



New tax breaks for scientific and R&D expenses

28 July 2022 – Cyprus recently introduced an enhanced tax deduction for scientific research and all Research and Development (R&D) expenses.

The tax breaks were incorporated into the Cyprus Income Tax Law on 20 July 2022, the date of their publication in the Cyprus Government Gazette.

Eligible research and development expenses that will be deducted from the taxable income of the economic owner of the IP assets will equal to 120% of the actual R&D expenses incurred (100% of the actual R&D expenses plus 20% increased allowance). The specific deduction will apply only for the years 2022, 2023 and 2024.

Article 9(1)(d) of the Income Tax Law has been amended to expressly provide that all expenses for R&D, as recognized by international accounting standards, that have been incurred by a person who carries on a business and has the economic ownership of the relevant intellectual property asset will be treated as tax deductible.

It has been clarified that the additional deduction cannot be claimed alongside the deduction provided under the Cyprus IP regime which effectively provides for a deemed deduction of up to 80%.

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 Income Tax Law 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.

As always, the Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal should you require any further information, clarifications or assistance with your direct tax or any other tax-related matter.