



The Cyprus TP landscape is changing

What do I need to know?

Recently, there have been significant tax developments in Cyprus with respect to transfer pricing (TP). Cyprus introduced elaborate TP documentation requirements in its income tax law, which are effective from tax year 2022. Following the tax law amendment, the Cyprus Tax Authorities (CTA), issued several tax circulars and announcements, changing relevant monetary thresholds, deadlines and sharing [clarifications](#).

Given the multiple sources of guidance and frequent updates, we clarify what Cyprus companies need to know by **answering 20 key questions**.

1. Are all related party transactions subject to the arm's length principle?

Yes, all related party transactions should be priced as if independent parties are transacting under similar commercial terms and circumstances.

2. Should a company prepare TP documentation (supporting the arm's length pricing) for all related party transactions?

Transfer pricing (TP) documentation is obligatory only for transactions between parties that have a 25% direct/indirect relationship (RPTs).

3. Should TP documentation be prepared using the tax year or the accounting year?

The TP documentation should be prepared with respect to the tax year (i.e. documenting RPTs occurring between 1 January and 31 December).

4. Is there an obligation to prepare TP documentation on an annual basis?

Yes, related party transactions need to be documented on an annual basis. Subject to conditions, certain benchmarking studies may be used in TP documents of multiple years.

5. What are the main TP documents that a company may need to prepare?

There are three main types of TP documents:

- i)* Summary Information Table (**SIT**)
- ii)* Elaborate TP documentation (**Local File** or LF)
- iii)* Simplified TP documentation (**Simplified Report**)

6. When does a company need to prepare a SIT?

Companies with RPTs have an obligation to prepare and submit a table summarising RPTs, the so-called Summary Information Table.

7. Is the obligation to prepare and submit an SIT, subject to a monetary threshold?

No, the SIT submission requirement is not subject to a monetary threshold.

8. When does a company need to prepare elaborate versus simplified TP documentation?

A company with RPTs exceeding certain monetary thresholds (see Q9) has an additional obligation to prepare elaborate TP documentation (the so-called Local File or LF). Taxpayers with RPTs that do not exceed the Local File monetary thresholds, still have an obligation to prepare simplified TP documentation.

9. What are the monetary thresholds that trigger an obligation to prepare a LF?

Companies that during a tax year, engaged in RPTs exceeding:

- €5 million for financing transactions, and
- €1 million per category of transactions, related to:
 - i) Goods;
 - ii) Services;
 - iii) Intellectual Property; and
 - iv) Other

10. How are the above monetary thresholds calculated?

For financing RPTs, the €5m threshold is calculated by considering the aggregate amounts of the maximum principal(s) outstanding during the financial year plus interest charged but not paid (Balance Sheet items).

For all other categories, the €1m threshold is considered taking into account the aggregate value of all transactions (income and expenses) belonging in the same category, i.e. without netting-off transactions.

11. What is included in a Local File?

A Local File mainly includes the following: Description of local management structure, Detailed information relating to specific intercompany transactions, Functional analysis, Information relevant to the transfer pricing analysis related to transactions entered into by the documenting entity with related affiliates, a comparability analysis and the selection and application of the most appropriate TP method. The contents are broadly aligned with the TP guidelines of the OECD.

12. What's the difference between elaborate TP documentation (Local File) and simplified TP documentation?

In general, a Simplified Report is a more concise version of the Local File focusing only on the RPTs and excluding broader information on the Company and Group. A Simplified Report includes a brief description and functional analysis related to the RPTs and the involved entities, together with the appropriate methodology and corresponding economic analysis, including benchmarking.

13. By when do I have to prepare the SIT and the Simplified Report/Local File for tax year 2022?

For tax year 2022, companies would have until the **30th of November 2024** (extended from 31 March) to submit the SIT and prepare the Local File/Simplified Report.

It is worth highlighting that the 2022 TD4 submission deadline for taxpayers with no SIT filing obligation, remains on 31 March 2024 ([CTA announcement](#)).

14. Does the TP Documentation require a sign-off by a specific party?

A Cyprus Licensed Auditor should undertake an assurance quality review of the TP Documentation by the preparation deadline.

15. What is the process to submit the SIT?

The SIT needs to be filed electronically through the [Tax For All portal](#).

16. Do I always have to support the TP documentation with a benchmarking study?

No. Under conditions, companies can rely on the safe harbour rates, provided in [Tax Circular 6/2023](#) issued by the CTA.

17. When can the safe harbour rates be used in place of independently benchmarked rates?

The safe harbour rates may only be used when the value of the taxpayers' related party transaction(s) falls below the Local File monetary thresholds. Safe harbours are, for the time-being, only available for certain financing transactions and low value-adding services.

18. What is the benefit in using independently benchmarked rates compared to the safe harbour rates?

The pre-determined rates may not fit with the actual TP policy applied by the taxpayers, and applying them may lead to a more disadvantageous tax position. Moreover, using the safe harbour rates may give rise to DAC6 reporting obligations. Therefore, undertaking a benchmarking may be more beneficial, but should be considered as part of a cost-benefit analysis.

19. Are transactions between two Cyprus companies exempt from the TP documentation rules?

No, such domestic transactions are not exempt from the TP documentation rules.

20. Is a corresponding deduction allowed for the Cyprus resident counterparty taxpayer when a TP adjustment is made in the tax computation of the other Cyprus resident counterparty taxpayer to increase its taxable profits?

Such a corresponding deduction is allowed under the Cyprus tax legislation. The extent to which the amount of the corresponding deduction can be claimed by the counterparty is subject to the provisions of the Cyprus tax law relating to the deductibility of expenses.

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