



THE CYPRUS INTELLECTUAL PROPERTY BOX REGIME

The Cyprus Intellectual Property Box Regime

1. PURPOSE OF THIS CIRCULAR

This circular has been prepared by CFA Auditors to provide our clients and associates with a comprehensive, up-to-date overview of the Cyprus Intellectual Property Box regime ("IP Box") following the enactment of the 2026 Cyprus tax reform. It summarises the legal basis of the regime, the categories of intellectual property and income that qualify, the mechanics of the 80% deemed deduction and the OECD modified nexus approach, and the compliance and documentation obligations that companies must satisfy in order to rely on the benefit. It also illustrates, through a worked example, how the regime now interacts with Cyprus's increased 15% corporate income tax rate.

This circular is intended as general guidance only and does not constitute tax, legal or professional advice. The application of the IP Box regime is highly fact-specific and depends on the particular structure, assets, income streams and research and development ("R&D") activities of each company. We recommend that clients contact CFA Auditors before relying on any of the treatments described below.

2. LEGAL AND REGULATORY FRAMEWORK

The Cyprus IP Box is set out in Section 9(1)(l) of the Income Tax Law, N.118(I)/2002, as amended. The regime was substantially rewritten with effect from 1 July 2016 to align Cyprus with the OECD's modified nexus approach under Action 5 of the Base Erosion and Profit Shifting ("BEPS") initiative, and it has since been reviewed and accepted as compliant by both the OECD Forum on Harmful Tax Practices and the EU Code of Conduct Group on Business Taxation. Companies that held qualifying intangible assets under the previous (pre-2016) regime benefited from transitional grandfathering provisions, have now fully lapsed; all companies claiming the benefit today apply the post-2016 nexus-based rules described in this circular.

Further amendments in 2020 clarified the tax treatment of gains on the disposal of intangible assets and removed the obligation to prepare a balancing statement on the transfer or sale of an intangible asset, simplifying the treatment of capital transactions involving qualifying IP (see Section 8 below).

3. THE 2026 TAX REFORM AND ITS EFFECT ON THE IP BOX

A comprehensive package of tax reform measures was published in the official gazette on 31 December 2025 and took effect from 1 January 2026. The headline measure, for the purposes of this circular, is the increase in the standard corporate income tax rate from 12.5% to 15% for all Cyprus tax-resident companies, introduced to align Cyprus with the OECD/G20 global minimum tax (Pillar Two) framework. The mechanics of the IP Box itself – the 80% deemed deduction and the nexus fraction – have not changed, but because the deduction is expressed as a percentage of profit rather than a fixed rate, the increase in the headline corporate tax rate has raised the effective tax rate achievable under the regime from approximately 2.5% to approximately 3.0% on qualifying IP income where the nexus fraction is at, or close to, 1.00.

The 2026 reform also extended, until 2030, the 120% enhanced ("super") deduction available for qualifying scientific research and R&D expenditure and extended the amortisation period for intangible assets with an indefinite useful life from 10 to 20 years. Both measures are complementary to, but distinct from, the IP Box regime, and are addressed further in Sections 8 and 9 below.

Key takeaway: the IP Box remains one of the most competitive intellectual property regimes in the European Union. Even after the corporate tax rate increase, an effective rate of around 3% on qualifying IP profit compares very favourably with headline corporate tax rates across the EU and with patent box regimes in other member states.

4. QUALIFYING PERSONS

Cyprus determines corporate tax residency principally by reference to where management and control are exercised. There is no mechanical formula; the assessment is holistic and fact-specific. In practice, the Tax Department — and any foreign authority applying an equivalent place-of-effective-management test — examines a consistent set of indicators:

5. QUALIFYING INTANGIBLE ASSETS

Consistent with the OECD's modified nexus approach, the Cyprus regime deliberately restricts the benefit to intangible assets that are the product of genuine research and development activity. Marketing-related intangibles, whose value typically derives from commercial and promotional effort rather than technical innovation, are excluded. The table below summarises the principal categories.

Qualifying intangible assets
Patents as defined in the Patent Law (granted or pending)
Copyrighted software (copyright arises automatically on creation; no registration required)
IP assets which are legally protected and they fall under one of the following: i. utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents.
ii. non-obvious, useful, and novel, where the person which utilizes them in furtherance of a business does not generate annual gross revenues exceeding €7.500.000 (in case of a group of companies not exceeding €50.000.000), which are certified as such by an Appropriate Authority in Cyprus or abroad.
Excluded (non-qualifying) assets
Trademarks, brand names and image rights
Marketing-related intangibles generally
Business goodwill
Customer lists and relationships
Standalone domain names
Any intangible asset used to market a product or service

Copyrighted software is, in practice, one of the most commonly claimed categories of qualifying asset for Cyprus-based technology and SaaS (Software as a Service) businesses, precisely because copyright protection arises automatically upon creation of the code and does not require formal registration, provided the software is original and the company can evidence the underlying development activity.

