



▶ RELATED PARTY DEFINITION 1

▶ MAIN REQUIREMENTS 1

▶ TRANSFER PRICING DOCUMENTATION FILES 2

▶ DEADLINES AND PENALTIES 2

▶ ADVANCE PRICING AGREEMENT (APA) 2

▶ SUMMARY INFORMATION TABLE 2



Transfer Pricing study

THE TRANSFER PRICING NEW REGULATIONS ARE EFFECTIVE AS FROM 1 JANUARY 2022 AND THEY APPLY AS FROM THE TAX YEAR 2022.

On 30 June 2022, the Cyprus Parliament passed a law introducing detailed transfer pricing (TP) legislation, by amending the current Cyprus Income Tax & Assessment and Collection laws. The OECD Transfer Pricing Guidelines have been legislatively incorporated in Cyprus.

The transfer pricing legislation applies to Cyprus tax resident companies as well as permanent establishments of non-resident companies tax residents in Cyprus, regarding all transactions undertaken with related parties.

Related party definition

One main rule of the law is the introduction of a 25% threshold in defining the connection of a legal entity with another legal entity/person for transfer pricing purposes.

In practice, this means two parties are considered related if the below conditions are met:

- If one party, either directly or indirectly holds 25% of the share capital of another company, or has at least 25% of the voting rights or rights to the income of the company.
- If the same person, either directly or indirectly holds at least 25% of the share capital of two companies, or has at least 25% of the voting rights or rights to the income of both companies.



Main requirements

The law provides for two types of requirements for tax residents in Cyprus.

- Must submit a summary information table that reflects high-level information about the taxpayer's annual intercompany transactions.
- Must prepare, and keep in their records, a TP documentation file that consists of a local file and a master file subject to the exemptions explained below.





Transfer pricing documentation files

LOCAL FILE EXAMPLE AND EXEMPTIONS

The local file refers to material transactions of the local taxpayer and includes a transfer pricing study to justify compliance with the arm's length principle.

The local file obligation is applicable for taxpayers if their transactions with connected parties either exceed (or should have exceeded based on the arm's-length principle) the amount of €750,000 in aggregate per category of transaction per tax year.

Advance Pricing Agreement (APA)

The new law provides for the possibility for a taxpayer to apply for an APA for transactions with related parties.

Through an APA a taxpayer can apply to the Tax Commissioner for pre-approval of the transfer pricing methodology selected, and/or the pricing of specific or existing cross-border transactions with related parties. The tax commissioner issues a decision within 10 months from the application. The APA can be valid for a maximum period of four years from the date of application.

The main benefit provided by an APA for a taxpayer is the ability to obtain some degree of certainty regarding how the law will be applied in a given set of circumstances.

Summary information table

The summary information table includes high-level information about the taxpayer's annual intercompany transactions, including details of the counterparties, category of intercompany transactions entered into, and amount per transaction category.

This table is to be completed in cases where there are transactions with related parties, irrespective of their value and is to be submitted along with the company's tax return for the year.

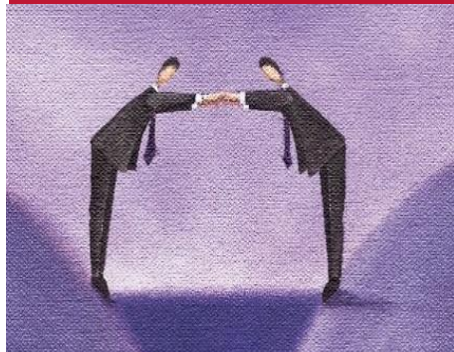
MASTER FILE EXAMPLE AND EXEMPTIONS

The master file provides a high-level overview of the taxpayers' business in order to place the group's transfer pricing practices in their global economic, legal, financial, and tax context.

More specifically, the master file should provide an overview of the group business, including the nature of its global business operations, its organizational structure and its overall transfer pricing policies.

This requirement only applies to companies who act as the Ultimate Parent Entity (UPE) or Surrogate Parent Entity (SPE) of a multinational enterprise Group with a Country-by-Country Reporting obligation (e.g., with consolidated revenue above €750 million).

Deadlines and penalties



The TP documentation files and summary information table for a particular year should be prepared not later than the due date for submitting the taxpayer's Income Tax Return for that year (e.g., currently 15 months after calendar year-end).

Furthermore, the TP documentation file is to be submitted to the Tax Department upon request within 60 days. If the TP documentation file is submitted after the 60th day, the new law provides specific penalty provisions which vary as follows:

- Between 61 and 90 days – €5,000 penalty
- Between 91 and 120 days – €10,000 penalty
- If not submitted at all or after 120 days – €20,000 penalty

In the event of late submission of the summary information table, a €500 penalty is imposed.