



Transfer Pricing

Cyprus

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Laws in effect

Arm's length principle

Transactions are required to be in line with the arm's length principle. This means that transactions between related companies must be made under similar terms and conditions as would have been agreed between unrelated companies. The OECD Guidelines are followed.

Transfer pricing methods

The following methods are applicable:

- the comparable uncontrolled price method
- the resale price method
- the cost plus method
- the transactional net margin method and
- the transactional profit split method.

There is no hierarchy between the methods.

There is no published guidance or hierarchy available on the type of method to be applied. Therefore, the OECD Guidelines are applicable.

Reporting requirements

A local decree transposing Directive 2016/881 imposes a country-by-country reporting obligation on multinational groups with a consolidated turnover of EUR 750 million or more in the financial year starting on 1 January 2016. Every "ultimate parent" entity or "surrogate parent" company of an MNE group having its tax residence in Cyprus is required to file an electronic CbC report on behalf of the group with the Cyprus tax authorities by the end of each fiscal year.

Documentation requirements

A local decree transposing Directive 2016/881 imposes a country-by-country reporting obligation on multinational groups with a consolidated turnover of EUR 750 million or more in the financial year starting on 1 January 2016. Every "ultimate parent" entity or "surrogate parent" company of an MNE group having its tax residence in Cyprus is required to file an electronic CbC report on behalf of the group with the Cyprus tax authorities by the end of each fiscal year.

Other transfer pricing requirements

From 1 July 2017, all back-to-back loan arrangements must be supported by a transfer pricing study, which should consist of an identification of the transactions, a functional and risk analysis, and a comparability analysis. Companies with a purely intermediary role can choose not to undertake the required transfer pricing analysis and their transactions will be deemed to comply with the arm's length principle if they generate an after-tax return of 2% on assets (simplification measure). The relevant percentages will be regularly reviewed by the tax authorities, based on relevant market analysis.

Transfer pricing adjustment

As from 1 January 2015, in applying the arm's length principle and where the Commissioner proceeds with an upward adjustment of the taxable profit of a resident company or a permanent establishment of a non-resident company, the other party involved in the transaction is eligible for a corresponding downward transfer pricing adjustment. Furthermore, if an upward adjustment is calculated in relation to a loan, financial assistance or a debit balance, the corresponding downward adjustment is deemed as interest expense and is subject to the provisions of the ITL on the tax treatment of interest expenses.

If an adjustment is made by foreign tax authorities, there are no time restrictions for the claim of the additional credit in respect of foreign taxes paid.

Advanced pricing agreement

There are no domestic regulations with respect to APAs. However, the Director of the Tax Department, acting through his department, is responsible for rulings and responses to specific requests of information by taxpayers.

The taxpayer may request an expedited ruling, guaranteeing a response within 21 working days provided all the necessary information is supplied.

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Global Office

New Bridge Street House
30-34 New Bridge Street
London, EC4V 6JB, United Kingdom
info@bakertilly.global

[bakertilly.global](https://www.bakertilly.global)