IP BOX GUIDE

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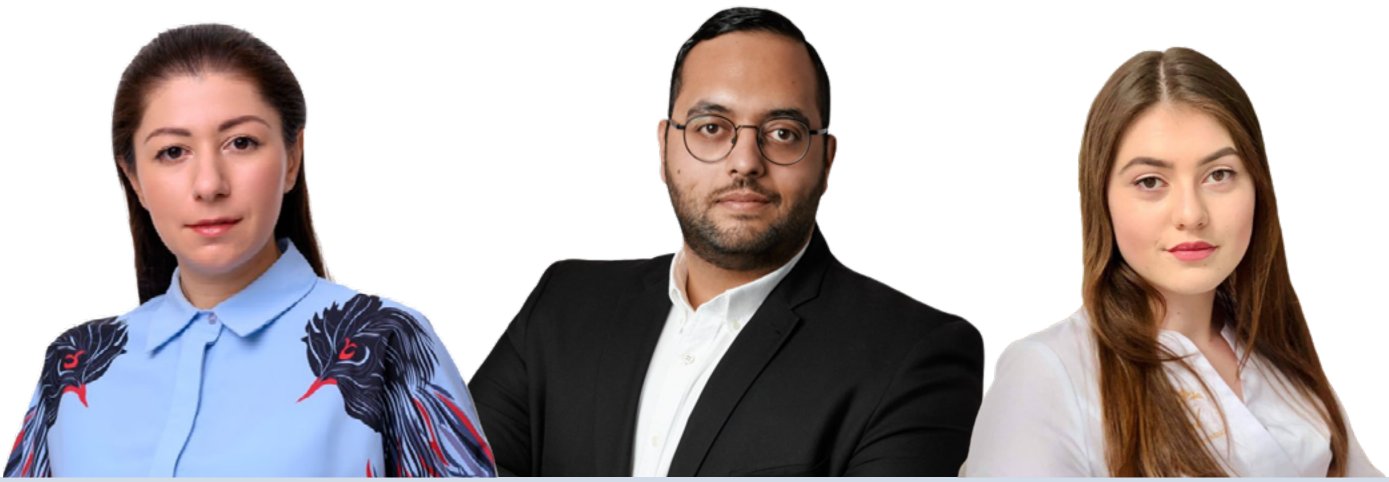
Introduction

The IP Box allows businesses to benefit from significantly lower tax rates on income generated from qualifying IP. This incentive not only encourages companies to create, enhance, and commercialize new technologies, but it also serves as a mean of attracting international businesses seeking favorable tax regimes for their innovative activities. With the global focus on fostering innovation, the IP Box regime is increasingly seen as a cornerstone of modern tax policy.

At REVERA law group, we recognize the importance of staying informed about the various IP Box regimes available around the world. For companies operating internationally or looking to expand across borders, understanding the nuances of IP tax benefits in different jurisdictions is crucial for strategic decision-making.

In this guide, we will cover the IP Box regimes in Armenia, Cyprus, Georgia and Poland.

Key Contacts



MARGARITA SAAKIAN
Leading Associate REVERA Georgia

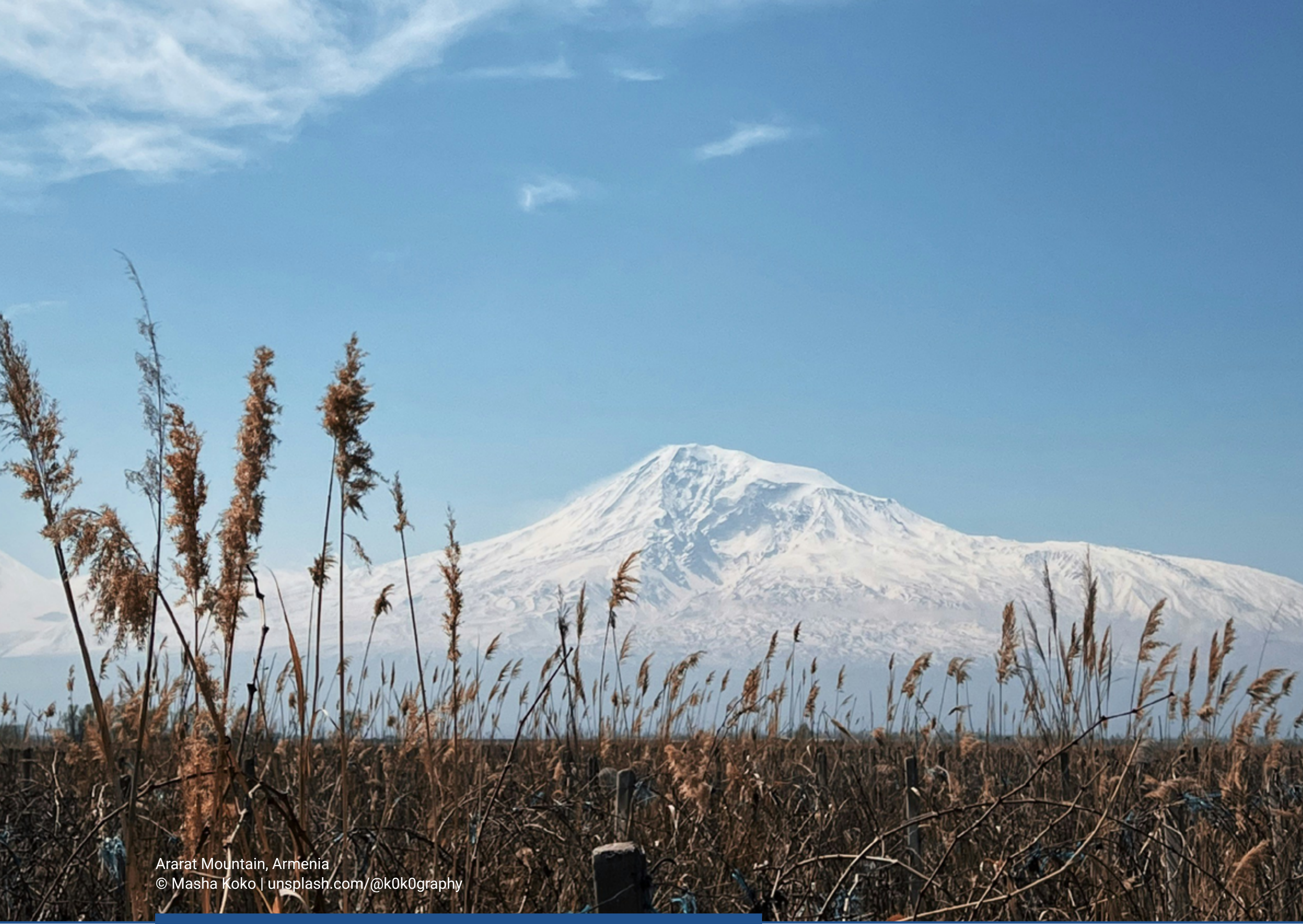
m.saakian@revera.legal

FEDONAS IOANNOU
Senior Associate REVERA Cyprus

f.ioannau@revera.legal

JULIA SZYMAŃSKA
Associate REVERA Polska

j.szymanska@revera.legal



Ararat Mountain, Armenia

ARMENIA

REVERA

1. Tax rate and other preferences under IP Box

Armenia offers a specialized tax regime aimed at promoting the growth of its IT sector. This regime, known as the **IT Certificate**, provides a range of tax incentives designed to support businesses engaged in the development of innovative technologies and intellectual property. Key benefits under the IT Certificate regime include:

- **Value Added Tax (VAT)**: The standard VAT rate in Armenia is 20%. Under the IT Certificate regime, qualifying businesses can benefit from a **0% VAT rate**, providing additional cost savings and promoting the growth of the IT and technology sectors.

