payments between associated enterprises where the payment benefits from a preferential tax regime in the recipient's jurisdiction, subject to the main benefit test; the IP Box is such a regime, so royalties paid by an EU group company to the Cyprus IP company must be assessed. Hallmark E2 covers transfers of hard-to-value intangibles and hallmark E3 intragroup transfers that reduce the transferor's projected EBIT by more than 50% over three years.

Penalties can reach €20,000 per arrangement. Foreign controlled foreign company regimes, the EU Anti-Tax Avoidance Directive as implemented by the payer's state and the anti-abuse conditions in treaties can also reduce or deny the benefit where the Cyprus company lacks substance; the substance checklist above addresses these together.

CAUTION

The Cyprus controlled foreign company rule and exit tax also apply in the other direction: a Cyprus IP company that moves its residence or transfers the asset to a foreign permanent establishment is taxed on the market value less the tax value of the asset at the time of exit.

08

VAT, payroll and extraction of profit to owners

The IP Box is a corporation tax measure. The same company must apply VAT to its licences and subscriptions, run payroll for its developers and, when profit is distributed, account for the shareholder taxes that determine the owners' after-tax cash.

• VAT on licences and software supplies

Income tax qualification and VAT treatment are independent. A licence of software or a subscription to a platform is a supply of services. Supplied to a business customer established in another country, the place of supply is where the customer belongs and the customer accounts for VAT under the reverse charge; the Cyprus invoice shows no VAT and the supply is reported in the VIES return where the customer is in the EU. Supplied to a private consumer, downloadable software, SaaS and similar electronically supplied services are taxed where the consumer resides; above the EU-wide €10,000 threshold for cross-border B2C digital supplies and distance sales, the Cyprus supplier charges the VAT of each consumer's member state, normally through the One Stop Shop. Domestic supplies attract Cyprus VAT at the standard rate of 19%. The place of supply and the nature of the taxable activity should be analysed first, because the registration obligations differ. Registration is compulsory once taxable turnover exceeds €15,600 in any twelve-month period. A company that receives services from abroad on which it must account for Cyprus VAT under the reverse charge (for example, foreign contractor development, software licences or cloud services) is subject to the same €15,600 threshold, measured on the value of those received services together with its taxable supplies. By contrast, there is no threshold for a company that makes intra-EU business-to-business supplies of services falling under the general place-of-supply rule: it must register and file VIES returns from the first such supply. Foreign licensing income is not automatically outside Cyprus VAT: business-to-business licences are outside the scope in Cyprus under the general rule, but a licence or subscription granted to a private consumer is taxed where the consumer belongs, so a consumer outside the EU, a consumer in another member state and a consumer in Cyprus each produce a different result and the customer's status and location must be evidenced. Input VAT on development costs is recoverable where the outputs are taxable or would be taxable if made in Cyprus. Guide 02, Cyprus and EU VAT Guide, covers the detail, including OSS registration and evidence of customer location.

VAT treatment of typical supplies by a Cyprus software company

Supply	Customer	Treatment
Platform licence or SaaS subscription	Business in another EU state	Outside scope in Cyprus; reverse charge by customer; VIES return
Platform licence or SaaS subscription	Business outside the EU	Outside scope in Cyprus; evidence of customer status and location

Supply	Customer	Treatment
App subscription or download	Consumer in another EU state	VAT of the consumer's state via OSS once the €10,000 threshold is exceeded
App subscription or download	Consumer in Cyprus	Cyprus VAT at 19%
Sale of the asset itself	Business anywhere	Supply of services under the B2B rule; transfer-of-going-concern rules may apply where a business is sold
Royalties received from abroad	Foreign business licensee	Outside scope in Cyprus under the B2B rule; no VAT deducted from the royalty; VIES return where the licensee is in the EU
Royalties or licence fees received from abroad	Foreign private consumer	Taxed where the consumer belongs: OSS for EU consumers above the €10,000 threshold; outside Cyprus VAT for consumers outside the EU only with evidence of location
Development, licence or cloud services bought from abroad	Cyprus company as recipient	Reverse charge in Cyprus; counts towards the €15,600 registration threshold

Registration thresholds: €15,600 for taxable supplies in Cyprus and for the receipt of reverse-charge services from abroad; no threshold for intra-EU B2B supplies of services; €10,000 EU-wide for cross-border B2C digital supplies and distance sales.

