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Expense deduction from royalty income paid abroad only if expense exclusively benefits licensee

The finance ministry has decreed that a royalty debtor may not deduct expenses of the EEA royalty creditor from the gross royalty subject to withholding tax unless the expense was incurred solely in respect of the given licence.

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Royalties paid abroad are subject to withholding tax (30% to natural persons and 15% to corporations, unless reduced by treaty). If the royalty is paid to an EEA citizen resident in an EEA country, the withholding tax may be based on the gross royalty net of direct expenses as known to the creditor and supported by adequate documentation available to him. The finance ministry has now issued a decree tightening the rules by providing that the expenses must have been incurred solely in respect of the licence at issue. Expenses incurred on the technology that would enable its sale to other persons, too, are not exclusive to the licence at issue and thus not deductible, even if there is, in fact, no other licensee.

Schlagwörter

licence, licensee, royalty