

CYPRUS – THE IDEAL IP HOLDING JURISDICTION

| Contents | Page |
|---|-------------|
| A. INTRODUCTION..... | 3 |
| B. THE PROVISIONS OF THE IP BOX REGIME..... | 4 |
| I. Qualifying IP..... | 4 |
| II. Qualifying Profit (QP)..... | 5 |
| III. Accounting Records..... | 7 |
| IV. Practical Examples..... | 7 |
| C. CYPRUS – THE IDEAL IP HOLDING JURISDICTION..... | 7 |
| I. Typical IP Holding Structure..... | 8 |
| II. What Cyprus has to offer..... | 9 |
| Local Business Environment – Economic Substance:..... | 9 |
| Tax Aspects:..... | 10 |
| Legal Aspects:..... | 13 |
| D. CONCLUSION..... | 14 |
| E. HOW KINANIS LLC CAN ASSIST YOU..... | 15 |

A. INTRODUCTION

Companies owning intangible assets, such as patents, copyrights etc. are often in need of an IP Holding vehicle through which they will hold these assets, license them for the generation of royalty income and conduct their business activities.

Choosing the jurisdiction of such an IP Holding vehicle requires careful consideration to ensure that there will be adequate asset protection, ideal environment for asset development, tax optimisation and flexibility in the legal framework that this vehicle will operate in.

Cyprus with the introduction of the IP Box regime in 2012 and the subsequent amendments in 2016, to comply with the guidelines of the OECD, has become a major player in the field of IP holding jurisdictions.

In this brochure we shall examine the main features of the amended IP Box tax regime and other factors in order to analyse the importance of the Cyprus IP Holding Company and highlight the benefits it can offer to the international investor.

B. THE PROVISIONS OF THE IP BOX REGIME

The Cyprus IP Box Regime applies on Qualifying IP's which are developed after the 1st of July 2016. In order for a Cyprus IP Holding Company to benefit from the favourable tax regime it must satisfy certain conditions of the IP Box Regime. According to the Regime, 80% of "**Qualifying Profit**" generated from Qualifying IP Rights will be considered as a deemed expense for corporation tax purposes. The remaining 20% will be subject to the normal corporation tax rate of 12.5%. Thus, the Qualifying profits will have an effective tax rate of as low as 2.5%. The conditions of the IP Box Regime are analysed in more detail below:

I. Qualifying IP

A qualifying IP means an asset which was acquired, developed or exploited by a person in the course of his business and it is a result of research and development. It also includes assets for which only economic ownership exist.

Qualifying assets under the regime include:

- Patents as defined in the Patents Law
- Computer Software
- Other IP assets which are legally protected and they fall under one of the following:
 - a) Utility Models.
 - b) Nonobvious, useful and novel where the person utilising does not generate gross revenues over EURO 7,500,000 or in the case of a group not more than EURO 50,000,000 using a weighted average method of the last 5 years for the calculation of both figures. The IP assets mentioned in this point should be certified by an Appropriate Authority in Cyprus or abroad.

The definition of Qualifying IP **specifically excludes** business names, brands, trademarks, image rights and other intellectual property rights used for the marketing of products and services.

II. Qualifying Profit (QP)

The term Qualifying Profit is calculated as follows:

$$QP = \frac{QE+UE}{OE} \times OI$$

Where:

QE: Qualifying Expenditure

UE: Uplift Expenditure

OE: Overall Expenditure

OI: Overall Income

The relevant terms are explained below.

Qualifying Expenditure (QE)

Qualifying Expenditure is defined as the total expenses for research and development carried out wholly and exclusively for the development, improvement or creation of Qualifying IP in any fiscal year. The above expenditure should be a direct expenditure.

Qualifying Expenditure includes but is not limited to the following:

- Wages and Salaries for research and development
- Direct Costs
- General expenses relating to the facilities used for research and development
- Expenses for supplies relating to research and development
- Expenditure relating to research and development which has been outsourced to an unrelated party

But they do not include:

- Cost of acquisition of intangible assets
- Interest paid or payable
- Costs for the acquisition or development of immovable property

- Amounts paid or payable directly or indirectly to a related party to conduct research and development irrespective of whether these amounts relate to a cost sharing agreement
- Cost which cannot be proved that related directly to the Qualifying Asset

Uplift Expenditure (UE)

Uplift Expenditure means the lower of:

- 30% of qualifying expenditure, or
- The total amount for the cost of acquisition and the research and development outsourced to related parties

Overall Expenditure (OE)

Overall Expenditure means the total capital expenditure either qualifying or not, relating to the creation of the Qualifying IP.

