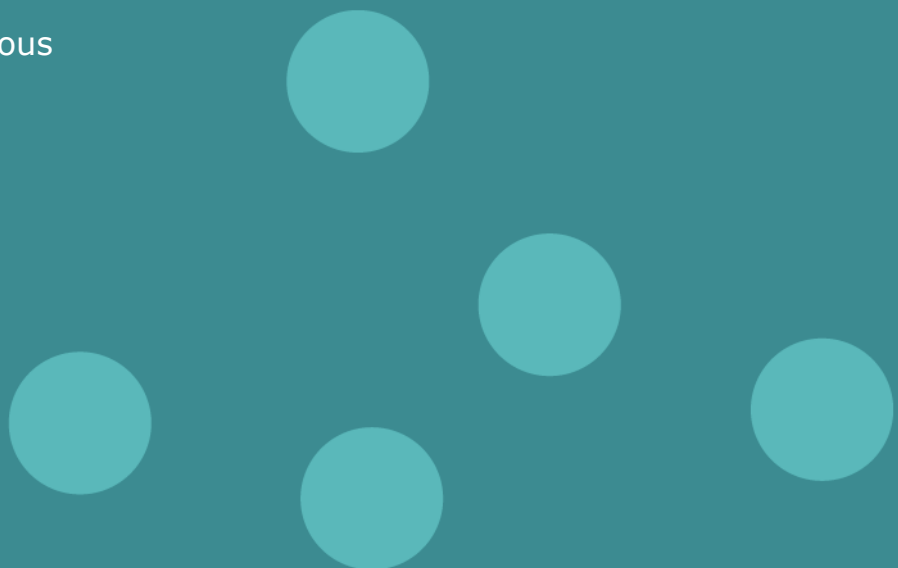


Circular 5/2026: Revised Transfer Pricing Simplification Rates for Intra-Group Financing

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INTRODUCTION

On 12 October 2026, the Cyprus Tax Department issued Circular 5/2026, revising the minimum and maximum rates of return applicable to certain intra-group financing transactions under the transfer pricing simplification measures introduced by Circular 6/2023.

The revised rates apply from tax year 2026 onwards and will remain in effect until their next revision.

Circular 5/2026 amends the rates of Circular 6/2023, covering debt-funded related-party financing, equity-funded related-party financing and borrowing from related parties for business purposes.

The 5% minimum profit mark-up for low value-adding services remains unchanged, as do the other conditions governing the application of the simplification measures.

OVERVIEW OF THE REVISED RATES

Transaction category	Tax years 2022–2025	2026 onwards	Basis of application
Debt-funded related-party financing	2.50%	0.50% / 2.00%	Minimum pre-tax return: 0.50% where the entity neither controls the relevant financial risks nor has the financial capacity to assume them; 2.00% in all other cases
Equity-funded related-party financing	3.50%	2.25%	Minimum return: borrower's country 10-year government bond yield + applicable rate
Related-party borrowing used for business purposes	1.50%	1.75%	Maximum borrowing cost: Cyprus 10-year government bond yield + applicable rate

Reference Bond Yields

The applicable reference yield is determined as at 31 December of the preceding tax year, in line with Circular 6/2023.

Under the revised Circular, where a financing transaction is denominated in a currency other than the relevant country's domestic currency, the applicable benchmark is that country's 10-year government bond yield denominated in the loan currency, provided that yield is published on the Cyprus Tax Department's website.

Where the relevant yield is not available, taxpayers should contact the Tax Department's Intra-Group Transactions Unit under Article 33(7) of the Income Tax Law to obtain the applicable reference rate.

DAC6 consideration

Applying the safe harbour rates to cross-border transactions is reportable under DAC6 hallmark E1.

All other conditions and provisions of Circular 6/2023, including the eligibility and documentation requirements governing the simplification measures, continue to apply.

Practical implications

From tax year 2026, taxpayers using the simplification measures should:

- Apply the revised safe harbour rates to their intra-group financing arrangements
- Assess the entity's control over financial risks and its capacity to bear those risks to determine the applicable return for debt-funded financing
- Confirm the appropriate reference bond yield, particularly for foreign-currency loans
- Update the supporting transfer pricing documentation to reflect these changes
- Assess the DAC6 reportability of cross-border arrangements where the safe harbour rates are applied (hallmark E1)

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