



T.P. Alfa Services

Cyprus Tax Department
Introduction of Transfer Pricing Law and Regulations in Cyprus

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A. INTRODUCTION

The Cyprus Parliament on 30th of June 2022 has voted the new transfer pricing law and regulations which establish transfer pricing documentation requirements for Companies that are resident in the Republic and Permanent establishments (PEs) in the Republic of non-tax resident companies.

The law and regulations are aligned with the OECD Transfer Pricing Guidelines and apply as from 1st of January 2022.

B. DOCUMENTATION AND REPORTING REQUIREMENTS

The most important points of the law and regulations are the following:

1. Documentation should be maintained for related party transactions. Article 33 of income tax law has been amended to introduce a 25% relationship test which upon fulfilment, the parties are considered related and any transactions between them should be at arm's length.
2. Companies and PEs mentioned above are obliged to maintain the following Transfer Pricing documentation:
 1. master file;
 2. local file and;
 3. table of summarised transactions

The above should be ready by 31 March of 2024 which is the deadline for submission of tax returns for the tax year 2022.

3. Table of summarised transactions is the only one of the above documents that must be submitted to Tax Authorities on the submission of the tax return. This document will provide high-level information for the related parties transactions.
4. Local files must be prepared by taxpayers involved in controlled transactions (transactions with related entities) and submitted to the Tax Authorities upon request. Exempted from preparation of local file are taxpayers whose volume of controlled transactions per category (analysed below) does not exceed the amount of EUR 750.000.
5. Master file must be prepared by companies that are either the ultimate or surrogate parent entities of the group with an annual consolidated turnover that exceeds the amount of EUR 750 million and submitted to the Tax Authorities upon request.



C. CATEGORIES COVERED

The new transfer pricing law covers all types of transactions that are concluded between related parties. Therefore, documentation must be prepared (subject to the above exemptions) on:

1. Sale/purchase of goods
2. Provision/receipt of services
3. Paying/receiving royalty income and sale/purchase of Intellectual Property (IP)
4. Provision/receipt of financial services
5. Other types of transactions between related entities

D. PENALTIES

Penalties will be imposed to taxpayers who do not comply with requirements of the new law and regulations regarding transfer pricing documentation.

The penalties can vary from EUR 500.00 to EUR 20,000.00 depending on the case as will be described in the articles of the law.

E. ADVANCED PRICING ARRANGEMENTS

The new legislation also introduces provisions for requesting Advances Pricing Arrangements (APA).

APA will set in advance the price/methodology/assumptions for a specific transaction that is requested by the taxpayer and eventually agreed between tax authorities and taxpayer.

Commissioner of Taxation will review the application and provide a reply to the taxpayer within 10 months from the date of application. The period for reply can be extended to up to 24 months where necessary.

Bilateral APAs (APAs involving tax authorities of more than one state) will also be available to the taxpayers. The application will be made in parallel to both states tax authorities by the taxpayer who will provide the authorities with all necessary information/documents necessary to assess the request.

An APA can be valid for a maximum period of 4 years. APA can be revisited and revised upon request of the taxpayer or where the Commissioner of Taxation consider it necessary.

It must be noted that the Commissioner retains the power to revoke or cancel an APA under certain circumstances.



F. HOW CAN TP ALFA SERVICES LIMITED ASSIST

TP ALFA SERVICES LIMITED can assist to you to:

- Understand the impact of the information included in this publication on your intragroup financing transactions.
- Perform and submit a transfer pricing study for your intragroup transactions.
- Prepare an APA and liaise with tax authorities to enable the client secure a pricing in advance;
- Assist in the formation of the internal transfer pricing policy
- Represent you in a transfer pricing dispute with the tax authorities

DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

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