Overall Income (OI)

The term Overall Income refers to the gross income arising from the Qualifying IP in a tax year less the direct costs incurred for the production of this gross income. The term includes but it is not restricted to the following:

- Royalties or other amounts in relation to the use of the Qualifying IP
- Any amount received as license for the use of a Qualifying IP
- Any amount received from insurance or compensation in relation to the Qualifying IP
- Embedded income of the Qualifying IP which income derives from the sale of goods, services or procedures relating directly with the Qualifying asset

Direct costs include:

- All direct or indirect costs incurred in earning the income from the qualifying intangible asset
- The amortization of the cost of the intangible

- Notional Interest Deduction (NID) on equity contributed to finance the development of the qualifying intangible asset

Capital gain derived from the disposal of Qualifying IP are not included in the Overall Income and are fully exempt from Tax.

III. Accounting Records

Any person who claims benefit under the IP Box Regime should maintain proper books and records in accordance with the laws in Cyprus.

IV. Practical Examples

Practical examples can be found in Schedule 2 of this brochure.

C. CYPRUS – THE IDEAL IP HOLDING JURISDICTION

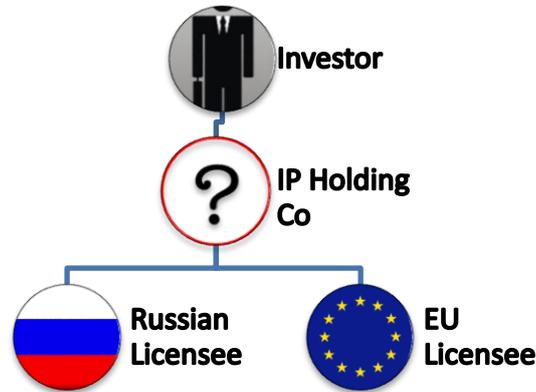
Taking into consideration the global tax trends and requirements as well as the specific requirements of the Cyprus IP Box, the simple set-up of a company in Cyprus will not be adequate in order to enjoy the full benefits that Cyprus has to offer.

The investors who want to create an efficient structure in order to develop the patents or copyrights (i.e. computer software) must create strong roots and real economic substance in Cyprus. Therefore, they will need to set up their regional headquarters in Cyprus, relocate specialist from abroad to form a strong board of directors and middle management and/or use the local employment market to find suitable employees. By doing this a whole new window of opportunity is opened for the investors to develop innovation in a welcomed and tax efficient environment.

The Cyprus IP Box in relation to the tax treatment of royalties received from a Qualifying IP as analysed above, is definitely beneficial. However, when taking into consideration the other features of the Cyprus tax, legal and business environment it becomes evident that Cyprus is the ideal IP Holding Jurisdiction.

In order to demonstrate this, we analyse below, in more detail, the elements of a typical IP Holding Structure and bring up the benefits of the tax, legal and business environment in Cyprus.

I. Typical IP Holding Structure



As shown in the diagram above, a typical IP holding structure involves an investor setting up an IP Holding Company which will develop and be the owner of a Qualifying IP. The IP Holding Company will license the Qualifying IP, for example, to CIS Region and European licensees. The investor will need to take into consideration Tax, Legal and Local Business Environment issues when deciding which jurisdiction to use for the IP Holding such as:

Local Business Environment:

- a. The investor should consider to hire local employees.
- b. Acquisition of Premises for the execution of the primary activities.
- c. Relocation of the Directors and other Employees from abroad.

Tax issues:

- a. withholding tax deducted from the foreign jurisdiction on the incoming royalty income.
- b. taxation of the royalty income at the jurisdiction of the IP Holding Co.
- c. withholding tax deductions on payments of dividends to the Investor.
- d. taxation on profit from sale of the IP Right.

Legal issues:

- a. The IP asset to be sufficiently protected.
- b. Legally permissible to develop the Qualifying IP.

II. What Cyprus has to offer

Local Business Environment – Economic Substance:

There are several elements that contribute in the strong business environment of Cyprus. These include the strategic location, standard of living, infrastructure, skilled workforce and favourable tax system. All these combined with low operating costs make Cyprus attractive to investors and entrepreneurs. Further, as mentioned above, investors must create real economic substance in Cyprus in order to be able to enjoy the full benefits that Cyprus has to offer. Some of the elements are analysed below.