- **Personal Income Tax**: Companies operating under the IT Certificate regime are also eligible for a reduced personal **income tax rate of 10%** on salaries paid to local employees, compared to the standard rate of 20%. This preferential rate is particularly beneficial for businesses that employ a highly skilled local workforce.

- **Personal Income Tax on Dividends**: The tax rate on dividends distributed to founders or shareholders under the IT Certificate regime is **5%**, compared to the standard rate of 21%. This makes Armenia an attractive jurisdiction for businesses looking to distribute profits among their owners in a tax-efficient manner.

These preferential tax rates make Armenia an appealing jurisdiction for IT-focused businesses, technology start-ups, and companies involved in the development and commercialization of intellectual property. With competitive tax advantages compared to the standard tax framework, the IT Certificate regime offers businesses in Armenia a robust environment to foster innovation and growth.

2. Conditions for applying IP Box

To qualify for the IP Box regime under Armenia's IT Certificate, businesses must meet several specific conditions. These requirements ensure that only companies engaged in genuine technological and intellectual property activities benefit from the regime's preferential tax treatment.

Eligible Entities

- **Legal Entities**: Newly established companies, or those that have been operational for no more than 3 months, are eligible to apply for the IT Certificate.

- **Individual Entrepreneurs**: Individual entrepreneurs who are engaged in qualifying IT-related activities, such as software development or IT consulting, can also apply for the regime.

Companies must be primarily engaged in specific IT-related activities, including, but not limited to:

- Software development
- IT consulting services
- Data processing and hosting
- Computer programming
- Development of information systems
- Other technology-oriented services

Additionally, to qualify, companies must not have more than 30 employees.

Qualifying IP Assets

The IP Box regime in Armenia typically considers the following types of intellectual property:

- **Software**: Custom-developed software for use in business operations.

- **Patents**: Related to technological innovations in the IT sector.

- **Copyrighted Materials**: Including software code and related intellectual assets.

- **Other Technology-related IP**: Such as trade secrets, technical documentation, and design rights directly linked to IT and technology services.

IP Creation Requirements

- **In-House Creation**: The intellectual property must be primarily created by the company's employees within Armenia to be eligible for the regime.
- **Use of Contractors**: The use of contractors is permissible, but a substantial portion of the R&D and IP development must be carried out within the company itself to ensure compliance with the regime's criteria.
- **Country-Specific Development**: The creation or development of the IP must occur within Armenia. While contractors may be used, the majority of the work must take place domestically to qualify for the tax incentives.

IP Transfer Conditions

- **Transfer from Other Countries**: The IP Box regime allows for IP that is transferred from other jurisdictions to qualify, provided that the IP undergoes further development or enhancement within Armenia.
- **Creation from Scratch vs. Transfer**: Both IP created from scratch in Armenia and IP transferred from other countries and subsequently developed or enhanced in Armenia can qualify for the regime. It is essential that the IP is actively managed, further developed, or enhanced by the company in Armenia to maintain eligibility for the tax benefits.

Monetization Requirements:

- **Revenue Generation**: The qualifying IP must generate revenue, whether through licensing, sales, or other forms of commercialization.
- **Active Use**: The IP must be actively used in the company's business operations and contribute to the company's overall income.
- **Compliance with Local Laws**: The monetization activities must comply with Armenian legal and regulatory requirements, including proper reporting and tax compliance.

These conditions ensure that the IP Box regime in Armenia is only available to businesses with genuine R&D activities and that the IP is actively managed and used to generate income within the country.

3. Procedure for IP Box application

The IP Box regime in Armenia is not applied automatically; companies must apply for the IT Certificate through the Ministry of High-Tech Industry. The application process involves submitting detailed information about the company's operations and activities to ensure compliance with the eligibility requirements.

The application package typically includes:

- **Company Information**: A detailed description of the company's business activities, demonstrating its engagement in qualifying IT-related services.
- **IP Ownership Documents**: Proof of ownership of the intellectual property, such as patent certificates, software development agreements, or other relevant IP documentation.
- **Financial Statements**: Recent financial statements to provide an overview of the company's financial position and operations.
- **Tax Compliance Records**: Documentation demonstrating the company's compliance with Armenian tax laws and regulations.
- **Business Plan**: A detailed business plan outlining the company's ongoing and future IT activities, including R&D projects and IP commercialization strategies.

Once the application is submitted, the Ministry of High-Tech Industry reviews the information to ensure that the company meets the eligibility criteria and is actively engaged in qualifying IT activities. While formal pre-approval from the tax authorities or auditors is not required, companies must ensure they provide all necessary documentation to support their application.

By submitting the application and meeting the relevant requirements, companies can gain access to the benefits of the IT Certificate, which includes preferential tax rates and other incentives designed to promote the development of the IT sector in Armenia.

4. Documents required for IP Box

To apply for the IP Box regime under Armenia's IT Certificate, companies must submit a range of supporting documents to demonstrate their eligibility. The application package typically includes the following:

- **Application Form**: A completed application form, providing basic details about the company and its activities.
- **Company Registration Documents**:
  - Copies of the company's registration certificate, including any amendments or updates.
  - Proof of the company's legal status and registration with the relevant Armenian authorities, confirming that the business is properly established and compliant with local regulations.
- **Business Plan**:
  - A comprehensive business plan outlining the company's activities, growth strategy, and financial projections.
  - The business plan should place specific emphasis on the company's intellectual property (IP) assets and their role in the business's operations, highlighting any R&D or technological advancements.
- **Proof of Qualifying Activities**:
  - A detailed description of the company's IT-related activities, such as software development, IT consulting, or other qualifying services.
  - Documentation demonstrating the company's involvement in these activities, including project descriptions, contracts, or other evidence of ongoing or completed work.
- **IP Documentation**:
  - Proof of ownership or legal rights to the IP assets, such as patents, software copyrights, trademarks, or other IP rights.
  - Details of the specific IP assets, including their nature, registration numbers, and any relevant documentation that establishes the company's ownership or control over these assets.
  - Evidence showing that the IP was developed or enhanced within Armenia, ensuring compliance with the country's IP Box requirements.

