

Exsus Newsletter: Transfer Pricing Requirements in Cyprus

By Exsus: Your Partner in Transfer Pricing Compliance

Exsus has a dedicated **Tax Advisory Department** that specializes in transfer pricing studies, ensuring that businesses meet compliance requirements seamlessly. Additionally, Exsus has developed its **own proprietary software systems** to efficiently manage and execute TP studies, making the process more streamlined and accurate. Our expert team is well-equipped to provide comprehensive support, from documentation preparation to strategic TP planning.

An Overview and Its Importance

Transfer pricing (TP) legislation is a critical aspect of the tax landscape, particularly for countries engaged in cross-border business. Cyprus, a prime location for international companies due to its favourable tax system, introduced detailed transfer pricing requirements through a law passed by the Cyprus Parliament on June 30, 2022. This legislation, which incorporates OECD Transfer Pricing Guidelines, applies to tax years beginning January 1, 2022, and establishes a comprehensive framework for related-party transactions. Below is an overview of the requirements and their implications for businesses in Cyprus.

Importance of Transfer Pricing Regulations

Transfer pricing requirements are essential for ensuring that profits are appropriately allocated between related parties in different tax jurisdictions, helping to prevent tax base erosion and profit shifting. Compliance with these rules provides businesses with a clear structure for managing international transactions and ensures they can justify their practices to tax authorities, reducing the risk of double taxation or costly tax disputes.

Key Elements of Cyprus Transfer Pricing Requirements

1. Application to Cyprus Tax Residents and Permanent Establishments (PEs)

The new transfer pricing requirements apply to all Cyprus tax residents and Permanent Establishments (PEs) of non-resident entities. This ensures that any Cyprus-based entity involved in transactions with related parties must comply with TP legislation, covering a broad range of business activities that involve international and domestic transactions.

2. Definition of Related Parties

The legislation uses a 25% ownership or control threshold to determine which transactions fall under transfer pricing scrutiny. Specifically:

- If one party holds at least 25% of the share capital, voting rights, or income rights in another company, they are considered related.
- Similarly, two parties are related if the same person holds 25% of the share capital or voting rights in both.

This clear definition helps businesses assess which transactions are subject to transfer pricing rules, ensuring consistent application across transactions and transparency in the tax structure.

3. Documentation Requirements

Transfer pricing compliance involves two primary documentation types:

- **Summary Information Table:**
 - Taxpayers must outline their annual intercompany transactions, specifying transaction categories, counterparties, and amounts.
 - This is a mandatory component, regardless of transaction value, and must be submitted with the company's tax return, aiding the tax department in quickly assessing TP compliance.
- **Transfer Pricing Documentation File:**
 - Companies must prepare a TP documentation file consisting of a **local file** and a **master file**.
 - The **local file** details the taxpayer's material transactions, validating adherence to the arm's length principle for transactions exceeding €5 million for finance transactions and €1 million for all other transaction categories.
 - The **master file**, required for companies with consolidated revenue above €750 million, provides an overview of the global business context and the group's transfer pricing policy.

Proper documentation is essential for providing tax authorities with sufficient information, enabling efficient tax audits, and ensuring that businesses can justify their pricing structures.

4. Advance Pricing Agreements (APAs)

To promote compliance and offer businesses greater certainty, the new law introduces Advance Pricing Agreements (APAs). These allow companies to request pre-approval from the Tax Commissioner for specific transfer pricing methodologies or the pricing of certain transactions. APAs, valid for up to four years, help businesses mitigate the risks of transfer pricing adjustments and associated penalties by agreeing on a compliant pricing approach in advance.

5. Deadlines and Penalties

Compliance timelines are strict, with documentation and summary tables due no later than 15 months after the fiscal year-end. Upon request, companies must submit their TP documentation within 60 days, and penalties escalate if deadlines are missed:

- Submission within 61-90 days results in a €5,000 penalty.
- 91-120 days incurs a €10,000 penalty.
- Failure to submit after 120 days leads to a €20,000 penalty.

Conclusion

The transfer pricing requirements implemented in Cyprus enhance transparency and align the nation's tax system with global standards set by the OECD. By establishing robust regulations and documentation standards, Cyprus aims to protect its tax base, prevent profit shifting, and ensure fairness in cross-border business. For businesses, compliance with these rules ensures greater certainty in tax matters and a solid foundation for sustainable international operations.

For expert guidance on Transfer Pricing compliance, contact **Exsus** today on enquiries@exsusglobal.com.