1. Acquisition of Premises for the execution of the primary activities.

Cyprus is the third largest island in the Mediterranean, which links Europe, Africa and Asia. Due to the strategic location, Cyprus is considered as a very popular tourist destination and business hub. Further the cost of maintaining premises in Cyprus is relatively low compared with other business hubs in Europe.

2. Relocation of the Directors or Employees

In Cyprus you can enjoy a high standard of living. Cyprus has a good climate which allows you to visit its clean and beautiful beaches and mountains. Also, Cyprus is well known for its rich culture and the hospitality of its people. At the same time, Cyprus offers an ideal place to raise a family with good education system with many English-speaking schools. Cyprus has a good healthcare system and one of the lowest crime rates within the EU. Furthermore, there are attractive tax schemes for highly remunerated directors and employees. For more information you may refer to our publication "Relocation and Retirement in Cyprus - The Tax Aspect".

Therefore, considering all of the above Cyprus will be an attractive destination for a person to relocate, work and live with his/her family.

3. The investor should consider to hire local employees.

In proportion to its population, the island ranks among the highest in the EU with respect to university graduates. The majority of university graduates are from English speaking universities. Further, the average annual salary of young University graduates is considered more competitive compared with other European business hubs.

Tax Aspects:

1. Incoming Royalties – Withholding Tax on Foreign Jurisdiction

Whenever a licensee makes a payment of royalty to the licensor (i.e. the IP Holding Company), the country of residence of the licensee has the right to deduct withholding tax on the amount. This means that instead of the IP Holding Company receiving the full amount of royalties, it will receive only the net amount after the deduction of withholding taxes.

The investor therefore, must choose a jurisdiction that will give him the ability to extract incoming royalties from the various jurisdictions with as low as possible withholding tax deduction from their jurisdictions

Cyprus has many tools available that will enable the investor to achieve this. In particular the investor may seek the benefits obtained from:

- **The Double Tax Treaties**

Cyprus has signed an extensive network of Double Tax Treaties with third countries. This gives the ability to extract royalties from these jurisdictions at reduced rates when compared with the normal withholding tax rates imposed by these jurisdictions in the absence of such treaties.

A summary of the Double Tax Treaties that Cyprus has signed with the applicable withholding tax rates can be found in Schedule 1 of this brochure with relevant notes.

It is important to note that in order to be able to benefit from the treaties the company should at **least** meet the following conditions:

- i. The Double Tax Treaties apply to natural and legal persons who are **tax residents** in Cyprus. Therefore it is important that careful tax planning is made to ensure that the effective management and control of the IP Holding Company is performed from Cyprus.
- ii. Further, it is important that the IP Holding Company to be considered as the beneficial owner of the income in order foreign tax authorities to grant the treaty benefits. Therefore, the company should have sufficient economic substance in order to obtain the treaty benefits.
- iii. The structure was not set up with principal purpose to obtain treaty benefits.

- **Relief under the EU Interest and Royalty Directive**

The **EU Interest and Royalty Directive** provides for the abolition of withholding taxes on Interest and Royalties paid by a licensee who is resident in one EU Member State to a licensor company being resident in another EU Member State provided both are within the same group.

With careful tax planning, a Cyprus IP Holding Company can enjoy the benefits of this EU directive, which grants the ability to receive royalties from all other EU member states with no withholding tax. It therefore opens the European Market to the investor, it reduces the tax leakage and hence, gives flexibility and significant competitive advantage in relation to pricing.

The same conditions as to the tax residency, beneficial owner of the income and the principal purpose test must be met in order to benefit from this directive.

- **Unilateral Tax Credit Relief**

In cases where the Double Tax Treaty network or the Interest and Royalty Directive relief are not providing sufficient protection, it is possible for a Cyprus IP Holding Company, under the provisions of the Cyprus Tax Law, to claim a Unilateral Tax Credit Relief.

In effect, any tax paid abroad will be credited against any tax that might be payable for the particular income in Cyprus avoiding therefore the double taxation of the specific income. In order to obtain this tax credit, the company must provide sufficient evidence in original proving the payment of overseas taxation on the specific royalty income.

All of the above three tools allow the investor to minimise its tax exposure on withholding taxes paid abroad on the incoming royalties and therefore enhance its overall tax exposure.