● Payroll for the development team

Own development expenditure consists mostly of salaries, and the payroll cost of a Cyprus developer is the price of a higher nexus fraction. For 2026 the employer pays social insurance at 8.8% of emoluments up to €68,904, social cohesion fund 2% (uncapped), redundancy fund 1.2%, industrial training fund 0.5% and General Health System contributions of 2.9%, a total of about 15.4% of a salary within the ceiling. This 15.4% illustration assumes that the employer holds an applicable exemption from the central holiday fund; an employer that is not exempt also contributes to that fund (8% of emoluments up to the same ceiling), which raises the employer cost accordingly. The employee suffers 8.8% social insurance and 2.65% GHS, deducted with PAYE. All employer contributions are deductible and form part of qualifying expenditure where the employee works on the asset.

WORKED EXAMPLE

A developer is paid €60,000 in 2026. Employer contributions are social insurance €5,280, social cohesion €1,200, redundancy €720, training €300 and GHS €1,740, a total of €9,240 (assuming the holiday fund exemption applies; without it a further €4,800 would be payable), so the qualifying expenditure attributable to the developer is €69,240. The employee's own deductions are social insurance €5,280 and GHS €1,590 before income tax. Guide 04, Individuals, Self-Employed and Immigration Guide, gives the full income tax computation.

Developers relocating to Cyprus who were not Cyprus tax resident for the 15 years before starting employment and whose remuneration exceeds €55,000 may claim the 50% first-employment exemption from income tax for 17 years, which materially reduces the gross salary needed to deliver a target net pay. Direct employment by the Cyprus company is not the only route to qualifying expenditure. Salaries of the company's own employees are its own R&D expenditure, and fees for genuine R&D outsourced to an unrelated provider are also qualifying expenditure, subject to the contractual and economic facts: the label of an employer-of-record arrangement does not by itself decide the nexus classification. What matters is whether the provider is connected with the company under article 33(3), whether the arrangement is a genuine supply of R&D services rather than the provision of staff to a group entity that itself directs the

work, and whether the resulting rights are assigned to the company. Staff engaged through a foreign group entity remain related-party expenditure, and the analysis of each arrangement should be recorded in the contractor file.

● Distributing the profit

From 2026 dividends paid by a Cyprus company out of profits of tax year 2026 onwards are subject to Special Defence Contribution at 5% (previously 17%) when received by an individual who is both Cyprus tax resident and Cyprus domiciled. Non-domiciled residents pay no SDC on dividends, and the non-dom status runs for 17 years, extendable from 2026 for up to two further five-year periods against a lump-sum payment of €250,000 per period. Cyprus tax residents also pay GHS contributions of 2.65% on dividends, capped by the €180,000 annual income ceiling (a maximum of €4,770 across all income). Non-resident shareholders suffer no Cyprus withholding on dividends, except for the 17% and 5% defensive withholding on dividends paid to companies in EU non-cooperative and low-tax jurisdictions respectively. The deemed distribution rules apply for the last time to profits of 2024 and 2025 (assessed on 31 December 2026 and 2027) and do not apply to 2026 profits, so an IP company may retain profit without a deemed 17% charge.

After-tax cash from €500,000 of net IP profit at a 100% nexus fraction, fully distributed (2026)

Item	Domiciled resident owner	Non-dom resident owner	Non-resident owner	Domiciled owner, no IP Box
Net IP profit	500,000	500,000	500,000	500,000
Corporation tax	(15,000)	(15,000)	(15,000)	(75,000)
Dividend	485,000	485,000	485,000	425,000
SDC at 5%	(24,250)	—	—	(21,250)
GHS at 2.65% (capped)	(4,770)	(4,770)	—	(4,770)
Net cash to owner	455,980	480,230	485,000	398,980
Total tax and contributions	44,020	19,770	15,000	101,020
Combined effective rate	8.8%	4.0%	3.0%	20.2%

Assumes the shareholder has no other income using the €180,000 GHS ceiling, that the non-resident is not taxed on the dividend in Cyprus and that foreign tax in the owner's country of residence is ignored. Where the owner's other income already reaches the ceiling, the incremental GHS on the dividend is nil.

PLANNING POINT

An owner-director can combine a salary that uses the €22,000 tax-free band and lower bands (and, where eligible, the 50% first-employment exemption) with dividends from IP profit. Salary is a qualifying expenditure where the director performs development; dividends are not. The optimal mix depends on the director's residence, domicile and personal position, which Guide 04 addresses.

CAUTION

From 2026 the private use of company assets by a domiciled resident shareholder, and disposals of assets to shareholders below market value, are taxed as disguised dividends at 10%. An IP company that provides equipment or property for private use should account for this separately from its dividend policy.

