THE CYPRUS ROYALTY COMPANY - MAXIMUM EFFECTIVE TAX RATE OF 2,5%

The new tax regime provides for favorable tax treatment in relation to income generated from any type of intellectual property rights, patents and trademarks as well as providing for generous capital allowances for acquisition and development of such rights. For simplicity we will refer to them below with the general term of "IP Rights".

Tax Treatment of Royalty Profits

Prior to the amendment, any income from IP Rights was taxed under the normal corporate tax rate of 12,5% on any resulting net profits. According to the new regime, 80% of "Royalty Profit" generated from such IP Rights will be exempt from corporation tax. The remaining 20% will be subject to the normal corporation tax rate of 12,5%. For the purpose of determining the "Royalty Profit" the law allows the deduction from the resulting royalty income of all expenses incurred wholly and exclusively for the production of royalty income. It is important to stress that the favorable tax treatment also covers the profit from any future sale of the IP Right. This will allow the owners of the IP Rights not only to enjoy tax benefits on the income generated from the use of such right but also provides for a tax efficient exit route in the future. The owner of the IP rights can also claimed any tax suffered abroad on the Royalty Income which is limited to the lower of the tax paid abroad or the tax derives in Cyprus on the specific Income. An example is set out below for your easy reference.

Acquisition/ Development Capital Allowances

In addition to the above, the Cyprus Company holding the IP Rights will be able to write off the capital expenditure made on the acquisition or development of such rights in the first five years of use. The company will be able to receive capital allowances of 20% straight line starting from the first year of the use of the asset as well as the subsequent four years of usage. These capital allowances are considered of course tax deductible, which makes the tax benefits of the first five years for the Cyprus Royalty Company even more attractive.

In conclusion, the effective tax rate applicable on the Cyprus Royalty Company will not be higher than a maximum of 2,5% on its Royalty Profits. The effective rate can be further reduced by the deduction of the above capital allowances.

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Examples

1. Royalty Income, foreign tax claim and capital allowances

A Cyprus Company receives Royalty Income totaling to €300.000 in 2012, and has also other trading Income totaling to €200.000. The cost of the Intellectual property was €1.000.000 amortized on a 5 year basis, and there are other expenses and interest related to the IP right totaling to €50.000. The Company has paid foreign withholding taxes totaling to 5% (€15.000) on the Royalty Income. Total tax calculated as follows:

	EURO
Royalty Income	300.000
Amortization	-200.000
Expenses and interest	-50.000
Profit from royalty	**50.000**
Less 80% deduction on profit	-40.000
Revised profit from Royalty	**10.000**
Add other trading income	200.000
Profit	**210.000**
Tax at the rate of 12,5%	26.250
Less double tax paid abroad (10k/210K*26.250)*	-1.250
Total Tax payable	**25.000**

*Lower of taxes paid abroad and corporation tax derived in Cyprus on Royalty income.

2. Sale of Intellectual Property and capital allowances

Following the example above, on 1 January 2014 the Company disposed the Intellectual Property for €2.000.000.

<u>Computation:</u>

	EURO
Sales price	2.000.000
Cost of IP right (carrying amount)	
(€1m less €400k amortization claimed)	-600.000
Commissions	-100.000
Profit	**1.300.000**
Less 80% deduction on profit	-1.040.000
Profit to be taxed	**260.000**

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