

## Updated Local File Thresholds (2026)

In December 2025, the House of Representatives approved amendments to the Income Tax Law of 2002 (as amended) ("ITL"), forming part of a broader tax reform initiative. The amendments were published in the Official Gazette of the Republic of Cyprus on 31 December 2025 and are effective from 1 January 2026. Among other changes, the reform introduced important updates to Article 33 of the ITL, impacting Cyprus transfer pricing documentation requirements.

### Local File thresholds from 2026 and onwards

Under the existing framework, Cyprus tax resident persons and Permanent Establishments (PEs) of non-resident entities are required to prepare a Transfer Pricing Local File where they engage in controlled transactions, i.e. transactions with connected persons, and the applicable materiality thresholds are exceeded.

As from the 2026 tax year onwards, the revised law increases the annual thresholds for the preparation of a Cyprus Local File as follows:

- Financial transactions: EUR 10 million
- Goods transactions: EUR 5 million
- Other categories of controlled transactions: EUR 2.5 million

In addition, the reform introduces a new provision allowing the Council of Ministers to revise these thresholds by decree published in the Official Gazette, providing flexibility for future adjustments without legislative amendments.

### Definition of connected persons

The tax reform also revises the definition of connected persons given in the ITL. Specifically, with effect from 1 January 2026, a company director or consultant is regarded as a connected person to the company where they, either individually or together with other connected persons, hold at least 50% of the voting rights in board decisions of the company, whether such rights arise from the articles of association or shareholder authorisation.

### Consideration for cover persons

Taxpayers are encouraged to proactively assess their transfer pricing reporting obligations in order to ensure timely compliance with the Summarized Information Table ("SIT") submission requirements and the preparation of the appropriate transfer pricing documentation in accordance with Article 33 of the ITL and Circular 6/2023. Depending on the facts and circumstances of each case, this may include the preparation of a Local File, Master File, and/or Minimum Transfer Pricing Documentation.

It should be noted that taxpayers and PEs engaged in controlled transactions who are exempt from the obligation to prepare a Cyprus Local File are nevertheless required to submit an SIT and to comply with the provisions of Circular 6/2023 by maintaining Minimum Transfer Pricing Documentation for all their controlled transactions. This applies to transactions which, in aggregate, do not exceed the applicable threshold per transaction category on an annual basis.

For tax years prior to 2026, the following lower Local File thresholds continue to apply:

- Financial transactions: EUR 5 million
- Other categories of controlled transactions: EUR 1 million

### **How we may assist**

- ✓ Assess if the intragroup transactions of an entity exceed the threshold;
- ✓ Categorize the transactions;
- ✓ Prepare the required documentation (Local File, Master File) and relevant Benchmark Analysis;
- ✓ Prepare the required simplified transfer pricing documentation;
- ✓ 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;
- ✓ Representation arrangements in a transfer pricing dispute with the tax authorities.

### **DISCLAIMER**

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