- **Financial Statements**:
    - Recent financial statements, including balance sheets and income statements, to provide a snapshot of the company's financial health.
    - Documentation of revenue generated from the IP assets, including licensing income, sales revenue, or any other form of income tied to the IP.

- **Employment Records**:
    - A list of employees involved in the creation and development of the IP.
    - Employment contracts and payroll records, which should confirm that the IP development work is primarily carried out by employees based in Armenia.

- **Contracts and Agreements**:
    - Copies of contracts with contractors, third parties, or service providers involved in the development of the IP.
    - Licensing agreements, if the company's IP is licensed to other entities, outlining the terms of such agreements.

- **Tax Compliance Documents**:
    - Proof of tax registration, demonstrating the company is compliant with Armenian tax laws.
    - Copies of previous tax returns and documentation of any tax payments made, showing the company's adherence to local tax obligations.

- **Legal and Regulatory Compliance**:
    - Certificates confirming compliance with Armenian legal and regulatory requirements, including any necessary permits or licenses required for the company's operations.

- **Supporting Documents**:
    - Any additional documents that help demonstrate the company's eligibility for the IP Box regime, such as correspondence with relevant authorities or third-party verification of the company's activities and IP development.

Providing these documents ensures that the company meets the eligibility criteria for the IT Certificate and can fully benefit from the tax advantages under Armenia's IP Box regime.

5. Specifics of the IP Box in the country

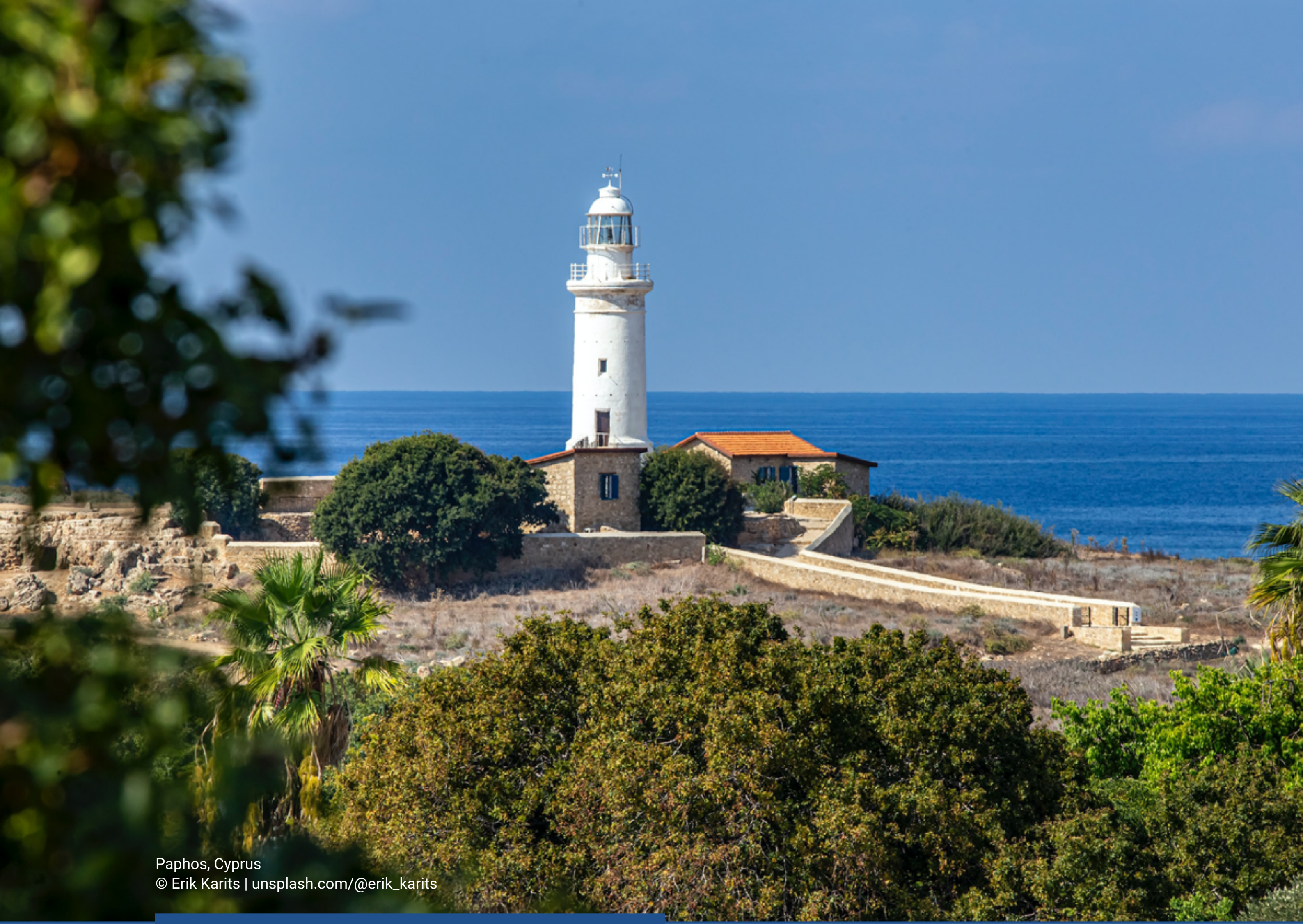
In addition to the key features of Armenia's IP Box regime, there are several important nuances that companies should be aware of. These include the validity and renewal process for the IT Certificate, which offers ongoing benefits for eligible companies.

- **Five-Year Validity**: The IT Certificate, once issued, is valid for a period of 5 years. This five-year period provides companies with a stable and predictable environment to develop and expand their business operations while benefiting from the tax incentives offered by the regime.

- **Renewal Process**: Upon the expiration of the initial five-year period, companies may apply for the renewal of their IT Certificate. Renewal applications must demonstrate that the company continues to meet all eligibility criteria, including ongoing engagement in qualifying IT activities and adherence to the relevant tax and regulatory obligations.

- The renewal process typically involves a review similar to the initial application, ensuring that the company remains in compliance with the regime's requirements. Companies must provide updated documentation, such as financial statements and evidence of continued R&D activities, to support the renewal application.

These provisions ensure that companies can maintain access to the IP Box regime's tax benefits as long as they continue to meet the conditions for eligibility, providing long-term incentives for innovation and growth in Armenia's IT sector.



Paphos, Cyprus

CYPRUS

Cyprus offers a highly competitive IP Box regime, which follows the OECD's Nexus Approach, ensuring that the tax benefits are directly linked to the level of actual Research and Development (R&D) activities carried out by the taxpayer. This approach safeguards the regime against base erosion and profit shifting (BEPS) concerns by ensuring that only companies with genuine economic activity in the development of intellectual property (IP) benefit from the preferential tax treatment. In practice, this means that the tax benefits are proportional to the amount of R&D expenditure incurred in Cyprus, fostering an environment that encourages real innovation and technological advancement.