6. QUALIFYING INTELLECTUAL PROPERTY INCOME

Income that may qualify for the 80% deemed deduction includes:

- royalties and licence fees received for the use of, or the right to use, a qualifying intangible asset;
- the intellectual-property-related element embedded in the sale price of products or services whose value is materially derived from a qualifying asset;
- gains arising on the disposal of a qualifying intangible asset, subject to the distinction between capital and revenue transactions described in Section 8; and
- compensation, damages or insurance proceeds received in respect of the infringement or misappropriation of a qualifying intangible asset.

7. THE 80% DEEMED DEDUCTION AND THE MODIFIED NEXUS APPROACH

The benefit operates as a deemed deduction rather than an exemption: 80% of the qualifying profit generated by a qualifying intangible asset is treated as a tax-deductible expense, leaving only the remaining 20% subject to corporate income tax at the standard rate (now 15%). Critically, the deduction is not applied automatically to the whole of a company's IP profit; it is scaled by a nexus fraction that measures the proportion of the underlying R&D that the company itself performed, whether directly or through unrelated subcontractors.

7.1 Qualifying profit

Qualifying profit for a given intangible asset is calculated as the overall profit derived from that asset (broadly, qualifying IP income less the direct costs incurred in generating it, including amortisation, R&D expenditure and financing costs attributable to the asset) multiplied by the nexus fraction for that asset.

7.2 The nexus fraction

The nexus fraction is computed separately for each qualifying asset, using the following formula:

$$\text{Nexus fraction} = (\text{Qualifying Expenditure} \times 1.30) \div \text{Overall Expenditure, capped at 1.00}$$

Qualifying expenditure ("QE") comprises R&D costs incurred directly by the Cyprus company on the relevant asset, plus R&D costs outsourced to unrelated (third-party) persons or entities. Overall expenditure ("OE") comprises QE, plus the cost of acquiring the intangible asset, plus R&D costs outsourced to related (group) companies. The 30% uplift applied to QE is designed to preserve most of the benefit for businesses that outsource a limited amount of development work, but the uplifted figure can never exceed OE, so the fraction is always capped at 1.00.

The practical effect is that a company which develops its qualifying IP predominantly in-house, or through unrelated subcontractors, will achieve a nexus fraction at or close to 1.00 and will therefore obtain close to the full benefit of the regime. Conversely, a company that acquires finished IP from a related party, or that outsources the bulk of its development to group companies, will see its nexus fraction – and therefore its effective tax saving – diluted, potentially significantly. Genuine substance, Cyprus-based decision-making and properly documented R&D activity are therefore central to sustaining a claim under the regime, not merely a matter of good practice.

8. WORKED EXAMPLE

The following example illustrates the computation for a Cyprus tax-resident company that has developed a software patent substantially in-house and earns royalty income from licensing it.

Step	Amount (€)
Qualifying IP income (royalties from a software patent developed in-house)	1,000,000
Less: directly related expenses (amortisation, R&D costs, financing costs)	(200,000)
Overall IP profit	800,000
Nexus fraction (qualifying expenditure ÷ overall expenditure, uplifted, capped at 1.00) – R&D substantially carried out in Cyprus	1
Qualifying profit (overall IP profit × nexus fraction)	800,000
Deemed deduction at 80%	(640,000)
Taxable IP income (20% of qualifying profit)	160,000
Corporate income tax at 15%	24,000
Effective tax rate on qualifying IP income	≈ 3.0%

By comparison, the same €800,000 of profit taxed without the benefit of the IP Box, at the standard 15% corporate tax rate, would generate a tax liability of €120,000. The IP Box therefore reduces the tax liability on this qualifying profit by approximately 80%. Where part of the underlying R&D is outsourced to related parties, or the IP was acquired rather than developed, the nexus fraction – and consequently the size of this saving – would be correspondingly reduced.

9. DISPOSALS OF QUALIFYING INTELLECTUAL PROPERTY

Where a gain on the disposal of a qualifying intangible asset is capital in nature, it may fall outside the scope of taxation altogether, rather than merely benefiting from the 80% deemed deduction; where it is revenue in nature, it is treated as qualifying IP income and taxed through the nexus mechanism described above. The correct characterisation of a disposal as capital or revenue in nature is a question of fact that should be assessed on a case-by-case basis, taking into account the company's course of dealing, its stated business activities and the circumstances of the transaction. Since 1 January 2020, companies are no longer required to prepare a balancing statement on the transfer or sale of an intangible asset, which has simplified the compliance position on such disposals.

10. AMORTISATION OF INTANGIBLE ASSETS

The cost of acquiring a qualifying intangible asset is generally deductible for tax purposes through amortisation over the asset's useful life, subject to a maximum period that, following the 2026 reform, has been extended from 10 to 20 years for intangible assets with an indefinite useful life.