09

Records, election, filing and tax rulings

The claim is made in the annual corporation tax return and must be traceable from the tax computation back to the asset register, the expenditure ledger and the accounting records. The aim is that a reviewer can recreate the calculation without guessing how any cost or revenue stream was assigned.

• The evidence framework

Documentation file for an IP Box claim

Record	What it must establish	Refreshed
Asset register	Each right, legal and economic owner, protection status, creation or acquisition date, products and income streams; links to registrations and repositories	Annually and on each change
R&D project file	Objectives, technical work performed, personnel, milestones, unsuccessful development and the connection of each project to a specific asset or product family	Continuously
Nexus expenditure ledger	Cumulative opening balances, additions, reclassifications and closing balances for qualifying, related-party and acquisition expenditure, per asset or product family	Annually
Time and payroll records	Link between employees' actual work and qualifying expenditure; time allocation for staff working on several assets or on non-R&D tasks	Monthly
Contractor file	Agreements with IP assignment clauses, invoices, work performed, and the analysis of whether each contractor is connected under article 33(3) (25% ownership tests, relatives and control) or unrelated	Per engagement
Income allocation file	Revenue by product and asset, the embedded income methodology, the routine-function returns and the transfer pricing support	Annually
Profit bridge	Reconciliation from the audited or, where eligible, reviewed financial statements to net overall income per asset, tax amortisation, disallowances, nexus fraction, deduction and restricted losses	Annually

Record	What it must establish	Refreshed
Tax administration file	Returns, computations, elections (deduction, amortisation deferral, foreign PE), rulings, Summary Information Tables, Local File, foreign tax certificates and correspondence	Annually

• The annual close sequence

- 01 Confirm the facts.** Record changes in assets, ownership, contracts, related-party status and the group structure during the year.
- 02 Reconcile income and costs.** Tie IP revenue and direct costs per asset to the general ledger and the audited or, where eligible, reviewed financial statements.
- 03 Roll the nexus ledger.** Add the year's expenditure to the prior-year closing balances by category and asset; reconcile to payroll and purchase ledgers.
- 04 Compute amortisation.** Check capitalisation, useful lives, any deferral election and the reconciliation to accounting depreciation.
- 05 Calculate the claim.** Apply the up-lift, the fraction, the 80% deduction and the 20% loss restriction; decide whether to claim in full, in part or not at all.
- 06 Check interactions.** NID allocation, R&D super-deduction election, group relief, foreign tax credits and the interest limitation rule.
- 07 Update provisional tax.** Revise the provisional tax estimate before 31 December where the claim changes the expected liability.
- 08 File and pay.** Submit the corporation tax return with the Summary Information Table and pay the final self-assessment balance by 31 January of the second year following the tax year (31 January 2028 for tax year 2026), and retain the Local File or minimum documentation for production within 60 days of a request.

• Filing, payment and penalties

Corporation tax is paid by provisional assessment in two equal instalments on 31 July and 31 December of the tax year, based on the company's own estimate, which may be revised before the second instalment. For tax year 2026 onwards the corporation tax return (TD4) and the final self-assessment payment of the balance are both due by 31 January of the second year following the tax year, that is 31 January 2028 for tax year 2026; the return is submitted electronically with audited or, where eligible, reviewed financial statements. Tax year 2025 keeps its own dates: the 2025 final self-assessment payment fell due on 1 August 2026 and the 2025 return (TD4) is due by 31 March 2027 unless extended by decree. If the provisional taxable income declared is less than 75% of the final taxable income, an additional tax of 10% of the difference is charged. Interest on late payment runs at 3.5% per year for amounts due from 1 January 2026, with a 5% penalty on tax not paid by the deadline and a further 5% after two months. Books and records must be retained for six years after the submission of the return. The IP Box computation should be forecast in-year: a claim that lowers the liability below the provisional estimate ties up cash, while an overstated claim risks the 10% additional tax.

KEY DATES

31 July 2026	Provisional tax return for 2026 and first instalment
1 August 2026	Payment of 2025 final corporation tax by self-assessment (tax year 2025 keeps its own dates)
30 November 2026	Electronic submission of the 2024 corporation tax return (TD4), Summary Information Table and preparation of 2024 transfer pricing documentation
31 December 2026	Revised provisional return (if any) and second instalment for 2026
31 March 2027	Electronic submission of the 2025 corporation tax return (TD4) and Summary Information Table, unless extended by decree
31 January 2028	Electronic submission of the 2026 corporation tax return (TD4) and Summary Information Table, and payment of the 2026 final corporation tax by self-assessment
Within 30 days	DAC6 report for a reportable cross-border arrangement involving the IP
Within 60 days	Production of the Local File or minimum transfer pricing documentation on request

Dates for tax years up to 2025 are those published in the 2026 tax diary and may be revised by decree. From tax year 2026 the return and final payment date is 31 January of the second year following the tax year. Guide 01, Cyprus General Tax Guide, and Guide 05, Cyprus Companies Tax Guide, carry the full compliance calendar.