1. Tax rate and other preferences under IP Box

The **effective tax rate** on qualifying IP income under the IP Box regime is particularly attractive, set at a **low 2.5%** due to an **80% exemption** on the income derived from qualifying intellectual property. This applies to a wide range of IP rights, including patents, software copyrights, trademarks, and other intangible assets that meet the Nexus criteria.

In contrast, the **standard corporate tax rate** in Cyprus is **12.5%**, which is already one of the lowest corporate tax rates in the European Union. The IP Box regime thus offers a significant tax advantage to businesses engaged in the development or commercialization of qualifying IP, resulting in a tax benefit that is one of the most competitive in Europe.

This makes Cyprus an appealing jurisdiction for IP-heavy businesses, such as technology firms, research institutions, and companies involved in the creative industries.

Other Preferences under the IP Box Regime:

1. **Capital Gains Tax Exemption:** One of the most attractive features of the Cypriot IP Box regime is the exemption from tax on capital gains arising from the **disposal of qualifying intangible assets**. If the disposal of IP is classified as a capital nature transaction, any resulting capital gain will be **tax-free** in Cyprus. This makes Cyprus an ideal jurisdiction for businesses looking to monetize or exit their IP assets without incurring additional tax liabilities on the capital gain.

2. **Amortization of IP Acquisition and Development Costs:** Cyprus also allows the **amortization of IP acquisition or development costs** over a period of **20 years**. This provides an additional benefit for companies investing in the development or acquisition of intellectual property, as they can offset the cost of acquiring or developing IP assets against their taxable income over a significant period, thereby improving cash flow and reducing immediate tax liabilities. This long amortization period offers significant tax planning flexibility for businesses with substantial investments in intangible assets.

2. Conditions for applying IP Box

Cyprus's IP Box regime offers significant tax benefits, but to qualify, businesses must meet several specific conditions. These requirements are designed to ensure that the preferential tax treatment is only available to companies and individuals who engage in genuine, substantial R&D activities and use their intellectual property in a commercial context.

Eligibility for the IP Box Regime

Both **legal entities (companies)** and **individual entrepreneurs** are eligible to apply for the IP Box regime, provided they meet the specific conditions set out in the legislation. This includes companies incorporated in Cyprus as well as individuals who are engaged in the development and commercialization of qualifying intellectual property.

Typically, **Cyprus tax resident companies** (those who are managed and controlled from Cyprus) are eligible for the regime. Foreign companies with a permanent establishment (PE) in Cyprus may also qualify if they meet the other conditions of the regime.

This makes the Cyprus IP Box regime attractive for both **start-ups**, **SMEs**, and **large multinational corporations**, including individual entrepreneurs working in fields such as technology, pharmaceuticals, or digital services.

Qualifying IP Assets for the IP Box Regime

To benefit from the IP Box regime, the intellectual property (IP) assets in question must meet certain criteria. The following IP types are generally **qualifying assets** under the regime:

- **Patents**: These must meet the requirements of the European Patent Convention (EPC) or be granted under the national patent laws of Cyprus.
- **Computer Software**: This includes software that is not generic or mass-market but is specifically developed for use in the business's operations.
- **Other Non-Obvious, Useful, and Novel IP**: This includes any other forms of IP that have a degree of innovation and utility, such as **copyrights** (in certain cases), **utility models**, **trade secrets**, and **design rights**.

Note: It is important to stress that the IP must be **novel** and **useful**, and it must meet the criteria set out by the **OECD's Nexus Approach** for benefiting from the regime. This means that the IP must result from substantial R&D activities carried out by the taxpayer.

IP Creation Requirement

For an IP asset to qualify under the IP Box regime, it must be **created through R&D activities**. However, Cyprus allows a certain degree of flexibility in terms of how these R&D activities are conducted:

- **In-House R&D**: The IP must generally be created through R&D activities carried out **in-house** by the company's employees in Cyprus. The Nexus Approach emphasizes that the company must have a significant level of control over the R&D activities, and a portion of the R&D work should be done within Cyprus itself.

- **Contractor R&D**: The regime also permits **outsourcing of R&D activities** to contractors, both in Cyprus and abroad. As long as the company retains sufficient oversight over the R&D process and can demonstrate that the R&D activities contribute directly to the creation or enhancement of the IP, the IP may still qualify under the regime. However, the **main research effort** must occur within Cyprus to ensure compliance with the Nexus rules.

- **R&D Activities**: To be eligible, the activities must involve significant **technical and scientific work**, such as **development**, **testing**, and **prototyping**. Mere administrative or marketing efforts will not qualify.

IP Transfer Conditions

Cyprus's IP Box regime allows for a flexible approach to IP transfer. The **IP can either be created from scratch** in Cyprus or **purchased from another jurisdiction**, but the following conditions must be met:

1. **Creation of IP in Cyprus**: If the IP is **created from scratch** in Cyprus, the company will generally be eligible for the IP Box regime, provided the R&D work was carried out in accordance with the conditions outlined above (i.e., by the company or contractors under its supervision in Cyprus).

2. **IP Acquired from Other Jurisdictions**: If the IP is acquired from another country, it may still qualify for the IP Box regime, provided that the IP is **further developed** or **enhanced** in Cyprus after acquisition. The IP must undergo significant **value-added work** in Cyprus, which could include additional R&D or improvements to the IP's functionality. This ensures that the tax benefits are only granted to IP that has substantial economic activity in Cyprus.

3. **IP Holding and Licensing**: The holding of IP rights alone is insufficient to qualify for the regime. The IP must be actively used or commercialized in Cyprus, which leads to **monetization** through various means, such as licensing, sales, or incorporation into products or services.

Monetization Requirements

For IP income to qualify under the IP Box regime, it must be **derived from the monetization of the qualifying IP assets**. This includes:

- **Royalties**: Income derived from the licensing or sale of the IP rights to third parties.
- **Proceeds from IP Sales**: Income generated from the direct sale of the IP asset.
- **Licensing Fees**: Income from licensing agreements where the IP is used in the production of goods or services.
- **Income from the Sale of Goods or Services**: If the IP is incorporated into products or services that are sold, the income generated from the sale of those products or services can qualify as **IP-related income.**

Note: Income derived purely from **IP marketing or advertising activities**, such as fees earned from advertising using trademarks or branding, is **not considered qualifying revenue** under the IP Box regime. The regime focuses on income generated from **commercializing the IP in a way that adds economic value**, such as licensing or incorporating it into the sale of products and services.

3. Procedure for IP Box application

The IP Box regime in Cyprus is applied at the taxpayer's discretion. There is no requirement to submit a formal application to the tax office to benefit from the regime. However, businesses must ensure they meet the necessary criteria and maintain proper documentation to substantiate their claims. Compliance with record-keeping obligations and accurate reporting of relevant activities is essential to avoid potential challenges from the tax authorities.