2. Taxation of Royalty Income Received – Local Tax

As stated in Section B above, the Cyprus tax legislation provides that 80% of “Qualifying Profit” generated from such Qualifying IP Rights will be exempt from corporation tax. The remaining 20% will be subject to the normal corporation tax rate of 12.5%.

The above provisions make the maximum effective taxation on royalties to be as low as 2.5% with the ability of further reduction.

3. Outgoing Dividends

Any profits generated by the Cyprus IP Holding Company can be distributed to its shareholder in the form of dividends.

According to the Cyprus Tax Law any dividends payable by a company resident in Cyprus to its foreign shareholders (natural or legal persons) or to a Cyprus but non domicile tax resident individual is not subject to any withholding tax in Cyprus.

This is very important as it allows for funds to move to the investor without any additional tax leakage in Cyprus.

4. Taxation on possible sale of the IP Right

Every investor needs to have an exit strategy so as to be able to respond quickly whenever favourable opportunities to dispose the IP Right appear.

Investing through a Cyprus IP Holding Company will provide the investor with a tax efficient exit route since, as mentioned in Section B the favourable tax treatment of a maximum effective tax rate of 2.5%, covers also potential profits from any future sale of the IP Right.

To avoid Beneficial Ownership issues, the Cyprus IP Holding Company must have a balanced and prudent dividend policy.

Legal Aspects:

1. The IP asset to be sufficiently protected.

The legislation of Cyprus based on common law and it is in line with European legislation. In this respect, Cyprus meets all the requirements and standards of The World Intellectual Property Organization (WIPO) and the European Union Intellectual Property Office (EUIPO).

Moreover, Cyprus is a signatory to the following International Conventions:

- Bern Convention on the Protection of Literary and Artistic Works.
- Madrid Agreement and Protocol on the Registration of Trademarks at International Level.
- Paris Convention on the Protection of Industrial Property.
- European Community Trademarks.

- Convention Establishing the World Intellectual Property Organisation (“WIPO”).
- The Patent Cooperation Treaty.
- Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms.
- WIPO Performance and Phonograms Treaty.
- Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations.
- Trademark Law Treaty.
- WIPO Beijing Treaty on Audiovisual Performances.

2. Legally permissible to develop the Qualifying IP.

Cyprus is generally opened to new ideas and does not have a lot of restrictions. Further, Cyprus not only does not prohibit any development in new ideas but encourages businesspeople to introduce and develop ideas and invest in innovative products. Moreover, Cyprus offers tax incentives to support businesses in developing innovative products and services which strengthen the Cypriot entrepreneurial ecosystem.

D. CONCLUSION

Taking into consideration the issues analysed above it is evident that Cyprus is the Ideal IP Holding jurisdiction. It allows for proper protection of the IP Rights and it provides for very competitive and efficient tax planning opportunities.

Companies that are engaged in the acquisition and development of IP Rights, must seriously consider the Cyprus IP Holding Company as the investment vehicle that will provide them with all the necessary tools to plan and structure efficiently their investment.

E. HOW KINANIS LLC CAN ASSIST YOU

- Providing Tax Optimisation Advice
- Setting up, consulting and management of IP Holding Companies
- Advising and drafting IP transactions including financing, acquisitions, sales and licences
- Registering IP Rights in Cyprus and abroad
- Introduction of real estate agents in Cyprus
- Registration with Migration department
- Accounting and Payroll Services

DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

March 2021

AUTHORS

Marios Palesis

Partner – Tax Department
marios.palesis@kinanis.com

Stelios Lympouras

Officer – Tax Department
tax@kinanis.com

SCHEDULE 1 - TAX TREATIES WITHHOLDING TAX TABLES

The following table gives a summary of the withholding taxes for dividends, interest and royalties received in Cyprus provided by the double tax treaties entered into by Cyprus. It must be mentioned that for payment made from Cyprus to any foreign jurisdiction, there is no withholding tax deduction under the local legislation. In case royalties are paid on rights used within Cyprus, there is a withholding tax of 10% unless restricted by a treaty.

