



Cyprus Tax Update – Year 2022

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INCREASED TAX DEDUCTION FOR RESEARCH AND DEVELOPMENT EXPENSES

In an effort to attract new investments and businesses in Cyprus, an enhanced tax deduction for Research & Development (R&D) expenses was incorporated into Article 9(1)(d) of the Cyprus Income Tax Law (ITL). This development is one of the tax incentives included in the Action Plan that was announced back in October 2021.

The amending ITL law was voted by the Cyprus Parliament on 7th July 2022, and it is effective as from 20th July 2022, the date of its publication in the Gazette.

According to the existing Article 9(1)(d) of the ITL,

“Any expenditure for scientific research incurred by a person carrying on any business, as well as R&D expenses as recognised by international accounting standards carried out by small and medium-sized innovative companies as defined in article 9A of the ITL, shall be deducted from taxable income if they were wholly and exclusively incurred for the production of income, so long as the Commissioner is satisfied that such expenditure has been incurred for the use and benefit of the business.

No deduction shall be granted for such expenses incurred for the acquisition of plant and machinery or buildings, including staff accommodation, in respect of which a deduction may be granted according to Article 10 of the ITL.

Any such expenditure of a capital nature, in respect of which deductions may not be granted under Article 10, shall be distributed equally between the tax year in which it was incurred and the five immediately following years.”

The most significant change of the amending law is as follows:

- For expenses incurred during the years 2022, 2023 and 2024, including expenses of a capital nature, for which deduction is granted in accordance with the provisions of Article 9(1)(l) of the ITL, an additional tax deduction is granted for R&D expenses, equal to 20% of the relevant expenses. Effectively, 120% of the actual eligible R&D expenses will be deducted from taxable income.

The additional deduction cannot be claimed alongside the deduction provided under the Cyprus IP regime (Article 9(1)(k) of the ITL).

In addition, the amending law provides the following:

- The person carrying on a business should have the economic ownership of the intangible asset that arises or is likely to arise from incurring such expenses.
- In case where the relevant expenses are of a capital nature, the deduction is claimed in accordance with the provisions of Section 9(1)(l) of the ITL which provides that the expense is distributed over the life duration of the intangible asset in a reasonable manner, according to accepted accounting principles with a maximum period of 20 years.