While formal approval is not required to apply the IP Box regime, it is strongly recommended to seek **a prior tax ruling from the Cyprus Tax Department**. A tax ruling can provide the taxpayer with clarity on the eligibility of their IP assets and the applicability of the regime to their specific circumstances. It also serves as an important tool for mitigating any risks related to potential disputes with tax authorities and provides confidence that the IP Box benefits are being correctly applied.

4. Documents required for IP Box

To apply for the IP Box regime in Cyprus, certain key compliance documents must be in place. These include:

- **Detailed Records of R&D Activities**: Comprehensive documentation of the research and development activities conducted in-house or through contractors, including technical reports, project plans, and evidence of the R&D process.

- **Proof of Ownership of Intellectual Property (IP)**: Clear documentation demonstrating that the taxpayer owns the intellectual property, such as patent certificates, software development agreements, or licensing contracts.

- **Income Documentation from IP**: Evidence of income generated from the commercialization of the IP, including royalty agreements, licensing contracts, sales records, or any other relevant documents showing the monetization of the IP.

- **Transfer Pricing Documentation**: If applicable, transfer pricing documentation should be in place to demonstrate that transactions between related parties comply with arm's length principles and reflect market value.

It is important to note that income derived from related party transactions does not qualify under the IP Box regime, and appropriate evidence must be provided to ensure compliance with this rule.

Maintaining these records is critical to ensure that the taxpayer can substantiate their eligibility for the regime and avoid potential disputes with the tax authorities.

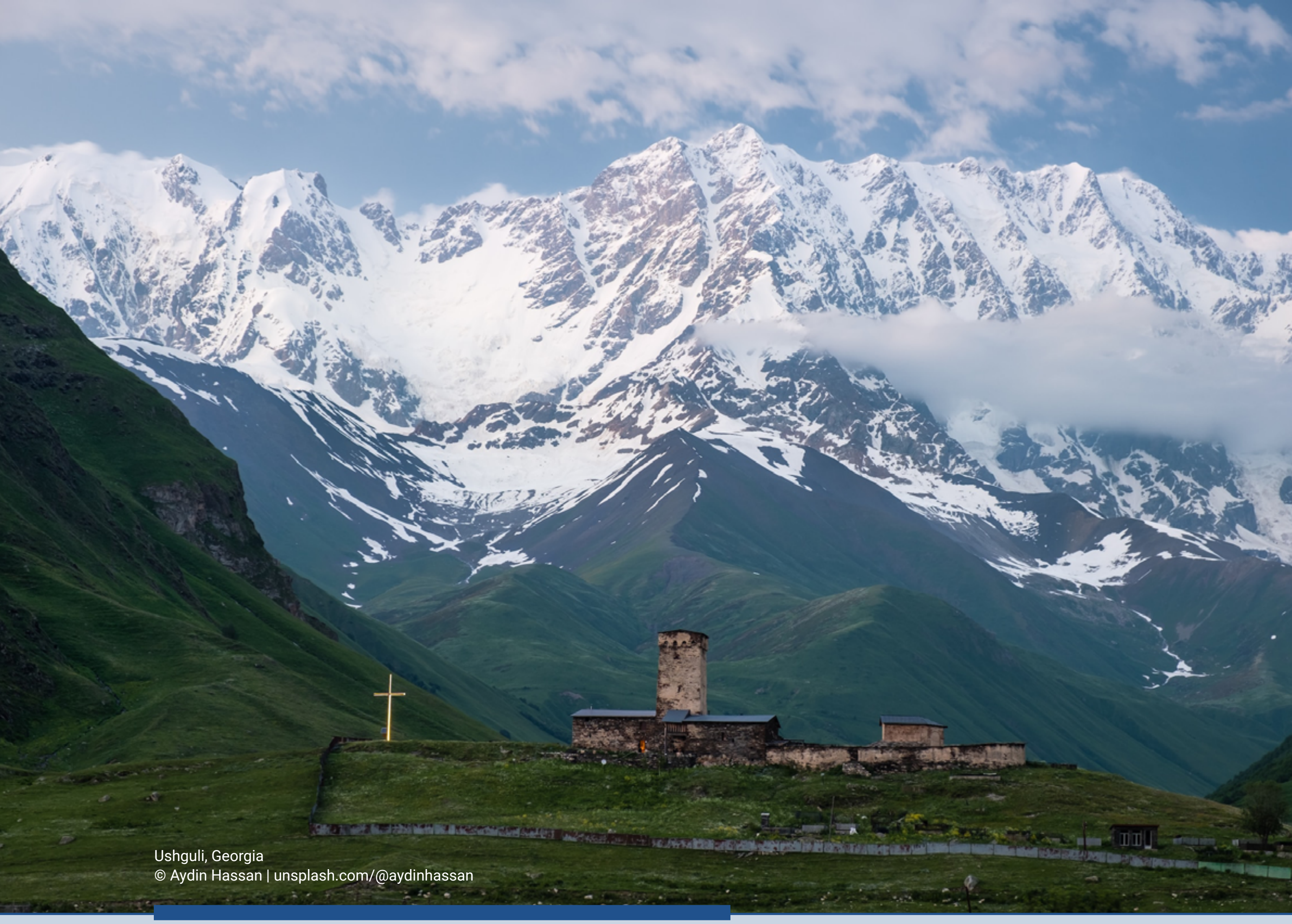
5. Specifics of the IP Box in the country

In addition to the key provisions of the IP Box regime, there are several important nuances to consider:

- **Detailed Record-Keeping Requirements**: To qualify for the IP Box regime, businesses must maintain comprehensive records to substantiate qualifying expenditures and income derived from intellectual property. This includes clear documentation of R&D activities, IP-related costs, and income generated from the commercialization of IP assets.

- **Proper Valuation of IP Assets**: If IP assets are transferred into Cyprus from another jurisdiction, it is crucial to ensure that these assets are properly valued. The valuation must reflect the market value and adhere to relevant transfer pricing rules, ensuring compliance with Cyprus's tax regulations and the OECD's guidelines.

- **Transitional Provisions**: For IP assets acquired or developed before the introduction of the IP Box regime on 1 July 2016, special transitional provisions apply. These assets can still benefit from the preferential tax treatment under the IP Box regime, provided certain conditions are met. This allows businesses to benefit from the regime even if their IP was created or acquired prior to its formal implementation.


Ushguli, Georgia
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GEORGIA

1. Tax rate and other preferences under IP Box

Georgia offers a highly competitive IP Box regime designed to foster innovation and attract businesses involved in the development and commercialization of intellectual property (IP). Under the IP Box regime, companies can benefit from a preferential tax rate of **5%** on income generated from the use, licensing, or sale of qualifying IP assets. This is significantly lower than Georgia's standard corporate tax rate of **15%**, providing a substantial tax incentive for businesses operating in the IP and technology sectors.

In addition to the reduced corporate tax rate on qualifying IP income, Georgia's tax regime offers a unique approach to royalty payments. Royalties paid to a resident natural person by a non-resident's permanent establishment, or by a resident on behalf of a non-resident, are subject to **20% withholding tax** at the source. However, the royalty payments received by a natural person who has already been taxed at source are exempt from further taxation, meaning that they are not included in the individual's gross income.