Received in Cyprus

| Payer | Dividends (%) | Interest (%) | Royalties (%) | Notes | Payer | Dividends (%) | Interest (%) | Royalties (%) | Notes |
|--------------------------|---------------|--------------|---------------|-------|--------------------------|---------------|--------------|---------------|-------|
| Treaty countries: | | | | | Treaty countries: | | | | |
| Andorra | 0 | 0 | 0 | | Latvia | 0 | 0 | 0 | * |
| Armenia | 0 | 5 | 5 | * | Lebanon | 5 | 5 | 0 | |
| Austria | 10 | 0 | 0 | | Luxembourg | 5 | 0 | 0 | * |
| Bahrain | 0 | 0 | 0 | | Lithuania | 0 | 0 | 5 | * |
| Barbados | 0 | 0 | 0 | | Malta | 15 | 10 | 10 | |
| Belarus | 5 | 5 | 5 | * | Mauritius | 0 | 0 | 0 | |
| Belgium | 10 | 10 | 0 | * | Moldova | 5 | 5 | 5 | * |
| Bosnia | 10 | 10 | 10 | * | Montenegro | 10 | 10 | 10 | * |
| Bulgaria | 5 | 7 | 10 | * | Norway | 0 | 0 | 0 | * |
| Canada | 15 | 15 | 10 | * | Poland | 0 | 5 | 5 | * |
| China, P.R. | 10 | 10 | 10 | | Portugal | 10 | 10 | 10 | |
| Czech Republic | 0 | 0 | 0 | * | Qatar | 0 | 0 | 5 | * |
| Denmark | 0 | 0 | 0 | * | Romania | 10 | 10 | 5 | * |
| Egypt | 5 | 10 | 10 | * | Russia | 15 | 15 | 0 | * |
| Ethiopia | 5 | 5 | 5 | | San Marino | 0 | 0 | 0 | |
| Estonia | 0 | 0 | 0 | | Saudi Arabia | 0 | NA | 5 | * |
| Finland | 5 | 0 | 0 | * | Serbia | 10 | 10 | 10 | * |
| France | 10 | 10 | 0 | * | Seychelles | 0 | 0 | 5 | |
| Georgia | 0 | 0 | 0 | | Singapore | 0 | 10 | 10 | * |
| Germany | 5 | 0 | 0 | * | Slovak Republic | 10 | 10 | 5 | * |
| Greece | 25 | 10 | 0 | * | Slovenia | 5 | 5 | 5 | * |
| Guernsey | 0 | 0 | 0 | | South Africa | 5 | 0 | 0 | * |
| Hungary | 5 | 10 | 0 | * | Spain | 0 | 0 | 0 | |
| Iceland | 5 | 0 | 5 | * | Sweden | 5 | 10 | 0 | * |
| India | 10 | 10 | 15 | * | Switzerland | 0 | 0 | 0 | * |
| Iran | 5 | 5 | 6 | * | Syria | 0 | 10 | 10 | * |

| | | | | | | | | | |
|------------------|----|----|----|---|----------------------|----|----|---|---|
| Ireland, Rep. of | 0 | 0 | 0 | * | Thailand | 10 | 15 | 5 | * |
| Italy | 15 | 10 | 0 | | United Arab Emirates | 0 | 0 | 0 | |
| Jersey | 0 | 0 | 0 | | Ukraine | 5 | 5 | 5 | * |
| Kazakhstan | 5 | 0 | 10 | * | United Kingdom | 0 | 0 | 0 | * |
| Kuwait | 0 | 0 | 5 | * | United States | 5 | 10 | 0 | * |

NOTES

Armenia

- **Dividends:** A rate of 5% if a dividend is paid by a company in which the beneficial owner has invested less than EUR 150.000,00

Belarus

- **Dividends:** If investment is less than EUR 200.000,00 dividends are subject to 15% withholding tax rate which is reduced to 10% if the recipient company controls 25% or more of the paying company.

Belgium

- **Dividends:** A rate of 15% if received by a company controlling less than 25% of the voting power.
- **Interest:** Nil if paid to a government, bank, or financial institution. Nil if paid to the government of another state. No withholding tax rate for interest on deposits with banking institutions.

Bosnia

- Applies the Yugoslavia/Cyprus treaty.

Bulgaria

- **Dividends:** This rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the withholding tax rate is 10%.
- **Interest:** Nil if paid to the government of the other state. This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity.

Canada

- **Interest:** Nil if paid to a government or for export guarantee.
- **Royalties:** Nil on literary, dramatic, musical, or artistic work.

Czech Republic

- **Dividends:** This rate applies if received by a company (excluding partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases.
- **Royalties:** 10% for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

Denmark

- **Dividends:** Nil if paid to the government of the other state. A rate of 15% if received by a company controlling less than 10% of the share capital of the paying company or the duration of any holding is less than one uninterrupted year.

