

TRANSFER PRICING RULES CYPRUS

What has changed!

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 Organisation for Economic Co-operation and Development (OECD) on Transfer Pricing Guidelines have been legislatively incorporated into the Cyprus Income Tax & Assessment and Collection laws and the new requirements will be implemented from the tax year 2022, starting from 1 January 2022 onwards. The above legislative developments aim to introduce TP rules and documentation requirements in accordance with recommendations of the OECD on Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations

What transactions fall within the TP Law?

The new TP law and regulations cover all types of transactions between related parties in excess of €750,000, per category of transaction.

Type of transactions:

- ✓ Goods: Sale and purchase of goods
- ✓ Services: Provision and receipt of services
- ✓ Intellectual Property Related: Sale, purchase, leasing of intangible assets
- ✓ Financing: Provision and receipt of financing
- ✓ Other: Any other transaction between controlled parties.

What transactions do not fall within the TP Law?

Transactions between related parties below €750,000 per category of transaction, are exempt and they do not have an obligation to prepare and submit a Master File and Local File. However, should be carried out in accordance with the arm's length principles, as per the provisions of the Article 33 of the Cyprus Income Tax Law and an obligation to prepare and submit an annual Table of Summarized Information to the Tax Department.

What TP documentation files i need to prepare?

The related parties that meet the threshold of 750,000 per category of transaction, have obligation to prepare the following files:

Table of Summarized Information:

This table should be prepared and submitted annually to the Tax Authorities along with the Tax Return of the taxpayer. It 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 form for the year.

The Local File:

This file should be prepared by all taxpayers involved in controlled transactions before the tax return filing deadline. The local file refers to material transactions of the local taxpayer and includes a TP study to justify compliance with the arm's length principle. The local file obligation is applicable for taxpayers if their transactions with connected persons 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.

The Master File:

This file should be prepared by all taxpayers involved in controlled transactions before the tax return filing deadline. It applies only to companies that are ultimate or surrogate parent entities of multinational group which has consolidated revenues above €750M. The master file provides a high-level overview of the taxpayers, business in order to place the group's TP 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 organisational structure and its overall TP policies

When is the deadline for the preparation of TP documentation files?

The TP documentation files and summary information table for a particular year should be prepared no later than the due date for submitting the taxpayer's Income Tax Return for that year (currently 15 months after calendar year-end).

Furthermore, the TP documentation file will be required to be submitted to the Tax Department upon request within 60 days.

What are the penalties for not submitting the TP documentation files?

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

Furthermore, in the case that the TP documentation file is submitted after the 60th day as requested by the Tax Department, then the following penalties apply:

- 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