

Cyprus as Technology Hub

September 2021

Dear Clients, Associates, and Friends

Below we lay out some of the main advantages Cyprus offers for a business looking to relocate or establish its Research & Development (R&D) unit in Cyprus and the broader use of Cyprus as a Technology Hub.

A. Importance of R&D and key considerations



The R&D function plays a dominant role for the growth and expansion of a multinational tech organisation (**MN Tech Company**). The ultimate purpose is to discover a novel invention, a 'block buster' that will soar in demand thus producing substantial return over a period of time.

It is no secret that modern businesses have R&D at the forefront of every strategic plan and capital budgeting.

R&D typically demands significant capital investment. In fact, MNEs (and MN Tech Companies) pour significant capital to create and enhance their R&D function. Considering whether to invest in R&D requires careful consideration of financial and non-financial factors. In this respect a detailed financial business plan should be prepared and appraised.

Nicosia (Cyprus) - Limassol (Cyprus) – Moscow (Russia) – Athens (Greece) – Valletta (Malta)

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R&D environment / locating an R&D unit



The surrounding environment and specifically the jurisdiction hosting the R&D activity should be selected after careful evaluation of the options available via conducting a detailed due diligence. The due diligence aims to screen the profile of the targeted jurisdiction and appraise key risks that may impede the R&D operations and how the targeted jurisdiction may aid to alleviate identified key risks.

Brief summary of Key Risks

The key risks embedded in establishing and operating R&D in a Host Jurisdiction should be broadly divided into three main categories:

- ✦ Commercial risks. These encompass commercial and operational considerations such as, the commercial viability of the R&D project, its completion, performance, and effectiveness.
- ✦ Macroeconomic conditions. They mainly address interest rates, inflation and currency.
- ✦ Political and regulatory risks. These revolve around the stability, equitability and fairness of the legal and regulatory framework on which a foreign investor will operate.

B. Introducing Cyprus

B.1 Geographic location and EU member (EU state)

Cyprus is located at the crossroads of Europe, Middle East and Africa. Its unique location makes into the unsinkable airplane carrier floating in the Eastern Mediterranean. Having gained its independence in 1960, Cyprus joined European Union back in 2004 becoming the Eastern Mediterranean frontiers of EU. Cyprus Law draws upon (i) the UK Common Law and (ii) EU Laws and regulations. Cyprus adopted euro as its national currency in 2008.

B.2 Legal System

Cyprus legal system is stable and is founded on pro-business principles drawing on English Common Law (trust mechanism, floating charge, contractual principles etc) and adapts speedily to key business trends and needs. Cyprus has signed over 20 Bilateral Investment Treaties and over 65 Double Tax Treaties thus fostering international and cross border transaction.

Foreign investment is well entrenched in the Law and equality, fairness and just treatment is accorded to non-Cyprus nationals.

B.3 Country risk

Cyprus membership in EU and other international organisations or bilateral and trilateral partnerships, enhance its economic and diplomatic clout. In parallel, these alliances and memberships contribute to creating a safety net thus substantially alleviating concerns due to its prolonged political problem with Turkey after the latter invaded and illegally retains 34% of the island since 1974.

Standard & Poor (Credit Agency) -BBB investment grade to Cyprus with stable outlook. Political parties actively manifest their commitment to support foreign investment by removing remaining 'red tape', cultivating a business-friendly environment and coordinating with professional associations in the private sector.

B.4 Safety and living conditions

Cyprus is a safe and peaceful place (if not one of the safest places) to live. It offers a variety of opportunities and fits for different tastes, traditional or modern life styles. The sunny weather and its renowned beaches make it a popular destination for holidays and/or permanent residence.

In parallel, Cyprus offers a high-level educational standard through the growing number of private and public schools covering all the spectrum of education, while the cost of living is relatively lower compared to other European Countries.

Cyprus



B.5 Fast Track Business Activation for Tech Cos

Cyprus introduced the Fast-Track Business Activation (FTBA) path pursuing the streamline and expediting the process for (i) setting up a business, (ii) providing information for licensing, installation and operation of companies and (iii) issuing residence and employment permits to non-EU nationals and direct access to the family reunification. Prerequisites for using this path is for the applicant to constitute a Tech Company set up and functioning in Cyprus, presentation of its historic revenue records (if existing company) or a business plan with a growth potential (if a new company).

C. Tax Cost

The tax cost is also a consideration in the evaluation process for determining the R&D host jurisdiction. Stating the obvious, tax cost plays a role as it may accelerate or diminish the overall cost of the project, thus affecting the Net Present Value of the R&D project and consequently the return to the Investors.

Cyprus unlocks a relative attractive tax system with a current corporate tax rate of 12,5% and abide with international and EU norms. Specifically addressing the taxation of revenue streams that derive from the exploitation of Intellectual Property (IPs), we lay below the following:

C.1 Cyprus IP Box

The Cyprus IP Box, which is in line with international and EU principles, may reduce the effective tax to 2,5%. In this regard, it employs the modified nexus formula as a tool for determining the part of the net Revenues that should be afforded with a deemed deduction. The deemed deduction may reduce the IP revenue stream up to 80%.

Generally, the amount of the deemed deduction depends on the R&D expenditure, as sustained by the Company, over the Company's total Expenditure for creating the specific IP. The Tax Law and regulations introduce a formula (modified nexus) for determining this.

The deemed deduction should only be awarded to qualifying Revenues (QR). These are revenues stemming from the economic exploitation of Qualifying assets (QA). QA are mainly assets, patents or other novel inventions.

C.2 Taxation for non-qualifying IP revenue

Revenue stream stemming from IPs that do not fall within the Cyprus IP Box are taxed under the normal taxation rules at a fixed corporate tax rate of 12,5%.

Tax amortisation is allowed in the form of annual tax charge and spread across number of years. The number of years is capped to 20 and should be reasonable in the circumstances. The annual tax amortisation will reduce the Company's taxable income.

Profit on disposal of IP used as capital assets in the business are fully discharged from taxation.

To sum up

As an emerging Technology Hub, Cyprus offers various distinct and clear advantages for MN Tech Companies wishing to find a suitable jurisdiction to establish their R&D activity (or to relocate an existing operation).

Our team of lawyers, advisors and consultants is at your disposal to discuss and navigate the path to set up the Cyprus Tech base.