Egypt:

- **Dividends:** 5% if a dividend is paid to a company (excl. partnerships), which owns at least 20% of share capital of the paying company. 10% for all other cases

Finland

A rate of 15% applies if received by a company controlling less than 10% of the voting power in the paying company and in all cases if received by an individual.

France

- **Dividends:** A rate of 15% if received by a person controlling less than 10% of the voting power.
- **Interest:** Nil if paid to a government, bank, or financial institution.
- **Royalties:** A rate of 5% on film and TV royalties.

Germany

- **Dividends:** A rate of 15% if received by a company controlling less than 10% of the voting power.

Greece

- **Dividends:** The treaty provides for withholding tax rate on dividends but Greece does not impose any withholding tax in accordance with its own legislation.
- **Royalties:** A rate of 5% on film royalties.

Hungary

- **Dividends:** A rate of 15% if received by a company controlling less than 25% of the voting power.
- **Interest:** Nil if paid to the government of the other state.

Iceland

- **Dividends:** 5% if the beneficial owner is a company (other than partnership) which holds directly at least 10% of the capital of the company paying the dividends. 10% in all other cases

India

- **Dividends:** A rate of 15% if received by a person controlling less than 10% of the voting power.
- **Interest:** Nil if paid to a government, bank, or financial institution.
- **Royalties:** A rate of 10% for payments of a technical, managerial, or consulting nature.

Iran

- **Dividends:** 5% if the beneficial owner is a company (other than partnership) which holds directly at least 25% of the capital of the company paying the dividends. In all other cases the withholding tax rate is 10%

Ireland

- **Royalties:** A rate of 5% on film royalties.

Kazakhstan

- **Dividends:** 5% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends. 15% in all other cases.
- **Interest:** NIL if the beneficial owner is the Government of the other Contracting State, a political subdivision, a central or local authority, the Central Bank or any other financial institution wholly owned by the Government of the other Contracting State. 10% in all other cases.

Kuwait

- **Interest:** Nil if paid to the government of the other state.
- **Royalties:** This rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

Latvia:

- **Dividends:** 0% if the beneficial owner is a company (excl. partnerships). 10% in all other cases
- **Interest:** 0% of the gross amount of the interest, if the interest is paid by a company that is a resident of a Contracting State to a company (excl. partnership) that is a resident of the other Contracting State and is the beneficial owner of the interest. 10 in all other cases.

- **Royalties:** 0% on the gross amount of the royalties, if the royalties are paid by a company that is a resident of a Contracting State to a company (excl. partnership) that is a resident of the other Contracting State and is the beneficial owner of the royalties. 5% in all other cases

Lithuania

- **Dividends:** NIL if the beneficial owner is a company (other than partnership) which holds directly at least 10% of the capital of the company paying the dividends. 5% in all other cases

Luxembourg

- **Dividends:** A rate of 0% applies for corporate investors holding directly at least 10% of the capital of the paying company.
- The DTT incorporates the OECD/G20 Base Erosion and Profit Shifting (BEPS) project Action 6 PPT.

Moldova

- **Dividends:** This rate applies if received by a company (excluding partnerships) that holds directly 25% of the shares. A rate of 10% applies in all other cases.

Montenegro:

- Applies the Yugoslavia/Cyprus treaty.

Norway

- **Dividends:** A rate of 5% if received by a person controlling less than 50% of the voting power.

Poland

- **Dividends:** Requirement to hold at least 10% for an interrupted period of 24 months. Otherwise a rate of 5% will be applicable.
- **Interest:** Nil if paid to the government of the other state.

Qatar

- **Royalties:** Applies to any consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), computer software, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience.

Romania

- **Interest:** Nil if paid to the government of the other state.
- **Royalties:** This rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

Russia

- **Dividends:** a rate 0% or 5% on dividend payments will be imposed where the recipient/beneficial owner of the income are certain regulated entities or listed companies with specific characteristics.
- **Interest:** a rate 0% or 5% on interest payments will be imposed where the recipient/beneficial owner of the income are certain regulated entities or listed companies with specific characteristics. In addition, no withholding tax shall be applicable on interest payments arising on listed corporate bonds, government bonds and Euro bonds.

Despite the rates of withholding tax mentioned above, Cyprus will continue to apply no withholding tax on dividend and interest payments as per the Cyprus Domestic Law.

