



1 Transfer Pricing (TP) Framework in Cyprus

YEARS 2017 – 2021: INTRODUCTION OF INITIAL TP RULES

The concept of the arm's length principle has been present in Cyprus for several years. However, formal TP rules were first introduced in 2017 through Circular EE 2017/03, mandating taxpayers to prepare a TP documentation file for transactions under the category of 'on-lending arrangements' (commonly referred to as "back-to-back" financing).

Additionally, Circular EE 2017/04 established a requirement for TP documentation where the sale of goods or services involved the use of a qualifying intellectual property (IP) asset.

YEAR 2022 ONWARDS: EXPANSION OF TP FRAMEWORK

In response to the evolving international standards, Cyprus introduced a broader set of TP rules and documentation requirements, with effect from 1 January 2022. The updated rules imposed a mandatory TP documentation requirement for taxpayers, in the form of a Local File (LF) and a Master File (MF), if the controlled transactions exceed certain thresholds (i.e. quantitative thresholds).

Moreover, taxpayers are now required to submit a Summary Information Table (SIT) electronically, effective from tax year 2022. The SIT provides detailed information about the taxpayers' controlled transactions, including their value, nature, counterparties, and the applied TP methodology followed to comply with the arm's length principle. Notably, the SIT must be filed irrespective of the materiality of the transactions.

2 TP Documentation and Filing Requirements

MASTER FILE OBLIGATION

Taxpayers are required to maintain a MF if they meet the following criteria:

- ▶ The taxpayer is the ultimate parent or a surrogate parent of a multinational group, in accordance with the Country-by-Country reporting requirements; and
- ▶ The multinational group has consolidated revenues exceeding €750 million.

The content of the MF is set out in a regulatory decree issued by the tax office (Κ.Δ.Π. 314/2022), and are broadly similar to the documentation requirements set-out in Chapter V (Annex I) of the 2022 OECD TP Guidelines for Multinational Enterprises and Tax Administrations (the Guidelines).

LOCAL FILE OBLIGATION

Taxpayers who are tax resident in Cyprus, or permanent establishments of non-residents, are required to maintain a LF for their controlled transactions that exceed specific thresholds. The thresholds are quantitative, and they are based on their arm's length value per type of transaction. As of 1 January 2026, the applicable thresholds are as follows:

Type of Transaction	Applicable Threshold per Tax Year
Goods	€5,000,000
Services	€2,500,000
IP	
Other	
Financial ¹	€10,000,000

Moreover, the content of the LF is set out in the same regulatory decree issued by the tax office (Κ.Δ.Π. 314/2022).

SUMMARY INFORMATION TABLE

The SIT refers to a standardized form required as part of the TP compliance process. The SIT must be submitted electronically, irrespective of the provided thresholds, and it should include details of the taxpayer's controlled transactions for a specific tax year.

In a nutshell, the SIT should include details about the controlled transactions, such as amount and type of transaction, the counterparties, such as tax number and country of residence, as well as the TP methodology followed (e.g. CUP, TNMM, profit split).

¹ Including financial guarantees and other receivables which are accurately delineated as of a financing nature.

SIMPLIFICATION MEASURES

The TD issued a Circular (2023/06) to clarify the treatment of transactions per category/type that do not exceed the documentation thresholds. The Circular mandates a minimum documentation requirement, without any de minimis values and irrespective of category, and is effective from 1 January 2022. The minimum documentation requirements include the following:

- ▶ Brief functional analysis (functions, assets, risks);
- ▶ Description of the functional profile of the company, based on the results of the functional analysis;
- ▶ Description of the reasons why the selected TP methodology was deemed to be the most appropriate;
- ▶ Determination of the arm's length pricing supported by relevant benchmarking results, internal or external comparables, or any other analysis in line with the OECD Guidelines.

The simplification measures per transaction type are summarised below:

Category	Pricing Method
Loans or advances (of a financing nature, as accurately delineated) Financed by Debt	A minimum return (i.e., interest spread) equal to 2.5% before taxes, based on the outstanding principal and interest accrued balance of the financial aid provided (and which is directly financed by debt).
Loans or advances (of a financing nature, as accurately delineated) Financed by Equity	A minimum return equal to the yield of the 10-year government bond of the jurisdiction that the funds were invested, plus a rate of 3.5% before taxes, based on the outstanding principal and accrued interest balance of financial aid provided (which is directly financed by equity).
Provision of Financing from Connected Parties (e.g., loans payable)	In case the interest expense is treated as tax deductible under the provisions of the Income Tax Law (ITL), the taxpayer would be allowed to deduct an interest equal to the yield of the 10-year government bond of Cyprus increased by 1.5% before taxes.
Any Other Category (Apart from Low-Value Added Services, subject to the 5% mark-up)	Comparability Search Study based on the OECD TPG.

3 Statutory and Other Requirements

DEADLINES AND PENALTIES

The applicable deadlines for the preparation and submission of each document are noted in the table below:

Filing Obligation	Preparation Deadline	Submission Deadline	Penalties
MF and LF	By submission of the Income tax Return ²	Within 60 days upon request	- €5,000 if submitted between 61 and 90 days from request date; - €10,000 if submitted between 91 and 120 days from request date; - €20,000 if submitted more than 120 days from request date.
SIT	By submission of the Income tax Return	By submission of the Income tax Return	€500

MANDATORY DISCLOSURE REQUIREMENT (MDR) – COUNCIL DIRECTIVE (EU) 2018/822 (DAC6)

The rules, introduced under DAC6, require the reporting of certain cross-border arrangements that exhibit specific characteristics (known as ‘hallmarks’). Specifically, hallmark (E.1) targets the use of unilateral safe harbour rules that are established by a single jurisdiction to simplify or streamline TP compliance.

Thus, the use of the simplification measures in cross-border arrangements may lead to a reporting obligation under DAC6. Therefore, taxpayers should address their reporting requirements promptly, given that failure or delay to report the arrangement may lead to penalties of up to €20,000 per failure to comply (capped annually at €120,000 per intermediary or taxpayer).

OTHER IMPLICATIONS

While simplification measures may reduce compliance efforts, they can result in higher tax liabilities compared to maintaining a LF. A well-prepared LF might yield more accurate arm’s length pricing, potentially lowering taxable profits.

Taxpayers should carefully evaluate the costs and benefits of maintaining detailed TP documentation versus relying on simplifications, ensuring compliance with local and international requirements while minimizing tax risks.

² 15 months following the end of the tax year, unless an extension is granted.



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