

Tax Alert | Cyprus Transfer Pricing Reform 2026

Cyprus Transfer Pricing Reform: Updated Local File Thresholds (Effective 1 January 2026)

In December 2025, the **House of Representatives of Cyprus** approved amendments to the **Income Tax Law of 2002 (Article 33)** as part of a broader tax reform initiative. The amendments were published in the Official Gazette on **31 December 2025** and became effective **from 1 January 2026**.

The reform introduces **important changes to Cyprus Transfer Pricing documentation requirements**, primarily through an **increase in the Local File thresholds** and an **updated definition of connected persons**.

These changes **may significantly affect the transfer pricing compliance obligations of Cyprus companies** engaged in intra-group transactions and cross-border group structures.

Key Highlights

- **Increase in Local File thresholds from 2026**
- **Reduced compliance burden for smaller groups**
- **Minimum Transfer Pricing documentation still required even below thresholds**
- **Safe harbour rules continue to apply for certain intra-group financing transactions**
- **Updated definition of connected persons**

Updated Local File Thresholds (From 2026)

Under the revised legislation, Cyprus taxpayers must prepare a **Transfer Pricing Local File** when the annual value of controlled transactions exceeds the following thresholds:

Category of Controlled Transactions	Previous Threshold	New Threshold (from 2026)
Financial Transactions	€5,000,000	€10,000,000
Goods Transactions	€1,000,000	€5,000,000
Other Transactions (services, royalties etc.)	€1,000,000	€2,500,000

The increase in thresholds is expected to significantly reduce the compliance burden for Cyprus companies, particularly those operating through holding, financing, and international group structures.

Minimum Transfer Pricing Documentation

Even where the **Local File thresholds are not exceeded**, companies must still ensure compliance with the **arm's length principle** under Article 33 of the Income Tax Law.

Taxpayers must maintain **Minimum Transfer Pricing Documentation**, including:

- Functional analysis (functions performed, assets used, risks assumed)
- Characterisation of the entity
- Explanation of the selected transfer pricing method
- Evidence supporting the arm's length price (including benchmarking where applicable)

This documentation must be **available within 60 days upon request by the Cyprus Tax Department**.

Safe Harbour Rules for Intra-Group Financing

Cyprus tax guidance provides **simplification measures** (“safe harbour rules”) for certain intra-group financing transactions.

Under this regime, financing transactions funded through borrowings may be considered compliant with the **arm's length principle** where the Cyprus financing company earns a **minimum pre-tax net margin of 2.5% per annum** on the average outstanding receivable balances.

The simplification regime may only apply where:

- Total financial transactions **do not exceed €5 million per year**, and
- Reliable internal comparables are not available.

Taxpayers applying the simplification regime must disclose this election in their **Income Tax Return / Summary Information Table (SIT)**.

Updated Definition of Connected Persons

The reform also introduces an **expanded definition of connected persons**.

From **1 January 2026**, a **company director or consultant** may be considered a connected person where they **hold at least 50% of the voting rights in board decisions**, either individually or together with other connected persons.

This change may **increase the number of transactions that fall within the scope of transfer pricing rules**.

Practical Implications for Cyprus Companies

Cyprus companies should review their **related-party transactions and transfer pricing compliance framework** to ensure alignment with the new legislation.

In particular, companies should:

Assess whether **Local File thresholds are exceeded**

- Ensure **Minimum Transfer Pricing Documentation** is maintained where required
- Evaluate the applicability of the **safe harbour rules for financing transactions**
- Confirm compliance with **Summary Information Table (SIT) reporting obligations**

How Verifya Audit Limited Can Assist

Verifya Audit Limited provides comprehensive **Transfer Pricing advisory and compliance services**, including:

- Preparation of **Transfer Pricing Local Files and Master Files**
- **Minimum Transfer Pricing Documentation**
- **Benchmarking studies** for financing and service transactions
- Transfer Pricing risk assessments and compliance reviews
- Assistance with **Cyprus Tax Department audits and enquiries**

Contact us

If you would like to discuss how the **2026 Transfer Pricing changes** may affect your business, please contact our team.

The information contained in this publication is of a general nature and is not intended to address the circumstances of any particular individual or entity. Professional advice should be obtained before acting on any of the information contained herein.

Practical Transfer Pricing Guidance – Summary Table

Categories	Previous Threshold in € aggregate per category	New Threshold in € aggregate per category	Acceptable Margin from tax authorities	Actions to be taken
Receivables and Loan receivables from related companies	≥ €5.000.000	≥ €10.000.000	Minimum acceptable margin is 2.5% per annum under the simplification regime	Perform a transfer pricing study to determine the actual interest rate (According to market condition the margin could fall above or below 2.5%)
Receivables and Loan receivables from related companies	≤ €5.000.000	≤ €10.000.000	Minimum acceptable margin is 2.5% per annum under the simplification regime	No transfer pricing study only Minimum TP Documentation. However, if a full transfer pricing study is performed, the arm's length margin may be above or below 2.5%, depending on market conditions and comparable transactions.
Receivables and loan receivables from <u>third parties</u>	No threshold	No threshold	Under the simplification regime, a 2.5% margin per annum is generally applied in practice, However, a margin below 2.5% may be applied if supported by sufficient economic analysis and benchmarking evidence in the event of a tax authority review.	No Transfer Pricing Study / however if we perform a TP study according to market condition the margin could fall above or below 2,5% if we follow the simplification regime
Payables and loan payables to related companies	≥ €5.000.000	≥ €10.000.000	No Minimum margin	A transfer pricing study would generally only be required if specifically requested by the Cyprus Tax Department. Any arm's length margin determined would normally be tax deductible for the company.
Payables and loan payables to related companies	≤ €5.000.000	≤ €10.000.000	No Minimum margin	No transfer pricing study required unless specifically requested by the Cyprus Tax Department.
Payables and loan payables to <u>third parties</u>	No threshold	No threshold	No Minimum margin	No transfer pricing study required unless specifically requested by the Cyprus Tax Department.
Sales and Purchases of goods and services from Related Companies	≥ €1.000.000	≥ €5.000.000	Market rate	No transfer pricing study required unless specifically requested by the Cyprus Tax Department.
Sales and Purchases of goods and services to Related Companies	≤ €1.000.000	≤ €5.000.000	Market rate	No transfer pricing study required unless specifically requested by the Cyprus Tax Department.

Sales and Purchases of goods and services from third Parties	No threshold	No threshold	No Minimum margin	No Transfer Pricing Study
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