For **individual entrepreneurs (IEs)** receiving royalties taxed at the source, they are entitled to **deduct the tax paid** at source from their taxable income, reducing their overall tax burden. Furthermore, royalties paid to the State are **not subject to withholding tax**, ensuring that companies can optimize their tax strategy when paying royalties to government entities.

This favorable tax treatment makes Georgia an attractive destination for businesses involved in the development or commercialization of IP, offering one of the most competitive tax environments in the region for IP-related activities.

2. Conditions for applying IP Box

To benefit from Georgia's IP Box regime, companies and individual entrepreneurs must meet specific eligibility criteria and comply with the conditions set out for qualifying intellectual property (IP) assets. The key conditions for applying the IP Box are as follows:

Eligibility

Both **legal entities** (such as companies) and **individual entrepreneurs** engaged in qualifying IP activities are eligible to apply for the IP Box regime. This makes the regime accessible to a broad range of businesses, from startups to larger, established enterprises, as well as individual innovators involved in IP creation.

Qualifying IP Assets

The regime applies to a wide range of intellectual property assets, including:

- **Patents**: Granted patents that meet the criteria for innovation and utility.
- **Copyrighted Software**: Software developed by the company for commercial purposes.
- **Other Qualifying IP**: This may include other types of IP assets directly related to the company's business, such as trademarks, designs, or similar intangible assets.

IP Creation Requirements

The IP must generally be **developed by the company** or the individual entrepreneur in Georgia. However, there is flexibility in the IP creation process. The company may involve **contractors** in the development process (e.g., using a work-for-hire model), provided that the IP is ultimately owned and controlled by the company in Georgia. This ensures that the company retains the economic benefits of the IP.

IP Transfer Requirements

Georgia's IP Box regime allows for the transfer of **intellectual property from other countries**, provided that the transferred IP is further developed or enhanced within Georgia. This means that IP created in foreign jurisdictions can still qualify for the regime if it is significantly improved or commercialized in Georgia. The transfer of IP into Georgia must be accompanied by appropriate documentation to demonstrate its development within the country.

Monetization Requirements

To qualify for the tax benefits under the IP Box regime, the IP must be actively **monetized**. This means that income derived from the use, licensing, or sale of the qualifying IP assets must be recognized as qualifying revenue. The company must demonstrate that the IP is being commercially exploited through licensing agreements, sales, or other means of generating income, ensuring that the tax advantages are linked to actual economic activity.

By meeting these conditions, businesses can access the preferential tax rate under Georgia's IP Box regime, offering a competitive environment for innovation and IP-driven growth.

3. Procedure for IP Box application

The IP Box regime in Georgia is applied at the taxpayer’s discretion, meaning that companies and individual entrepreneurs can opt to apply the regime without requiring prior approval from the tax authorities. However, it is essential for taxpayers to maintain **adequate documentation** to substantiate their eligibility for the regime.

While formal approval from the tax office is not required to apply the IP Box, **documentation must be submitted upon request**. This includes records that demonstrate the company’s engagement in qualifying activities, as well as evidence of the ownership, development, and monetization of intellectual property. Businesses may be asked to provide this documentation during audits or as part of routine tax compliance checks to verify their eligibility for the tax benefits.

By ensuring proper record-keeping and being prepared to provide documentation when required, companies can effectively benefit from the IP Box regime while complying with Georgia’s tax regulations.

4. Documents required for IP Box

To apply for the IP Box regime in Georgia, businesses must ensure they have the following supporting documents in place to substantiate their eligibility:

- **Proof of IP Ownership**: Documentation confirming the company's legal ownership or rights to the intellectual property assets being claimed under the IP Box regime.
- **Documentation of R&D Expenses**: Records detailing the research and development (R&D) expenses incurred in the creation or enhancement of the qualifying IP assets, ensuring that the taxpayer meets the criteria for benefiting from the regime.
- **Financial Records**: Financial statements that clearly show income generated from the IP assets, including revenue from licensing, sales, or other commercial activities related to the IP.
- **Contracts with Contractors (if applicable)**: Copies of agreements with third-party contractors who were involved in the development or enhancement of the IP, particularly if the company has used external resources in its R&D activities.
- **Agreements Related to IP Transfer or Sale**: Documentation of any agreements related to the transfer or sale of IP assets, providing evidence that the IP is actively being commercialized or monetized in accordance with the IP Box requirements.

These documents are essential for ensuring compliance with the IP Box regime and may be requested by the tax authorities for verification purposes during audits or reviews.

5. Specifics of the IP Box in the country

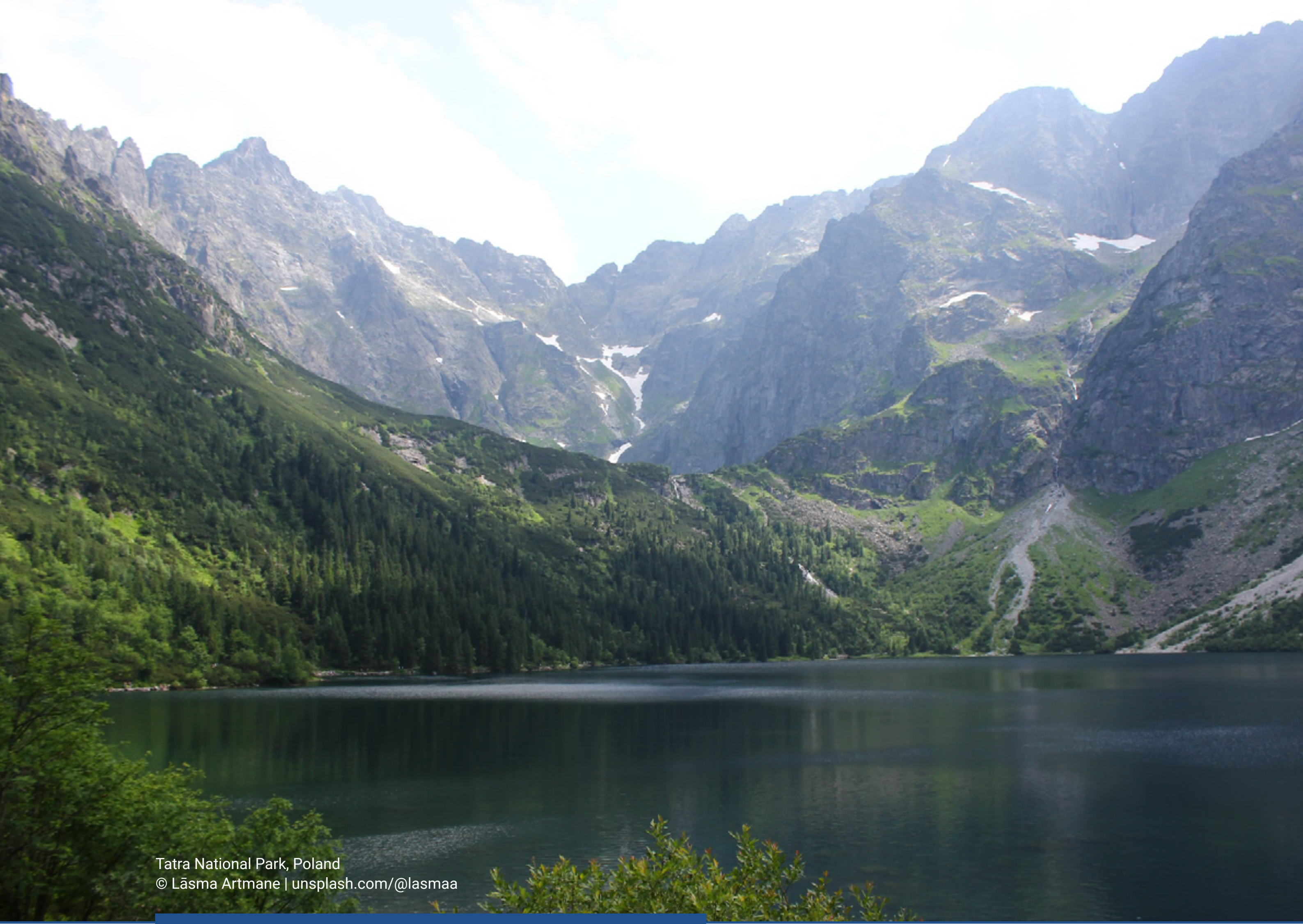
In addition to the conditions outlined above, there are several key nuances of the IP Box regime in Georgia that make it particularly attractive for businesses involved in intellectual property:

- **Promotion of Local Innovation**: The regime is specifically designed to encourage **local innovation** by offering tax benefits to businesses that develop and monetize their intellectual property within Georgia. This focus on domestic development helps stimulate economic growth and positions Georgia as an appealing hub for technology-driven companies.

- **Simplified Compliance Procedures**: One of the key advantages of the Georgian IP Box is its **simplified compliance** process. The regime is structured to be straightforward, reducing administrative burdens for companies while ensuring they can easily access the tax benefits available. This makes the regime especially attractive for **startups and tech companies** looking for an efficient and supportive environment in which to grow their IP-related activities.

- **Emphasis on IP Development and Monetization in Georgia**: To benefit from the regime, the intellectual property must be actively **developed and monetized within Georgia**. This ensures that the tax incentives are linked to real economic activity within the country, further encouraging innovation and the growth of the local economy.

By focusing on fostering local innovation, simplifying compliance, and promoting the development of IP within the country, Georgia's IP Box regime offers a competitive advantage for businesses operating in the tech and IP sectors.



Tatra National Park, Poland

POLAND

REVERA

1. Tax rate and other preferences under IP Box

Poland offers an attractive tax regime for businesses involved in the development and commercialization of intellectual property (IP) through its **IP Box relief**. This regime provides a significant reduction in the tax rate on income derived from qualifying IP assets. Below is a breakdown of the available tax options and how the IP Box regime compares with Poland's standard tax rates:

- **Corporate Income Tax**: Entrepreneurs who qualify for the IP Box regime and are subject to the flat tax rate can benefit from a reduced tax rate of **5%** on income derived from qualifying IP assets, instead of the standard 19%. The IP Box relief is applied at the end of the tax year, meaning that businesses will pay the standard 19% during the year, and the 5% tax will be settled at year-end based on qualifying income.

- **Personal Income Tax**: The **lump sum tax** regime taxes income without deductions for business expenses. The tax rate under this regime depends on the type of service provided. For **software-related services**, the flat rate is set at **12%**. However, businesses under the lump sum tax regime are **not eligible** for the IP Box relief.

Poland's tax laws also allow for **retroactive application of the IP Box relief**. Taxpayers can apply the IP Box regime **up to 5 years back**, provided they meet the relevant conditions. The relief has been in effect since **2019**, so businesses can benefit from it for previous years, as long as they have filed taxes under the **flat tax or general tax regime** in the past three years. This backward application can provide significant tax savings for businesses that qualify.

2. Conditions for applying IP Box

The **IP Box** regime in Poland is designed for taxpayers who engage in **research and development (R&D)** activities and earn income from **qualified intellectual property (IP)** assets. Below are the key conditions and eligibility criteria for applying the IP Box in Poland:

Eligibility

- **Legal Entities**: Both domestic and foreign legal entities are eligible for the IP Box regime, provided they are tax residents in Poland or their income is subject to Polish taxation.
- **Individual Entrepreneurs**: Individuals conducting business activities, such as sole proprietors or partners in various business forms (e.g., civil partnerships, limited partnerships), can also benefit from the IP Box relief, provided they meet the necessary criteria.
- **Foreign Entities**: Foreign companies operating in Poland, including subsidiaries and branches, may also qualify for the IP Box regime if the income derived from qualified IP is subject to taxation in Poland. This includes:
  - Foreign branches or plants of companies located in Poland.
  - Foreign establishments of a Polish tax resident company, provided the income from qualified IP is taxed in Poland.
- **Income Earned Abroad**: If income from R&D activities is generated abroad, the eligibility for IP Box relief depends on the provisions of the relevant **double taxation treaties** between Poland and the country where the income is earned.

Qualifying IP Assets

To benefit from the IP Box relief, the taxpayer must meet the following criteria for their IP assets:

- **Ownership or Licence**: The taxpayer must be the owner, co-owner, or holder of the right to use qualifying IP assets under a **licence agreement**. IP Box relief can apply even if the taxpayer is not the owner but has exclusive rights to use the IP.
- **Development or Enhancement**: The IP must be developed, improved, or enhanced by the taxpayer through **research and development (R&D)** activities. The creation of the IP must be the result of the taxpayer's R&D work, and the IP must be legally protected (e.g., patented, copyrighted).

- **Types of Qualifying IP**: Eligible IP includes patents, utility models, industrial designs, topographies of integrated circuits, supplementary protection rights for medicinal products, registered plant varieties, and copyrights in computer programs. The IP must be legally protected under Polish law or international treaties to which Poland is a party.

IP Creation and Development

- **In-House Creation**: The IP should ideally be created within Poland as part of the taxpayer's R&D activities. The taxpayer must have contributed creatively to the development or enhancement of the IP, whether by their employees or contractors.

- **Contractors and External Contributions**: While the IP should ideally be developed in-house, contractors can be used to assist in the development process. However, the substantial part of the development must take place under the taxpayer's oversight to ensure that it qualifies for IP Box relief.

- **IP Transfer**: The IP Box relief also applies to IP that has been transferred from another country, as long as it is subsequently developed or enhanced within Poland. Taxpayers who acquire IP rights and improve or further develop the IP can still benefit from the IP Box, provided that the IP qualifies as **"qualified IP".**

Monetization of IP

To qualify for the IP Box relief, income must be generated from the commercialization or monetization of **qualified IP**. This includes income from:

- **Sale of Qualified IP**: Profit generated from selling the IP rights.