● Elections

Three elections should be minuted each year: whether to claim the IP Box deduction in full, in part or not at all; whether to defer all or part of the tax amortisation of the intangible; and, where development is carried out through a foreign permanent establishment, whether to elect for the PE's profits, which are ordinarily exempt subject to the statutory exceptions, to be taxable in Cyprus (with credit for foreign tax) so that its R&D can count as qualifying expenditure. Each election affects the others and the R&D super-deduction, and a decision taken to optimise one year can bind later years, particularly the foreign PE election.

● Advance tax rulings

The Tax Department issues advance rulings on the application of the law to a specific, fully disclosed set of facts. A ruling is appropriate where the qualification of an asset (for example, software combined with proprietary data, or a pending patent), the embedded income methodology, a product-family grouping or the allocation of the notional interest deduction between IP and other income is uncertain and material. The request should set out the facts, agreements, activities, the proposed treatment and the technical analysis, and should be filed before the transaction or the first claim. A ruling binds the Tax Department only on the facts stated, so the company must implement those facts and monitor changes; a change of development arrangement, related-party status or ownership may make the ruling inapplicable. For controlled transactions, an advance pricing agreement provides similar certainty on pricing.

PENALTY

An IP Box claim that cannot be supported on audit is reversed with interest at 3.5% and the 5% and further 5% late-payment penalties, and the company is exposed to the 10% additional tax where provisional income was understated. Failure to produce transfer pricing documentation within 60 days attracts specific penalties, and non-reporting under DAC6 can cost up to €20,000 per arrangement.

10

Implementation roadmap, readiness checklist and FAQ

Implementing the regime is a project across legal, technical, finance and tax functions. The roadmap below runs from the initial assessment to the first claim and the annual maintenance cycle.

● Roadmap

Implementation phases

Phase	Actions	Output
1. Assessment	Identify assets and income streams; classify assets against the statutory list; test the small-taxpayer limits where relevant; estimate the current nexus fraction from historic records; model the benefit against the R&D super-deduction and Pillar Two exposure.	Feasibility memorandum with modelled saving
2. Structuring	Confirm legal and economic ownership; remedy missing IP assignments; decide where development will be performed and by whom; design intercompany agreements and pricing; plan any transfer of assets into Cyprus with valuation, exit tax and DAC6 analysis.	Signed agreements, valuation, ruling request where needed
3. Systems	Set up the asset register, the nexus ledger by asset or product family, time recording for development staff, cost centres for direct costs and the revenue allocation model; agree the accounting policy for capitalisation.	Tracking spreadsheets or system configuration
4. First claim	Prepare the profit bridge, the nexus computation and the elections; decide on partial or full claim; align provisional tax (31 July and 31 December instalments); prepare the Summary Information Table and transfer pricing documentation for the return and final payment due 31 January of the second year following the tax year (31 January 2028 for 2026).	Tax computation and evidence file
5. Maintenance	Annual close sequence (Chapter 09); monitor related-party status, revenue limits, treaty changes, low-tax jurisdiction lists and legislative amendments; refresh the transfer pricing file; review the ruling's continued applicability.	Annual update memorandum

● Readiness checklist

- ✓ The company can identify each qualifying asset and evidence its legal or economic ownership, including written assignments from all contractors.
- ✓ Contracts, payroll and actual conduct support the company's entitlement to the profit attributed to the asset.
- ✓ Net overall income is calculated after all directly related costs, allocated overheads and tax amortisation.
- ✓ Qualifying, related-party and acquisition expenditure are tracked cumulatively per asset or product family from the first year of development.
- ✓ The embedded income allocation and intercompany pricing are documented in the transfer pricing file or minimum documentation.
- ✓ Losses, NID, the R&D super-deduction and foreign tax credits are not double counted and the annual elections are minuted.
- ✓ VAT registration, OSS registration and customer-location evidence are in place for licence and subscription income.
- ✓ Shareholder computations use the correct residence, domicile, GHS and profit-vintage assumptions.
- ✓ The provisional tax estimate reflects the expected claim, and a reviewer has reconciled the tax schedules to the audited or, where eligible, reviewed financial statements.
- ✓ DAC6 and Pillar Two exposure has been assessed and documented.

