



Cyprus Tax News

Extension of the tax incentives granted for investment in innovative SMEs until 30 June 2024

On 10 March 2022, the Cyprus Parliament voted for an extension of the tax incentives for investing in innovative enterprises, which were introduced in the Cyprus Income Tax law (ITL) in 2017, until **30 June 2024**. The amending ITL was published in the Gazette on 18 March 2022.

The tax incentives aim to boost entrepreneurship, support start-ups in developing innovative products and services and strengthen the Cypriot entrepreneurial ecosystem.

The following is a recap of the most important provisions of [Article 9A](#) of the ITL which provides for the tax incentives. For more details, you can refer to our previous [tax alert](#).

What is the tax incentive provided to qualifying investors?

Article 9A of the ITL states that a “qualifying investor” that makes a “risk-finance investment” in an “innovative small and medium-sized enterprise (SME)” may deduct the costs of the investment from his/her taxable income, subject to the following limitations:

- **Percentage limit:** The tax deduction is limited to 50% of the investor’s taxable income in the year in which the investment is made, as calculated before allowing this deduction but after allowing deductions for life insurance premiums and contributions to provident and other approved funds (as per Article 14 of the ITL).
- **Annual limit:** The total deductible amount may not exceed EUR 150,000 per year.
- **Carry forward:** The remaining investment cost not claimed as tax deductible may be carried forward and deducted from the taxable income of the subsequent five years, subject to the aforementioned restrictions.

Who is a qualifying investor?

A qualifying investor is an individual who is independent from the enterprise. An investor is deemed to be independent, if he/she is not an existing shareholder of the enterprise, unless he/she was one of the founders of the enterprise upon its establishment.

Individuals can carry out their investment either directly or indirectly through an investment fund or through an alternative trading platform for venture capital investment in an innovative small and medium-sized enterprise (SME).

What is a risk-finance investment?

A risk-finance investment is an “equity investment” or a “quasi-equity investment” or a “loan”, or a combination thereof, and includes finance leases and guarantees. A risk finance investment may be the initial investment in the enterprise or a “follow-on investment”. These terms are explicitly defined in the ITL.

Is there a minimum period for holding the investment?

A qualifying investor needs to hold his/her investment for a minimum period of three years, otherwise the Commissioner of Taxation may disallow the tax deduction.

What is an innovative SME?

According to the definition provided in Article 9A of the ITL, a SME will qualify as an innovative SME if it meets the following requirements:

- It operates in the Republic of Cyprus; and
- At the time of the investment, it is an unlisted SME (unless it is listed on an alternative trading platform) that has a business plan for its risk-finance investment and fulfills at least one of the following conditions:
 - It has not been operating in any market; or
 - It has been operating in any market for less than seven years following its first commercial sale; or
 - It requires an initial risk-finance investment which, based on a business plan prepared in advance of a new product offering or the entering of a new geographical market, is higher than 50% of its average annual turnover in the preceding five years; and
- It has been approved by the Cyprus Ministry of Finance or other authority as a qualifying innovative SME.

A business will automatically lose its innovative SME status, if at any time, the total amount of risk-finance investment received exceeds EUR 15 million.

What is the process for obtaining approval as a qualifying innovative SME?

To be approved as an innovative SME, the company must submit an application to the authorities, along with a statement from an independent auditor confirming that the R&D expenses (which may also include any capitalised R&D expenses) represent at least 10% of the total operating expenses of the enterprise in at least one of the three tax years preceding the tax year in which the investment was made; or, in the case of a start-up enterprise without any financial history, based on the audited financial statements or in the absence of audited financial statements, in accordance with a business plan that the authorities are entitled to request.

How can we help?

We are at your disposal to discuss how the above incentives may affect your business and your personal investment plans.

Get in touch



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