ABOLISHMENT OF MINIMUM PROFIT MARGINS

The Cyprus Tax Department has recently issued a letter to the Institute of Certified Public Accountants of Cyprus (ICPAC) according to which the guidance as to the minimum profit margins (the acceptable margins ranged between 0,125% and 0,35%, depending on the amount of the loan) that the Tax Department would be willing to accept in back to back financing transactions will be abolished effective **1 July 2017.**

From then onwards all related party financing transactions will have to be supported by transfer pricing studies for the issuance of tax rulings and for corporate tax calculations. Such studies will be prepared by independent experts based on the relevant OECD transfer pricing guidelines.

The withdrawal of the scheme is the result of international tax developments (OECD / G20 initiative – BEPS) as well as the review of the scheme in the context of both the Code of Conduct for business taxation and of the EU State Aid perspective.

Currently, Cypriot tax laws do not include any specific transfer pricing rules or transfer pricing documentation requirements, other than a provision that transactions between related parties should be made on an arm’s length basis.

The tax Department is expected to introduce detailed transfer pricing legislation, at least for intra-group financing activities which will be based on the OECD transfer pricing guidelines, as well as to provide guidance on the practice to be adopted.

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