



**PK NovusTax**  
*"delivering excellence"*

## Transfer Pricing - New Thresholds for the Preparation of Local Files



**Newsletter**

**PK NovusTax & Co Limited**

01/2024  
05/02/2024

### Introduction

On 1 February 2024, the Cyprus Tax Department (“CTD”), announced the increase of the **materiality threshold** for the preparation of a **Cyprus Local File** for the tax year 2022 onwards.

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.

### Relevant Legislation

Cyprus introduced on 8 July 2022, Transfer Pricing (TP) rules and reporting obligations that went into effect retroactively as of 1 January 2022.

According to the Transfer Pricing regulations, 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.

In addition, the Cyprus Tax Department (“CTD”) issued a Circular on 6 July 2023 (the “Circular”), with retrospective effect as of 1 January 2022, introducing **Minimum TP Documentation** requirements and simplification measures regarding intra-group transactions which are below the threshold of €750,000 in aggregate per category of transaction per tax year.

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

## Way Forward

According to the announcement made from the Cyprus Tax Authorities on 1 February 2024, the materiality threshold for the tax year 2022 onwards for the preparation of a Cyprus Local File has been increased as below:

- A. €5.000.000 for related party transactions in the category of financing transactions; and
- B. €1.000.000 for the rest categories of related party transactions, i.e., goods, services, intellectual property and other.

It worth noting that according to the provisions of Article 33 of the Cyprus Income Tax Law (the “ITL”), N.118(I)/2022 (as amended), only the controlled transactions of a category which cumulatively exceed or shall exceed the thresholds stated above during a tax year must be documented and analyzed in the Cyprus Local File.

On the other hand the provisions of **Circular 6/2023** must be applied for the controlled transactions of a category which cumulatively do not exceed the revised thresholds for that category.

## Circular 6/2023 - Executive summary

The main provisions of the circular are briefly analyzed below:

### **A. Simplified Transfer Pricing documentation requirements**

According to the provisions of Article 33 of the Cyprus income tax legislation, controlled transactions shall be at arm's length, otherwise the company undertakes a tax assessment risk (Transfer Pricing upwards adjustment) upon an inspection by the Tax Authorities.

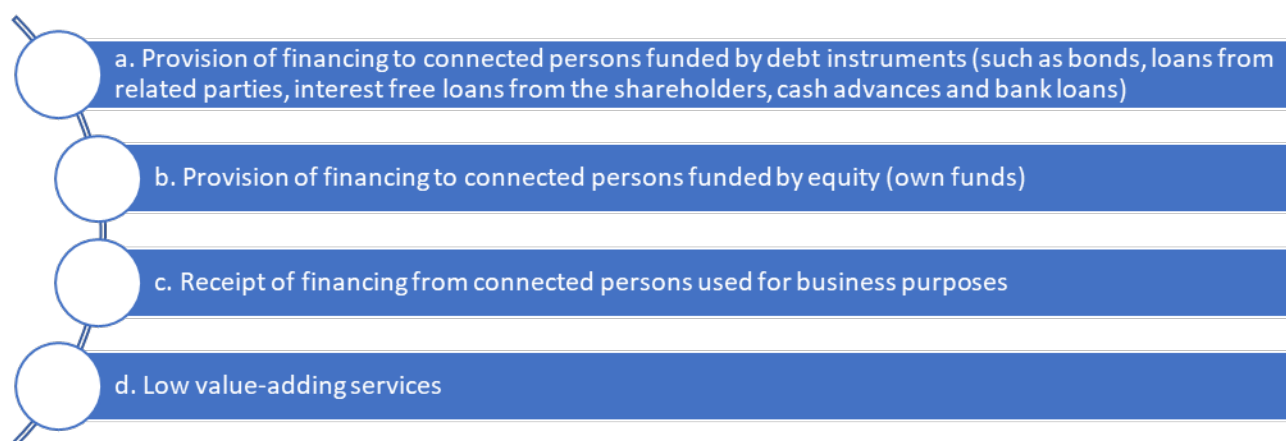
Therefore, taxpayers that are not obliged to maintain “Local File” based on the above, will be required to keep the following **Minimum TP Documentation**, to support the arm's length nature of their Controlled Transactions:

- a. Brief description of the functional analysis (functions undertaken, assets used and risks assumed).
- b. A description of the characterisation of the entity, based on the results of the functional analysis.
- c. The reasons for the chosen TP method being considered the most appropriate one.
- d. Determination of the arm's length price/remuneration based on the benchmarking analysis undertaken, using either external or internal comparables.

The Minimum TP Documentation should be available for submission to the CTD upon request (within 60 days).

## B. Optional Simplification Measures (Safe harbour rules) for certain types of Controlled Transactions

The Circular introduces safe harbour rules for the following four sub-categories of Controlled Transactions provided that adequate level of documentation is maintained. Tax-payers that are not obliged to prepare a Cyprus Local File for Controlled Transactions, may opt to apply the Simplification Measures for the pricing of the following types of Controlled Transactions:



The circular highlights that the Simplification Measures cannot be applied if reliable internal comparables (i.e., comparable transactions with unrelated parties) can be used to determine the arm's length price.

The table below summarizes the **Simplification Measures (Safe Harbours)**:

A/A	Transactions eligible for safe harbour	Safe harbour rule
a.	Provision of financing to connected persons funded by debt instruments.	Minimum pre-tax return of 2.5% on the average outstanding receivable balances.
b.	Provision of financing to connected persons funded by equity (own funds)	Minimum return should be equal to the yield rate (as at 31 December of the prior tax year) of the 10 year government bond of the country in which the borrower operates, increased by 3.5%.
c.	Receipt of financing from connected persons used for business purposes	Allowable cost of borrowing (interest expense) must not exceed the yield rate (as at 31 December of the prior tax year) of the ten-year government bond of the Republic of Cyprus, increased by 1.5%.
d.	Low value-adding services	5% mark-up on the relevant costs.



## How can we help?

**PK NovusTax** can assist clients with:

- ⇒ understanding the potential impact of the newly revised thresholds on their Controlled Transactions and support with the compliance obligations that may arise;
- ⇒ preparation and maintenance of the appropriate TP analysis and required documentation (Local File, Master File, Summary Information Table);
- ⇒ Preparation and maintenance of the required simplified transfer pricing documentation.

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.

**We are committed to delivering high-quality solutions tailored to your specific needs.**

Want to start a new era to the way you manage your tax issues?

### *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.