

CYPRUS TRANSFER PRICING GUIDELINES

Effective as of 1 January 2022, the Cypriot Income Tax and the Assessment and Collection of Taxes Laws were amended to introduce Transfer Pricing rules in accordance with the Organization for Economic Co-operation and Development on Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD TP Guidelines).

Cyprus tax resident companies that engage in domestic or international controlled transactions that exceed the materiality thresholds, are required to prepare, on an annual basis, a Transfer Pricing Documentation File, which consists of the “Master File” and the “Cyprus Local File”.

Master File:

The Master File shall be prepared by Multinational groups that meet both of the below requirements:

- Consolidated revenue exceeding Euro 750 million (groups with CbCR obligation).
- The Ultimate Parent Entity (UPE) or Surrogate Parent Entity of the group is Cypriot tax resident company.

All other Cyprus tax resident companies that engage in controlled transactions are **exempt** from the obligation of preparing a Master File. A Master File should be prepared in line with OECD TP Guidelines.

Local File:

Local file shall be prepared by Cyprus Tax Resident companies that engage in controlled transactions. Thresholds for the preparation of the local file for the years **2022-2025** were **€5M per annum** in aggregate for **financial transactions** and **€1M per annum** in aggregate for each one of **all other types** of controlled transactions (e.g. sale/purchase of goods, provision/receipt of services, IP, royalties and others).

As of **01 January 2026**, the thresholds have increased to **€10M per annum** in aggregate for **financial transactions** and **€5M per annum** in aggregate for each one of **all other types** of controlled transactions (e.g. sale/purchase of goods, provision/receipt of services, IP, royalties and others).

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Relevant deadlines:

The TP Documentation File (consisting of the Master File and Local File as applicable) must be prepared and be subject to **Quality Review** (if necessary) on an annual basis, by the deadline of filing the Income Tax Return for the relevant tax year. The Transfer Pricing Documentation File needs to be retained in compliance with the general document retention obligations for tax purposes; however, it should be submitted to the Tax Authorities within 60 days upon request.

TP documentation file must be updated on an annual basis and includes details regarding the impact of market fluctuations or other events on the information and analyses included.

Summary Information Table (SIT)

A Summary Information Table is an additional form that must be prepared by all taxpayers that engage in controlled transactions on an annual basis. The SIT reflects information such as the names and identification codes of the related counterparties, categories and amounts of intercompany transactions and verification of whether a local file was prepared or not. The SIT has no reporting materiality threshold and must be submitted electronically on an annual basis. The deadline of the SIT submission is the due date for filing the Income Tax Return for the relevant tax year.

Penalties for non-compliance with the submission deadlines for the TP Documentation files and the SIT shall be as follows:

Document:	Penalty:
Master and Local Files	€5,000 (if submitted between 61 and 90 days upon the request of the tax department)
	€10.000 (if submitted between 91 and 120 days upon the request of the tax department)
	€20.000 (if not submitted or submitted after the 120th day of the request of the tax department)
Summary Information Table (SIT)	€500 (for late or non-submission)

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Minimum documentation requirements and simplification measures:

The Cyprus Tax Department issued a Circular providing clear guidance on taxpayers that are exempt from the obligation to prepare a Master File and Local File, for maintaining Minimum Transfer Pricing documentation to support the arm's length nature of their related party transactions. A set of minimum documentation requirements include:

- Brief description of the functional analysis (functions performed, assets used, risks undertaken)
- Company characterization based on the functional analysis performed
- Reasoning for selection of the most appropriate transfer pricing method regarding the transaction category
- Determination of the arm's length pricing on the economic analysis performed. Such economic analysis may be based on internal or external comparability search results as detailed by the OECD TP Guidelines

In addition to the above, the Circular introduced optional Simplification Measures (safe harbor rates) for certain types of controlled transactions which fall outside the scope of Local File documentation.

Specifically, taxpayers that engage in the following types of transactions:

- Financing granted to related parties by borrowings
- Financing granted to related parties financed by equity
- Financing obtained from related parties to the extent it is used in the business
- Low Value Adding Services ("LVAS") (received or provided). may elect to apply the Simplification Measures (safe harbor rates) for the pricing of the said Controlled Transactions.

The above simplification measures cannot be applied if per annum and in aggregate controlled transactions exceed the Transfer Pricing thresholds referred to above. Furthermore, the Simplification Measures (safe harbor rates) cannot be applied if reliable internal comparables (i.e., comparable transactions with unrelated parties) can be used to determine the arm's length price of Controlled Transactions.

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The safe harbor rates are summarised in the table below:

Simplification measure	Description	Safe Harbour rate
Provision of financing to related parties financed out of debt	Captures activities related to granting loans or advances to related entities funded by debt instruments	Minimum return of 2.50% (after the deduction of allowable expenses)
Provision of financing to related parties financed out of equity	Captures activities related to the provision of loans or cash advances to related parties financed out of equity	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%
Receipt of financing from related parties for business purposes	Captures activities related to the receipt of interest bearing financing from related parties to the extent that such loans are used business purposes	Cost of debt must not exceed the yield rate (as at 31 December of the prior tax year) of the 10-year government bond of Cyprus, increased by 1.5%
Low value adding services	Captures services that are of a supportive nature, are not part of the core business of MNE Group, do not lead to the creation of unique and valuable intangibles & do not involve the assumption or control of substantial or significant risk by the service provider	5% profit mark-up on the costs related to those services

All taxpayers that apply the Simplification Measures (safe harbor rates) detailed above, must ensure that appropriate documentation is available to support their eligibility and way of application of measures.

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The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.

For professional assistance please contact us at solutions@oxfordcy.com .

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