
Profit spreads on related-party financing transactions

Issue N-3-2017, 22 February 2017

In brief

The Cyprus Tax Authorities (CTA) recently informed the Institute of Certified Public Accountants of Cyprus (ICPAC) via a letter that with effect from 1 July 2017 they will cease their practice of specified minimum spreads on qualifying related-party financing transactions that was based on 2011 correspondence between the CTA and the ICPAC.

The letter notes that as from 1 July 2017 all related-party financing transactions will have to be supported by Transfer Pricing (TP) Studies prepared by independent experts and will have to be based on the relevant OECD standards. Further guidance is expected from the CTA on the application of this new practice.

In detail

The Cyprus Tax Authorities (CTA) recently informed the Institute of Certified Public Accountants of Cyprus (ICPAC) via a letter that with effect from 1 July 2017 they will cease their practice of specified minimum spreads on qualifying related-party financing transactions that was based on 2011 correspondence between the CTA and the ICPAC.

The letter notes that as from 1 July 2017 all related-party financing transactions will have to be supported by Transfer Pricing (TP) Studies prepared by independent experts and will have to be based on the relevant OECD standards. This new practice regarding related-party financing transactions will apply

both for the purposes of issuing tax rulings and for tax examinations.

The letter further notes that as from 1 July 2017 all the relevant tax rulings that have already been issued or are going to be issued by 30 June 2017 and which involve this type of transactions will cease to be applicable. If the relevant related-party financing transactions remain in place after this date, the profit spreads as from 1 July 2017 will have to be supported by the relevant TP Studies.

The takeaway

The new practice that will apply as from 1 July 2017 and which, as we understand, will only affect periods from 1 July 2017

onwards, will bring Cyprus in line with the latest developments of the OECD/BEPS Action 8-10 TP Guidance in this area.

Further guidance is expected from the CTA on the application of this new practice. We will keep you updated.

You may wish to start considering the need to have a TP Study in place for this type of transactions. PwC are available to assist you in considering the way forward and in the preparation of the TP Studies.

Let's talk

For a deeper discussion of how this development might affect you or your business, please contact:

Theo C Parperis
Partner
Head of Tax & Legal
theo.parperis@cy.pwc.com

Marios S Andreou
Partner
In charge of Tax Advisory
marios.andreou@cy.pwc.com

Nicos P Chimarides
Partner
In charge of Corporate Compliance
nicos.chimarides@cy.pwc.com

Eftychios G Eftychiou
Partner
Head of Tax Technical Committee
eftychios.eftychiou@cy.pwc.com

Or your usual PwC contact

PwC Cyprus
PwC Central
43 Demostheni Severi Avenue
CY-1080 Nicosia, Cyprus
P O Box 21612
CY-1591 Nicosia, Cyprus

www.pwc.com.cy