GOOGLE'S ROYALTIES AND CYPRUS' IP STRUCTURES

> *"… Google funneled €8.8bn of royalty payments to Bermuda last year, a quarter more than in 2011, underlining the rapid expansion of a strategy that has saved the US internet group billions of dollars in tax.*
>
> *By routing royalty payments to Bermuda, Google reduces its overseas tax rate to about 5 percent, less than half the rate in already low-tax Ireland, where it books most of its international sales.*
>
> *The figures were revealed in the latest fillings by one of Google's Dutch subsidiaries, and means that royalty payments made to Bermuda – where the company holds its non-US intellectual property – have doubled over the past three years. This increase reflects the rapid growth of Google's global business…"*
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> (Financial Times 11 October 2013 *"Google Shifts €9.6b to Bermuda"*)

A company does not have to have the size and substance of Google to be able to benefit from significant tax savings!

Intellectual property (IP) schemes are common for cross-border planning due to the mobility of IP rights, which do not consist of tangible assets and can therefore be easily migrated between jurisdictions and tax systems to lower tax jurisdictions.

Cyprus is now established as the most tax efficient country in Europe for IPs. It has introduced in May 2012 an "IP Box" regime to protect and encourage investment in IPs.

Benefits of Cypriot "IP Box" regime

IP rich organizations can achieve substantial tax benefits by routing royalties to a Cyprus IP holding company lowering the effective tax rate to less than 2.5 percent. At the same time, they enjoy the protection afforded by the EU and major international IP treaties and protocols.

The provisions of the "IP Box" regime provide exemptions from tax on income and profit on disposal related to IPs. More specifically:

- 80 percent exemption on worldwide royalty income generated from an IP owned by Cypriot resident companies, net of any direct expenses, is exempt from income tax
- 80 percent exemption on profit generated from the disposal of an IP owned by Cypriot resident companies, net of any direct expenses, is exempt from income tax
- effective tax rate of 2.5 percent or even less being the lowest amongst its major competitors in Europe - namely - Luxemburg and Netherlands (effective tax rate of 5.76 percent and 5 percent, respectively) and UK (10 percent and not fully operational before 2017)
- capital expenditure for the acquisition or development of IP can be claimed as a tax deduction in the year in which it is incurred and the following four years, equally

All above exemptions are also available for IPs acquired or developed before January 2012.

In addition:

- no withholding taxes on payment of royalties when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the property is used outside of Cyprus
- Cyprus has an extensive worldwide network of double tax treaties
- Cyprus has adopted the EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries

In practice

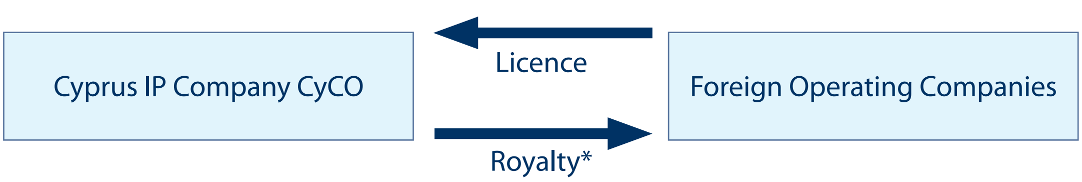
You have the option to dispose the shares of the IP owners in which case the disposal of shares is tax free in Cyprus. This option becomes even more attractive when combined with a Cyprus International Trust (CIT) or an overseas trust which can act as the shareholder of the IP owner.

The CIT can be used as the financing and/or holding vehicle for the Cyprus IP owning company. If the IP owner is a CIT receiving dividends from a Cyprus company (CyCO) and made up of royalty income generated by CyCO, will not be subject to any taxation in Cyprus. At the same time, the CIT can accumulate income which can be converted into capital at the year end without any Cyprus tax consequences for the trust or the beneficiaries of the trust, as long as beneficiaries are not Cypriot tax residents.

The CIT can also provide interest-bearing finance to the IP owner for the purpose of acquiring the IP Asset or for working capital. The interest expenses of CyCO under financing agreement will be tax exempt in the hands of the trust while being tax deductible in the hands of the CyCO, which optimizes the structure even further.

A practical application

Consider a Cyprus IP company licenses its IP to its operating foreign companies and in return it receives royalty income of €100.000 per year. The structure is shown below:



The expected annual tax for the Cyprus IP Company CyCO can be as follows:

	€
Annual royalty income	100.000
Direct expenses (say)	(20.000)
Net income	80.000
80% deemed deduction	(64.0000)
Taxable income	16.000
@ 12.5% Income tax	2.000
Effective tax rate	2%

*under the majority of Cyprus double tax treaties the withholding tax on royalty payment is nil

Contact us

For more information on IP possibilities in Cyprus you can contact our director Savvas Shiatis sshiatis@oneworldweb.net or mobile +357 99597339.

We can assist you with:

- Advice on setting up your IP structure
- Incorporation and administration of the IP structure
- Global compliance services including accounting, external reporting and reports to management
- Consulting services

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