- **Licensing Agreements**: Revenue derived from licensing the IP to other parties.

- **Use of IP in Business**: Income from products or services sold that are based on the IP.

- **Damages from Infringement**: Compensation or damages received for IP infringement cases.

It is not necessary for the IP to show a direct increase in profitability from its development or enhancement. However, the taxpayer must be engaged in increasing the commercial value of the IP, whether by reducing production costs, improving efficiency, or boosting sales.

Important Considerations

- **IP Protection**: For IP to qualify, it must be **legally protected** (e.g., patents, copyright, industrial designs). If the legal protection for the IP expires, the taxpayer can no longer benefit from the IP Box relief for that period.

- **R&D Documentation**: The taxpayer must maintain proper documentation proving that the IP was created, developed, or enhanced as part of R&D activities. This documentation is necessary to support the application for the IP Box relief.

3. Procedure for IP Box application

The IP Box regime in Poland is available at the taxpayer's discretion, but specific steps must be followed to benefit from the preferential tax rate. The procedure for applying for the IP Box relief involves submitting the necessary documents and meeting certain record-keeping requirements.

The Application Process itself looks as follows:

1. **Taxpayer's Discretion**: The **IP Box relief** can be applied at the taxpayer's discretion, but the application must be made **by 30 April** of the year following the tax year for which the taxpayer wishes to apply the relief.

2. **Tax Return Attachment**: Entrepreneurs wishing to benefit from the IP Box must attach a **PIT/IP attachment** to their annual tax return for the previous tax year. This attachment must detail the income derived from qualified IP assets and the application of the 5% tax rate.

3. **No Immediate Application During the Tax Year**: Taxpayers cannot apply the IP Box relief during the tax year in which they are filing their return. The 5% tax rate can only be applied in the subsequent year, once the annual tax return is filed.

4. **Tax Adjustment**: In the following year, taxpayers must indicate that income from qualified IP is subject to the 5% tax rate. If any excess tax has been paid during the year, the overpaid tax will be automatically credited against any tax arrears or current tax liabilities. If there are no such debts, the overpayment will be refunded to the taxpayer.

To apply for the IP Box relief, taxpayers must maintain **separate records** for their IP Box activities. These records must be kept **throughout the accounting period** and not just for the purpose of the annual tax settlement. The records are essential for substantiating the 5% tax rate and for demonstrating that the taxpayer is meeting the necessary conditions.

- If a taxpayer derives income from **multiple qualifying IP assets**, they must maintain **separate records** for each of the IP assets.

- These records should include details about the income generated from the IP, the related R&D activities, and the costs associated with developing or enhancing the IP.

4. Documents required for IP Box

To apply for the **IP Box relief** in Poland, taxpayers must maintain detailed and separate records that track all financial transactions related to the income derived from qualified intellectual property (IP) assets. These records are crucial for verifying the eligibility and calculating the amount of income subject to the preferential 5% tax rate.

Key Record-Keeping Requirements are:

1. **Revenue and Costs Records**:
   - **Revenue**: All income generated from the use or sale of qualified IP assets must be recorded.
   - **Tax Costs**: Expenses directly related to the creation, development, or enhancement of qualified IP should be tracked and deducted.
   - **Income Subject to 5% Tax Rate**: Income derived from qualifying IP that is eligible for the preferential 5% tax rate must be clearly identified.
   - **Non-Qualified Income**: Any income not derived from qualifying IP and thus not eligible for the 5% tax rate must also be recorded separately.
2. **Corporate Income Tax (CIT) Taxpayers**:
   - CIT taxpayers must keep **accounting records** that allow for the determination of income, tax base, and the tax due for the year.
   - These records must include information on **tangible and intangible assets** necessary for calculating depreciation and must separate the costs of **research and development activities** for IP Box purposes.
3. **Personal Income Tax (PIT) Taxpayers**:
   - **Natural persons** (individual entrepreneurs) must maintain a **revenue and expense ledger** or **books of account** in a manner that enables the determination of income, tax base, and the tax amount due for the year.
   - Personal income taxpayers are also required to separate the costs associated with **research and development** activities in their accounts to benefit from the IP Box relief.
4. **Separation of Economic Operations**:

- The requirement to keep **separate records** does not mean maintaining separate **books of account**. Rather, it involves **separating economic operations** within the accounts, such as through **subsidiary accounts** or other methods of tracking the relevant income and costs.

5. **Specific Accounts to Be Maintained**:

- **Revenue accounts**: For income generated from qualified IP.
- **Deductible expense accounts**: For costs directly associated with qualifying IP.
- **Income (loss) accounts**: For income derived from qualified IP.
- **Fixed asset accounts**: For tangible and intangible assets related to the R&D activities and IP development.
- **Settlement accounts**: For tracking the calculation of the IP Box relief.

These records must be maintained consistently throughout the year to support the annual tax return and demonstrate compliance with the IP Box requirements. Taxpayers must ensure that the records clearly differentiate between income from qualifying IP and other sources of income, and must ensure that the **research and development costs** are properly allocated and documented.

5. Specifics of the IP Box in the country

An important update to the **IP Box** regime in Poland came into effect on **1 January 2022**, allowing for a combination of the **IP Box relief** with **research and development (R&D) relief**. This dual benefit enhances the attractiveness of the regime, especially for businesses engaged in innovation and technological development.

The **R&D relief** allows taxpayers to deduct certain expenses related to **research and development activities** from their taxable income. This includes costs directly incurred in the development, improvement, or production of qualified intellectual property (IP). Importantly, the **deductible R&D costs** cannot exceed the taxpayer's income from **non-agricultural economic activities** for the year.

The **R&D relief** is activated during the phase in which the taxpayer incurs expenses for research and development that lead to the creation, improvement, or development of qualified IP.

With the change implemented on 1 January 2022, taxpayers can now apply both the **R&D relief** and the **IP Box relief**. This allows the taxpayer to:

- **Deduct eligible R&D costs** from their income in the year the expenses are incurred.
- **Apply the 5% tax rate** to income derived from the monetisation of qualified IP (i.e., income from the use or sale of qualifying IP assets).

This combination enables businesses to benefit from a **doubly deductible effect**: R&D costs can be deducted from the taxpayer's income for both the R&D relief and the **IP Box relief**. This means that the eligible R&D costs—incurred in the process of creating or improving qualified IP—are deducted first under the R&D regime and again when the **income from the qualified IP** is taxed under the IP Box relief, providing a significant tax advantage.

This amendment makes Poland's IP Box regime particularly attractive to businesses involved in both the creation of qualified IP and ongoing R&D activities. The ability to **deduct R&D costs** while also benefiting from the **5% preferential tax rate** on income from monetised IP maximises the tax efficiency for innovative companies.