

TRANSFER PRICING ANNOUNCEMENT



Tax Department Releases Updated Thresholds for Transfer Pricing Documentation

The Tax Department (TD) on 1st February 2024, has issued an announcement outlining revised thresholds for the preparation of a Local File for the tax year 2022.

Currently, as per the provisions of the amended Income Tax Law of 2002, the obligation to prepare a Local File is applicable to Cypriot tax resident individuals and Permanent Establishments (PEs) of non-tax resident entities involved in controlled transactions, i.e., dealings with related parties, throughout a tax year, provided that the cumulative amount per category surpasses or should have surpassed, based on the arm's length principle, EUR 750,000 for all controlled transaction categories.

The Ministry of Finance, decided to raise the threshold for the financial transactions category for Local File preparation to EUR 5 million. Notably, in the case of loans, both the principal amount and accrued interest are considered when assessing whether the financial category exceeds the threshold.

Furthermore, the Ministry of Finance intends to propose an increase in the threshold for all other categories of controlled transactions from EUR 750,000 to EUR 1 million.

For the tax year 2022, the applicable thresholds for preparing a Cyprus Local File are as follows:

- Financial transactions: EUR 5 million
- All other categories: EUR 1 million

Circular 6/2023, highlighted in the TD's announcement, states that entities exempt from the obligation to prepare a Cyprus Local File must adhere to the provisions of Circular 6/2023. These entities are required to maintain minimal Transfer Pricing documentation for their controlled transactions, i.e., transactions that do not collectively exceed the threshold per category on an annual basis.

For more information please contact us at info@americanoslaw.com.