

The Cyprus Intellectual Property Box Regime

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By **Katrien de Poorter**, 8th September 2026

Introduction

The Intellectual Property (IP) Box Regime, sometimes referred to as the Patent Box Regime, is a tax framework used by several jurisdictions worldwide to encourage innovation. It offers significant tax incentives to businesses engaged in research and development (R&D) by reducing the effective tax burden on income generated from qualifying IP assets.

Cyprus has positioned itself as a leading jurisdiction for establishing IP structures. Its [attractive tax regime](#), robust legal protections, and access to EU and international markets make it an ideal choice for businesses looking to safeguard and effectively manage their intellectual property.

Tax Benefits Available to IP Companies Under the IP Regime

The Cyprus IP Box Regime allows eligible companies to achieve a highly competitive effective tax rate through several key incentives:

- **80% Tax Deduction on Qualifying Profits:**

Companies can deduct 80% of profits derived from Qualifying Assets, resulting in an effective tax rate as low as 3%.

- **Exemption on Disposal of Qualifying Assets:**

No tax is imposed on gains from the disposal of qualifying IP, provided the transaction is of a capital nature

Additional Tax Incentives (Outside the IP Box Regime)

Even if an IP asset does not qualify under the regime, Cyprus still offers other attractive tax benefits:

- **Capital Allowances:**

Most intangible assets (excluding goodwill) qualify for tax amortisation over their useful economic life, up to a maximum of 20 years.

- **Enhanced R&D Deductions:**

Businesses conducting R&D can deduct 120% of eligible expenses from taxable income for costs incurred during the qualified time frame, including capital expenditures.

- **Notional Interest Deduction (NID):**

Companies funded through new equity may claim a notional deduction on income. The deduction is capped at 80% of taxable profits and can be used alongside the IP Box Regime, further enhancing tax efficiency, potentially reducing the effective tax rate to 3%.

Key Considerations When Structuring an IP Company

- **Economic Ownership**

To claim benefits, the company must be the economic owner of the qualifying asset, bearing the risks and enjoying the rewards of its exploitation.

- **R&D and Acquisition Costs**

- The more R&D a company undertakes directly, the greater the share of profits eligible for the 80% deduction.
- Outsourced R&D to non-related parties can still qualify.
- However, if acquisition costs or R&D performed by related parties exceed 30% of total R&D expenses, the benefit may be reduced.

Challenges and Obligations of IP Companies Claiming the IP Exemption

Claiming the IP Box benefits comes with specific reporting and compliance requirements:

- **Transfer Pricing (TP) Requirements:**

If income includes embedded IP-related elements, such as royalties within product sales, a TP study aligned with OECD guidelines is required to substantiate the allocation of profits.

- **Nexus Fraction Tracking:**

Companies must maintain detailed records of income and expenses for each qualifying asset to accurately calculate the “nexus fraction” and qualifying profits.

- **R&D Definition Ambiguity:**

Since Cyprus tax law does not precisely define R&D for nexus purposes, proper documentation and classification of R&D activities are crucial.

VAT Considerations on IP Transactions

The treatment of IP assets for VAT purposes depends on how they are acquired and exploited:

- **Supply of IP Assets**

The transfer or licensing of IP is treated as a supply of services under Cyprus VAT rules.

- **Cross-Border Acquisitions**

When IP assets or R&D services are acquired from foreign suppliers for use in Cyprus, businesses may be required to register for VAT and comply with reporting obligations.

- **VAT Challenges**

Given that IP exploitation often spans multiple jurisdictions, businesses must ensure compliance with both local and foreign VAT regulations to avoid penalties.

Conclusion

The Cyprus IP Box Regime offers significant opportunities for businesses to manage and exploit intellectual property in a highly tax-efficient manner. However, maximising these benefits requires careful planning, robust recordkeeping, and compliance with both tax and VAT obligations.

Before establishing an IP structure or transferring assets, companies should seek specialised tax and legal advice to ensure they take full advantage of available incentives while minimising risk.

How Dixcart Can Help

At Dixcart, we have over 50 years of experience supporting businesses and individuals with international tax planning and corporate structuring.

Our team can assist with:

- Evaluating whether your company will be eligible for the IP Box regime and assisting with the application.
- Incorporation of a Cyprus company and ensuring compliance with local regulations
- Providing ongoing accounting, secretarial and compliance support

Every client's situation is unique. We work closely with you to understand your objectives and provide tailored, practical solutions that meet your needs today and protect your interests for the future.

If you're considering establishing a Cyprus company or want to explore the benefits of the IP Box Regime, contact us at advice.cyprus@dixcart.com. Our specialists will be happy to guide you through the process.

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