● Frequently asked questions

Is the 3% rate available from the first year?

Only where the cumulative expenditure on the asset consists entirely of own or unrelated-party R&D, or the related-party and acquisition costs are within the 30% up-lift. A company that acquired its platform or relied on a group developer starts with a lower fraction that improves over time.

Does outsourcing disqualify the company?

No. Outsourcing to unrelated parties is qualifying expenditure. Outsourcing to related parties is not, but it is partly compensated by the up-lift, and development through a foreign PE counts as own expenditure where the company has elected to bring the PE's profits within Cyprus taxation.

Can a trademark or brand be included?

No. Marketing intangibles are excluded, and the brand element of a bundled licence must be separated and taxed at 15%.

Does the company have to be profitable overall?

No. The computation is per asset. A company can have qualifying profit from one asset and ordinary losses elsewhere, but an IP loss is restricted to 20% for carry-forward and group relief.

Can the company claim both the IP Box and the R&D super-deduction?

Not in the same year. The choice is annual; the super-deduction is usually preferable while net overall income is below one quarter of the year's R&D expenditure.

Can the owner use the 3% rate personally?

No. The 3% results from applying 15% to 20% of the company's qualifying profit. The owner's tax on dividends (5% SDC for domiciled residents, nil for non-doms and non-residents, plus GHS for residents) is separate, as Chapter 08 shows.

What happens if the company is sold?

A sale of shares is a disposal of securities, exempt from corporation tax and outside capital gains tax unless the company holds Cyprus immovable property. A sale of the asset itself is analysed as either a trading disposal (the gain is overall income within the regime) or a capital disposal (no balancing statement is required for intangibles within article 9(1)(l) since 1 January 2020 and a genuine capital gain is generally outside corporation tax); in either case the buyer's acquisition cost enters its own nexus denominator.

Is the regime compatible with EU and OECD standards?

Yes. The nexus regime was designed to meet the OECD BEPS Action 5 modified nexus approach and has been reviewed by the EU Code of Conduct Group; the old regime was closed for that reason. Rules can change and the claim should be reviewed annually.

What must be refreshed each year?

The rates, the loss origin years, the nexus additions, related-party status, the income allocation, amortisation, treaty withholding, provisional tax and the shareholders' residence, domicile and GHS position. The claim is an annual calculation supported by continuing facts, not a permanent certificate.

NOTE

This guide summarises the law and practice as reviewed on 24 September 2026 and is intended for general information. A claim requires the current legislation to be applied to the complete facts of the business. ATZ FinHub and A. Zissimos & Partners Ltd can assist with the feasibility assessment, the nexus tracking model, transfer pricing documentation, ruling requests and the annual claim.

● Legal references

- Income Tax Law 118(I)/2002, as amended, in particular article 9(1)(k) (deduction for qualifying intangible assets), article 9(1)(d) (additional deduction for research and development expenditure), the provisions on notional interest deduction, tax amortisation of intangibles, losses and group relief, reorganisations, controlled foreign companies, interest limitation, exit taxation and the general anti-avoidance rule.
- Assessment and Collection of Taxes Law 4/1978, as amended (returns, provisional tax, self-assessment, interest, penalties, transfer pricing documentation and advance pricing agreements).
- Special Contribution for the Defence of the Republic Law 117(I)/2002, as amended (SDC on dividends, domicile rules, deemed and disguised distributions).
- General Health System Law 89(I)/2001, as amended (GHS contributions on emoluments and dividends).
- Social Insurance Law 59(I)/2010, as amended (employer and employee contributions).
- Value Added Tax Law 95(I)/2000, as amended, and Council Directive 2006/112/EC (place of supply of services, OSS).
- Administrative Cooperation in the Field of Taxation Law 205(I)/2012 as amended by Law 41(I)/2021 (DAC6 mandatory disclosure).
- Law implementing Council Directive (EU) 2022/2523 on a global minimum level of taxation (Pillar Two), in force from 31 December 2023.
- Patent Rights Law, Intellectual Property Law and Trade Marks Law of Cyprus (definition and protection of the underlying rights).
- OECD, Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 Final Report (2015), and the OECD Transfer Pricing Guidelines (DEMPE analysis of intangibles).



Let's talk about your next step

ATZ FinHub supports Cyprus-based and international clients with accounting, VAT and payroll, tax compliance and advisory, company formation and administration, business consulting and valuations, and residence and immigration services, working alongside our affiliated licensed audit firm A. Zissimos & Partners Ltd.

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