Saudi Arabia

- **Dividends:** 0% if received by a company (excluding partnership) which holds directly or indirectly at least 25% of the shares of the company paying the dividends. In all other cases the withholding tax rate is 5%.
- **Interest:** Nil on payments of income from debt-claims.
- 5% applies for royalty payments for the use of, or the right to use, industrial, commercial or scientific equipment. In all other cases the withholding tax rate is 8%.

Serbia

- Applies the Yugoslavia/Cyprus treaty.

Singapore

- **Interest:** Nil if paid to the government of the other state. A rate of 7% if paid to a bank or financial institution.

Slovak Republic

- **Interest:** Nil if paid to the government of the other state.
- **Royalties:** This rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

Slovenia

- **Dividends:** The provisions of the Parent-Subsidiary EU directive are applicable.

South Africa

- **Dividends:** A rate of 5% if the beneficial owner of the dividend holds at least 10% of the share capital of the company paying the dividends. 10% in all other cases.

Spain

- A rate of 5% if received by a company holding less than 10% of the share capital of the paying company and in all cases if received by an individual or a company not limited at least partly by shares

Sweden

- **Dividends:** A rate of 15% if received by a company controlling less than 25% of the voting power.
- **Interest:** Nil if paid to the government of the other state.

Switzerland

- **Dividends:** Nil if the beneficial owner is:
 - i) A company (other than a partnership) the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of at least one year.
 - ii) A pension fund or other similar institution recognised as such tax purposes, or
 - iii) The Government, a political subdivision, local authority or central bank of one of the two contracting states. 15% in all other cases.

Syria

- **Dividends:** A rate of 15% applies if received by a company controlling less than 25% of the voting power.
- **Interest:** Nil if paid to a government or for export guarantee.

Thailand

- **Interest:** A rate of 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial, or scientific equipment or of merchandise.
- **Royalties:** This rate applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A 10% rate applies for industrial, commercial, or scientific equipment. A 15% rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes.

Ukraine:

- **Dividends:** 5% is applicable if the dividend is received by a company owning at least 20% of the capital of the dividend paying company and has invested in the acquisition of shares or other rights of the dividend paying company of at least €100.000. 15% in all other cases.
- **Royalties:** 5% on royalty payments in respect of any copyright of scientific work any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience. 10% in all other cases.

United Kingdom

- **Dividends:** where dividends are paid out of income derived directly or indirectly from immovable property by an investment vehicle which distributes most of this income annually and provided that such income is tax exempt then a 15% withholding tax applies on the gross amount of the dividends, unless the beneficial owner of the dividends is a pension scheme established in the other Contracting State.
- The DTT incorporates the OECD/G20 Base Erosion and Profit Shifting (BEPS) project Action 6 PPT.

United States

- **Dividends:** A rate of 15% if received by a person controlling less than 10% of the voting power.
- **Interest:** Nil if paid to a government, bank, or financial institution.

SCHEDULE 2 – Practical Examples

Scenario 1: The asset was developed by the company itself.

Scenario 2: The asset was acquired and subsequently improved by non-related parties.

Scenario 3: The asset was acquired and subsequently improved by related parties.

Scenario 4: The asset was developed by the company and subsequently improved by non-related parties.

Scenario 5: The asset was developed by the company and subsequently improved by related parties.

