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CYPRUS IP BOX REGIME

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Legal Message

The IP box regime in Cyprus stands out as one of the most attractive frameworks in Europe for the taxation of income derived from intellectual property assets. Introduced to foster innovation and stimulate research and development, Cyprus' IP box regime provides companies the opportunity to significantly optimize their tax position while maintaining compliance with international standards such as the OECD's "nexus approach".

Under the latest legislative developments, qualifying companies benefit from an 80% exemption on profits generated by eligible IP assets, resulting in an effective tax rate as low as 2.5%. This preferential regime covers a broad spectrum of intellectual property—including patents, software, and other innovative proprietary technology developed through substantial R&D activities in Cyprus.

For multinational corporations, tech startups, and pharmaceutical firms seeking an EU base for IP ownership and management, Cyprus offers not only competitive tax savings but also streamlined compliance, robust legal protection, and central management advantages. The regime encourages substantial local substance, ensuring both operational presence and effective governance of intellectual property within the jurisdiction.

1. General provisions

IP Box Regime is a corporate tax regime used to stimulate research and development («**R&D**») activities by taxing revenues deriving from licenses, royalties, patents, sale or transfer of qualified intellectual property («**IP**») assets differently offering lower taxes compared to other commercial revenues.

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To apply for IP Box Regime entity should be a Cyprus tax resident, or Cyprus permanent establishments of non-Cyprus tax resident entities, or permanent establishments of overseas entities liable to tax in Cyprus. Entities claiming benefits under the IP Tax Regime are obliged to maintain proper books of account, as well as records of income and expenses for each intangible asset.

Under the Cyprus IP Box regime, 80% of the net income generated from qualifying IP assets (net of R&D costs) is exempt from taxation. This results in a tax rate of approximately 2.5%, which is substantially lower than Cyprus's general corporate tax rate of 12.5%.

2. Qualifying ip assets

Qualifying IP Assets are assets which are acquired, developed, or exploited by a person in the ordinary course of business (excluding intellectual property intended primarily for marketing purposes) and which originates from R&D activity, and includes intangible assets for which the person is the economic owner.

The regime applies to certain IP assets that are the result of R&D activities. These include:

- patents
- computer software
- other IP assets which are legally protected and fall within one of the following categories:
 - utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;
 - non-obvious, useful and novel IP assets, where the person utilizing them in furtherance of a business does not generate annual gross revenues in excess of €7,500,000 from all intangible assets (€50,000,000 in case of a group of companies), which are certified as such by an appropriate authority, in Cyprus or abroad.

Excluded IP assets include business names, trademarks, image rights, marketing activities.

3. Eligible income

Eligible income qualifying for the IP Box regime is determined pursuant to the nexus approach, which proportionally ties regime benefits to the extent of R&D activity performed by the company. Qualifying income

may include:

- royalty payments;
- amounts for the grant of a licence;
- trading income from the sale of qualifying IP (note that capital gains on IP are excluded; as such, capital gains are not subject to taxation in Cyprus);
- IP income embedded in the sale of products, services, or the use of processes directly related with qualifying IP assets; and
- compensation resulting from infringement of such rights.

Income that does not directly result from the exploitation or sale of qualifying IP assets does not constitute qualifying income for regime purposes.

4. Nexus approach for calculating qualifying profits

According to Cyprus IP Tax regime, 80% of the qualifying net income (after the deduction of R&D expenses) derived from qualifying IP assets is exempt from taxation.

The amount of profits eligible for the 80% tax exemption will depend on the level of R&D expenditure carried out by the taxpayer to develop the qualifying asset. The qualifying profits are calculated based on the following fraction that captures this:

$$\begin{aligned} & \text{Qualifying Profits} \\ &= \left(\frac{\text{Qualifying Expenditure} + \text{Uplift Expenditure}}{\text{Overall Expenditure}} \right) \\ & \times \text{Overall Income} \end{aligned}$$

Where:

- **Qualified Expenditure** – the sum of total R&D costs, wholly and exclusively directed to the development, improvement or creation of qualifying intangible assets and which costs are directly related to the qualifying intangible assets.

Qualified Expenditure include:

- wages and salaries;
- direct costs;
- general expenses relating to installations used for R&D;
- commission expenses associated with R&D activities;
- costs associated with R&D activities that have been outsourced to non-related persons.

Qualified Expenditure does not include costs for

acquisition of intangible assets, interests paid or payable, amounts paid or payable directly or indirectly to a related person to conduct R&D activities, costs which cannot be proved directly connected to a specific qualifying intangible asset.

- **Uplift Expenditure** – an amount equal to 30% of the Qualified Expenditure which may be added to those expenditures, provided that Qualified Expenditure, as increased by the uplift, does not exceed Overall Expenditure.
- **Overall Expenditure** include the sum of Qualified Expenditure, the total acquisition cost of the intangible asset, R&D costs outsourced to related parties for the development of Qualifying IP Asset.
- **Overall Income** – gross income earned from qualifying intangible assets during the tax year, minus any direct costs incurred for generating the income.

Overall Income include:

- royalties or other amounts resulting from the use of qualifying intangible assets;
- license income for the operation of qualifying intangible assets;
- income from the disposal of qualifying intangible assets, excluding profits of a capital

nature;

- embedded income of qualifying intangible assets arising from the sale of products or services, or from the use of procedures that are directly related to the assets.

Direct costs include:

- all costs incurred (directly or indirectly), wholly and exclusively for the purpose of earning the income from qualifying intangible assets;
- the amortization of the cost of the assets;
- notional interest on equity contributed to finance the development of the assets (being a notional interest tax deduction allowed by Cyprus tax provisions).



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