11. INTERACTION WITH THE NOTIONAL INTEREST DEDUCTION

The IP Box can be combined with Cyprus's Notional Interest Deduction ("NID"), which applies to new equity (paid-up share capital and share premium, or reinvested profits) introduced into a company after 1 January 2015 and used in the business. The NID is calculated as the new equity multiplied by a reference interest rate (the yield on the relevant sovereign's 10-year government bond plus a 5% premium) and is capped at 80% of the taxable profit generated by the assets funded with that equity. Where a Cyprus IP-holding or R&D company is capitalised with fresh equity used to fund the development of qualifying IP, the NID can be layered on top of the IP Box deduction, further reducing the effective tax rate before the standard 15% rate is applied. The interaction between the two reliefs requires careful modelling and is best considered as part of a wider corporate tax structuring exercise rather than viewed in isolation.

12. DOCUMENTATION, COMPLIANCE AND AUDIT RISK

The benefit of the IP Box is not automatic and must be supported by contemporaneous records maintained on an asset-by-asset basis. The Cyprus Tax Department may request this documentation on audit, and inadequate or retrospectively reconstructed records are a common reason for the benefit being disallowed, in whole or in part. Companies intending to rely on the regime should, from the outset, maintain:

1. clear identification of each qualifying intangible asset and the qualifying income streams attributable to it;
2. a running record of qualifying expenditure and overall expenditure incurred on each asset, updated as costs are incurred rather than reconstructed at year end;
3. the nexus fraction calculation and resulting qualifying profit computation for each asset, prepared and filed together with the annual corporate tax return;
4. transfer pricing documentation supporting any related-party arrangements for outsourced R&D, cost-sharing or the acquisition of IP; and
5. evidence of substance – qualified personnel, decision-making and R&D activity actually carried out in Cyprus – supporting the claimed nexus fraction.

We would also highlight that the 2026 reform extended the statute of limitations for tax assessments to six years from the date a tax return is submitted and correspondingly extended the obligation to retain supporting books and records for the same period. This makes durable, well-organised IP Box documentation more important than ever.

13. PRACTICAL STEPS FOR COMPANIES CONSIDERING THE REGIME

1. Confirm that the relevant asset falls within a qualifying category (Section 5) – trademarks and other marketing intangibles require a different planning approach.
2. Assess where the underlying R&D function is, or could be, based, since the location and ownership of R&D activity drives the nexus fraction and therefore the achievable effective rate.
3. Put in place expenditure tracking per asset from the outset, distinguishing qualifying expenditure, related-party outsourcing and acquisition costs.
4. Review related-party arrangements (outsourced R&D, licensing, cost-sharing) and ensure transfer pricing documentation is current and defensible.
5. Incorporate the nexus fraction and qualifying profit computation into the annual corporate tax return process, rather than treating it as a year-end exercise.
6. Consider, where relevant, the interaction with the Notional Interest Deduction and with the enhanced 120% R&D expenditure deduction as part of an overall structuring review.

HOW CFA AUDITORS CAN HELP

CFA Auditors assists clients across the full lifecycle of an IP Box claim, including: assessing whether existing or planned intangible assets and income streams qualify; modelling the nexus fraction and the resulting effective tax rate under different R&D and ownership structures; advising on the interaction between the IP Box, the Notional Interest Deduction, the enhanced R&D expenditure deduction and Cyprus's wider tax and double-tax-treaty framework; preparing and maintaining the asset-by-asset documentation and nexus calculations required to support a claim; and representing clients in connection with Cyprus Tax Department enquiries or audits relating to the regime.

Given the scale of the 2026 tax reform – including the increase in the corporate tax rate, the extended loss carry-forward period, the enhanced R&D deduction and the revised transfer pricing thresholds – we recommend that clients with existing or prospective IP Box claims arrange a review with our tax team to confirm that their structuring, documentation and computations remain optimal under the new rules.

Disclaimer: *This circular is provided for general information purposes only and reflects our understanding of Cyprus tax law. It is not intended to be, and should not be relied upon as, tax, legal or other professional advice, and it does not take into account the specific circumstances of any individual reader or entity. Cyprus tax legislation, including the provisions described in this circular, is subject to change, and its application depends on each company's particular facts. CFA Auditors accepts no liability for any loss arising from reliance on this circular without first obtaining specific professional advice. Please contact your usual CFA Auditors representative, or the contact details below, before taking or refraining from any action on the basis of this document.*

Contact Us:

+357 24 400391
info@cfa-auditors.com
www.cfa-auditors.com

Address:

57 Spyrou Kyprianou Avenue,
Bybloserve Business Center, 3rd Floor
Larnaca 6051, Cyprus