| Facts: | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|--|--|---|--|--|---|
| | EUR | EUR | EUR | EUR | EUR |
| Total Overall Income (OI) | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Overall Expenditure (OE) | | | | | |
| <i>Cost of acquisition of asset</i> | N/A | 300,000 | 300,000 | N/A | N/A |
| <i>R&D costs incurred internally for creation and development of the asset</i> | 500,000 | N/A | N/A | 500,000 | 300,000 |
| <i>R&D costs for improvement of the asset, outsourced to nonrelated parties</i> | N/A | 200,000 | N/A | 200,000 | N/A |
| <i>R&D costs for improvement of the asset, outsourced to related parties</i> | N/A | N/A | 200,000 | N/A | 200,000 |
| Total Overall Expenditure (OE) | 500,000 | 500,000 | 500,000 | 700,000 | 700,000 |
| Qualifying Expenditure (QE) | | | | | |
| <i>Internal R&D for creation and development of asset</i> | 500,000 | N/A | N/A | 500,000 | 300,000 |
| <i>R&D for improvement of asset outsourced to non-related parties</i> | N/A | 200,000 | N/A | 200,000 | N/A |
| Total Qualifying Expenditure (QE) | 500,000 | 200,000 | N/A | 700,000 | 300,000 |
| Uplift expenditure, being the lower of: | | | | | |
| <i>30% of the qualifying expenditure, and</i> | 150,000 | 60,000 | 0 | 210,000 | 90,000 |
| <i>Total cost of acquisition plus cost of outsourcing R&D to related parties</i> | 0 | 300,000 | 500,000 | 0 | 200,000 |
| Total Uplift Expenditure (UE) | 0 | 60,000 | 0 | 0 | 90,000 |
| Application of the formula | | | | | |
| $QP = \frac{QE + UE}{OE} \times OI$ | $\frac{€5,000,000 \times [(\€500,000 + €0) / €500,000]}{€5,000,000}$ | $\frac{€5,000,000 \times [(\€200,000 + €60,000) / €500,000]}{€5,000,000}$ | $\frac{€5,000,000 \times [(\€0 + €0) / €500,000]}{€5,000,000}$ | $\frac{€5,000,000 \times [(\€700,000 + €0) / €700,000]}{€5,000,000}$ | $\frac{€5,000,000 \times [(\€300,000 + €90,000) / €700,000]}{€5,000,000}$ |

| | | QP under IP | Tax benefit: 80% of QP as notional deduction | Remaining Profit to be taxed under normal rates (12.5%) | Tax Liability | Total Tax Liability |
|-------------------|----------------------|-------------|--|--|---------------|------------------------|
| Scenario 1 | Ip Box Regime | €5,000,000 | €4,000,000 | €1,000,000 | 125,000 | €125,000 |
| | Normal Rates | €0 | €0 | €0 | €0 | |
| Scenario 2 | Ip Box Regime | €2,600,000 | €2,080,000 | €520,000 | €65,000 | €365,000 |
| | Normal Rates | €0 | €0 | €2,400,000 | €300,000 | |
| Scenario 3 | Ip Box Regime | €0 | €0 | €0 | €0 | €625,000 |
| | Normal Rates | €0 | €0 | €5,000,000 | €625,000 | |
| Scenario 4 | Ip Box Regime | €5,000,000 | €4,000,000 | €1,000,000 | 125,000 | €125,000 |
| | Normal Rates | €0 | €0 | €0 | €0 | |
| Scenario 5 | Ip Box Regime | €2,785,714 | €2,228,571 | €557,143 | €69,643 | €346,429 |
| | Normal Rates | €0 | €0 | €2,214,286 | €276,786 | |

OUR FIRM

We are a Law Firm with offices in Cyprus and Malta and a representative office in Shanghai China comprising of more than 50 lawyers, accountants and other professionals who advise, international and local clients.

The Firm has been offering legal and consulting services since 1983 evolving from a traditional law firm to an innovative cutting-edge multidisciplinary law firm combining exceptional expertise in law, tax, vat and accounting.

From its establishment the Firm's focus has been heavily business oriented and always abreast with the latest global developments and innovations. Drawing from our pool of experienced professionals we provide our clients' businesses full legal and accounting support on an everyday basis as well as customized solutions in today's global financial and legal challenges.

We consider ourselves as 'traditional pioneers' and our motto is to foresee and anticipate any issues that may potentially impact our clients' business and to offer effective advice and solutions proactively.

Kinanis LLC

Lawyers' Limited Company
12 Egypt Street, 1097, Nicosia
P.O. Box 22303, 1520 Nicosia, Cyprus
Tel: + 357 22 55 88 88 – Fax: + 357 22 66 25 00
E-mail: KinanisLLC@kinanis.com – Web site: www.kinanis.com

Kinanis

Civil Partnership, Law Firm
Kinanis Fiduciaries Limited
Suite 20, The Penthouse, 4th Floor, Ewropa Business Centre,
Dun Karm Street, Birkirkara, BKR 9034, Malta
Tel: + 356 27 54 00 24, Fax: + 356 27 54 00 25
E-mail: malta@kinanis.com - Website: www.kinanis.com

Kinanis (China) Limited

China Representative Office
Room 909, 9/F, Building No.390-408,
Beijing East Road, Huangpu District,
Shanghai. 200001, China
Tel: + 86 18 410 072 690
E-mail: china@kinanis.com - Website: www.kinanis.com