



Transfer Pricing



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Milimar Ltd

Marios Mili
Managing Director
Email: mariosm@milimar.eu

2 Orestiadou Street
Kiti, P.C. 7550
Larnaca, Cyprus

Phone: +357 99 593 501
Email: info@milimar.eu
Website: www.milimar.eu

“Alone we can do so little, together we can do so much.” — Helen Keller

Cyprus introduces all-new Transfer Pricing

Cyprus recently introduced all-new Transfer Pricing (TP) rules and reporting obligations that went into effect retroactively as of 1 January 2022.

The new TP requirements for businesses were voted into law by the Cyprus House of Representatives on 30 June 2022 and were published in the Cyprus Government Gazette on 8 July 2022.

The new law is in line with the TP Guidelines for Multinational Enterprises and Tax Administrations of the OECD and within the framework of Action 13 of the BEPS initiative.

TP refers to how income/expenses from transactions are allocated to **related** companies and permanent establishments. Before the enactment of this law, the legal basis to address TP issues rested on the arm's length principle.

Transactions covered

The transfer pricing law and regulations cover all types of transactions between **related parties** in **excess of €750,000** per category of transactions. The relevant transactions include:

Goods
Services
Intellectual Properties (licensing, disposals etc.)
Financial services
Any other types of transactions

Taxpayers covered

TP documentation would have to be provided for all related party transactions entered by Cyprus resident companies and foreign entities operating through a permanent establishment in Cyprus, subject to certain exemptions. "Related parties" for this purpose would have the same meaning as under the Income Tax Law, i.e., where one party has a direct or an indirect relationship of at least 25% of the share capital or voting rights of another party.

TP documentation requirements

Cyprus tax resident companies or permanent establishments in Cyprus of non-tax resident persons have the obligation to prepare a TP documentation file falling within the provisions of Article 33 of the Income Tax Legislation (e.g., intercompany transactions).

The TP documentation file must consist with the following:

- **Master file**
- **Local file**
- **Summary information table (SIT)**



Master File

According to the OECD TP Guidelines, the Master File must contain standardized and high-level information relevant for all group members of a multinational enterprise (MNE), including an overview of the group's business and its overall transfer pricing policies.

A Master File must be prepared when a company is part of a MNE group as the Ultimate Parent Entity (UPE) or Surrogate Parent Entity (SPE) for Country-by-Country Reporting purposes and has a reporting obligation (i.e. the consolidated revenue of the group exceeds €750 million). Both conditions must be met in order for a Master File to be required.

Local File

The Local File should cover the related party transactions of the Cypriot taxpayer. It should provide more detailed information (compared to the Master File) on intra-group transactions and documents how the taxpayer has complied with the Arm's Length Principle on those related party transactions. The Local File focuses on information relevant to the Transfer Pricing Study, covering transactions between related parties, including relevant financial information, a comparability analysis and the selection and application of the most appropriate TP method.

As stated above, a Local File must be prepared by 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 per annum in aggregate per category of transactions.

Both the master file and the local file have to be updated annually, and specific reference made to any significant changes of the market conditions that may impact the information and data included in the files.

Summary Information Table (SIT)

The SIT is an additional TP declaration that must contain high-level information on related party transactions, including details of the counterparties, their jurisdiction of tax residency, the category of intercompany transactions entered into, as well as their value.

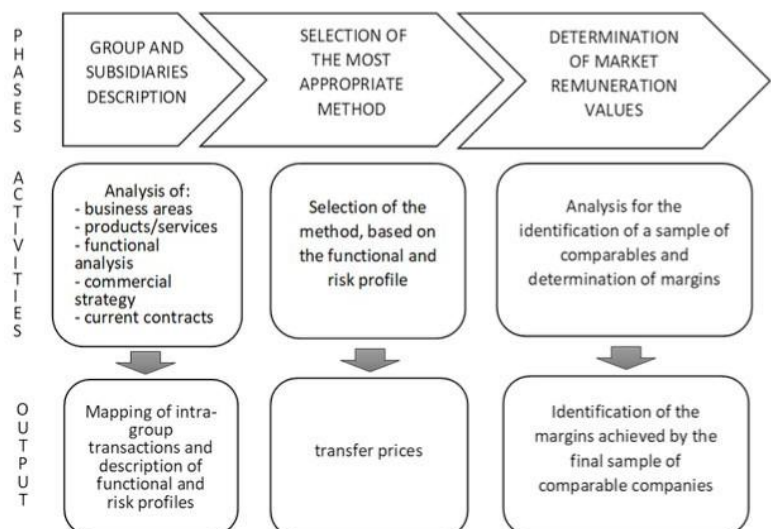
Quality review and sign off

The TP provisions also require that a person who holds a professional practicing certificate from the Institute of Certified Public Accountants of Cyprus, or from any other similar recognized body, to undertake an assurance quality review of the Local and Master File no later than the due date for submitting the taxpayer's relevant Income Tax Return for that year.

Deadlines

The local file (and master file, if relevant) should be prepared by the Income Tax Return submission deadline for the respective tax year (e.g., currently being 15 months after calendar year-end) and be submitted to the Cyprus Tax Authorities within 60 days when and if requested.

The SIT shall be submitted to the Tax Department concurrently with the Income Tax Return.



Penalties for non-compliance

In cases where a taxpayer has received a notice from the Cyprus Tax Authorities to provide the TP documentation (i.e. Local File, or Master File where applicable) and fails to do so within the required timeframe of 60 days, penalties will be as follows:

- €5.000: If the TP Documentation File is filed after the 60th day but before the 91st day from the notification of the submission request;
- €10.000: If the TP Documentation File is filed after the 90th day but before the 121st day from the notification of the submission request;
- €20.000: If the TP Documentation File is filed after the 120th day from the notification of the submission request;

In cases where a taxpayer fails to submit a SIT, a penalty of €500 will be imposed.



How we can help:

If your company is established in Cyprus and it carries out intra-group transactions then you need to have a new assessment of your company's Transfer Pricing reporting obligations.

For further information relating to the 2022 Transfer Pricing changes implementation in Cyprus, please contact our specialized team.

It is noted that since the new provisions specifically refer to OECD Guidelines, any TP study has to cross-reference those Guidelines. This effectively requires highly qualified professionals on TP matters.

Contact us

Feel free to contact us if you wish to have a discussion or advise on how this development might affect you or your business.