K. TREPPIDES & CO LTD

Direct Taxation

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Amendments to the tax treatment of intangible assets

We would like to inform you that the following amendments in the Income Tax Law which concern the tax treatment of intangible assets (other than intangible assets which benefit from the transitional provisions of the old Cyprus IP Regime) have been published in the Government Gazette, with effect as from 1 January 2020.

1. Abolition of Balancing Statement

Until 31 December 2019

Before the amendment in the legislation, a taxpayer had the obligation to prepare a Balancing Statement upon disposal of an intangible asset on which capital allowances were being claimed as a tax deduction. The Balancing Statement compares the sale proceeds from the disposal of the asset with the tax written down value ("TWDV") of the asset (being the acquisition cost minus the cumulative capital allowances claimed). Where the disposal proceeds exceed the TWDV, a balancing addition arises which is taxable to the extent of the capital allowances previously claimed as a tax deduction. Where the disposal proceeds do not exceed the TWDV, a balancing allowance arises which may be claimed as a tax deduction.

As from 1 January 2020

As from 1 January 2020, the obligation to prepare a balancing statement on the disposal of an intangible asset is abolished. In this respect, no taxable balancing addition nor a tax-deductible balancing allowance shall arise upon disposal of an intangible asset.

2. Future usage of any unutilized capital allowances

Until 31 December 2019

In accordance with the provisions of the Cyprus Income Tax Law, a taxpayer may claim capital allowances on the cost of intangible assets in accordance with the useful economic life of the asset as determined by generally acceptable accounting principles, with a maximum useful life of 20 years.

The income tax legislation provides that a taxpayer may elect to claim for each tax year the full amount or a portion of the capital allowances on the intangible asset, however, it does not specify whether any unused capital allowances can be carried forward and be used in subsequent years.

As from 1 January 2020

The amendments introduced specify that any capital allowances which were not claimed during a tax year can be carried forward and be claimed as a tax deduction over the remaining useful life of the intangible asset.

For any further information required, please do not hesitate to contact us.

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