



# T.P. Alfa Services

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**New Transfer Pricing Legislation: Frequently Asked Questions  
by the Cyprus Tax Authorities**

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## **A. INTRODUCTION**

In February 2023, the Cyprus Tax Authorities (“CTA”), published Frequently Asked Questions with reference to the Transfer Pricing regulations and revised article on the associated enterprises definition (Article 33 & Article 33C of the Income Tax Law, 314/2022 and 273/2022), with effect as from 1 January 2022.

## **B. BRIEF POINTS TO NOTE**

On the 30<sup>th</sup> of July 2022, the Cyprus Parliament has voted for the introduction of the Transfer Pricing Regulations in Cyprus, effective as from 1 January 2022.

In a nutshell, the new TP regulations require the taxpayers to document a:

- Summary Information Table (SIT), which is completed and submitted electronically by all taxpayers by the same deadline as for the TD4. The SIT includes information on related parties with which company transacts, the nature and the value of the transactions. The nature of transactions is divided into categories including goods, services, IP and Intangibles, Financial Transactions and Other Transactions;
- Local File, where the materiality threshold of EUR 750.000 per category of transactions is met between related party transactions and
- Master File, where the consolidated revenues of the Group exceed the amount of EUR 750M

with the guidance of the OECD materials.

In February 2023, the CTA, in its effort to secure clear interpretation of the TP regulations and enhance the correct and common by all practice, published the FAQ to the relevant law, shedding the light to the most common queries of both, taxpayers and TP practitioners.

The points discussed are explained below:

1. In case an entity has related party transactions of more than one category of transactions, only the transactions of the category which exceeds the EUR 750k threshold must be included in the Local File.

For instance, if ABC, a Cyprus incorporated company, has a loan receivable from DEF (related company) for the principal amount of EUR 800k and sales of goods to DEF amounting to EUR 100k, only the loan receivable must be included in the Local File, in the category of Financial Transactions. The sales of goods arrangement of EUR 100k does not meet the EUR 750k threshold for the category of Goods and therefore shall not be included in the Local File.



2. For purposes of assessing whether the threshold has been exceeded in the context of rental income activities, the total income activities of the relevant tax year shall be measured.
3. In regards to purchases and sales, the threshold decisive factor is the total amount of purchases and sales, cumulatively.

This applies to all the types of transaction, as the threshold is based by reference to the absolute values of the controlled transactions for each category occurring in a tax year.

4. The Cyprus Local File and Summary Information Table are prepared with respect to the tax year.
5. Financial Guarantees should be reported under the category of Financial Transactions.
6. A Benchmarking study should be prepared when an intra group loan is initiated and updated when:
  - i. new loans are provided or received by the company, or
  - ii. significant terms of the existing loans change or amended, or
  - iii. the functional profile of the company changes, or
  - iv. the market and economic conditions change significantly (if applicable).

As per the article 33(10) of the ITL, the Master File (where applicable) and the Local File shall be updated every tax year.

Further guidance on the need of an update of the benchmark analysis, is provided in the OECD TP Guidelines.

7. The responsibility of completion of the Summary Information Table lies with the taxpayer, while its submission must be made by the taxpayer's Statutory Auditor or Tax Consultant.
8. The Back-to-Back circular was abolished as from the 1<sup>st</sup> of January 2022.

In particular, the CTA made the relevant announcement on the 5<sup>th</sup> of January 2023, with the publication of a Circular terminating the Interpretative Circular 3 and Procedural Circular 5, as of the 1<sup>st</sup> of January 2022.

For more information on the termination of the Back-to-Back financing arrangements Circular, please refer to our brochure titled "Transfer Pricing



Developments: Termination of Interpretative Circular 3 and Procedural Circular 5” found at <https://www.tpalfa.com/publications>.

Since the publication of the CTA’s FAQ on the new TP legislation many ambiguities have been cleared up, though a further guidance is expected to be provided.

The CTA’s FAQs on the new TP legislation can be found at:  
<https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/C23F42DD0F0316E3C2258952003343ED?OpenDocument>

### **C. HOW CAN TP ALFA SERVICES LIMITED ASSIST**

TP ALFA SERVICES LIMITED can assist you to:

- Assess if the intragroup transactions of an entity exceed the threshold;
- Categorize the transactions;
- Prepare and submit the Summary Information Table;
- Prepare the required documentation (Local File, Master File) and relevant Benchmark Analysis;
- Perform and submit a transfer pricing study for your intragroup financing transactions before the tax year 2022;
- Prepare an APA and liaise with tax authorities to enable the client to secure a pricing in advance;
- Assist in the formation of the internal transfer pricing policy;
- Represent you in a transfer pricing dispute with the tax authorities.

### **DISCLAIMER**

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

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