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AITC TAX UPDATE – CYPRUS

Cyprus introduces rules to implement Country by Country reporting requirements

The Cyprus Minister of Finance issued a Decree on 30 December 2016, introducing a mandatory Country by Country (CBC) reporting requirement for multinational enterprise groups generating consolidated annual turnover exceeding €750m (MNE Group). The Decree is compliant with the EU Directive 2016/881 amending Directive 2011/16 relating to mandatory automatic exchange of information in the field of taxation and the OECD BEPS Action 13 on transfer pricing documentation and country by country reporting.

Consequently, MNE Groups with an ultimate Cyprus tax resident parent, are required to annually file a Country by Country report which includes specific financial data covering income, taxes, and other key measures of economic activity by territory. Cyprus tax resident entities belonging to an MNE group that has a non-Cyprus tax resident ultimate parent may under certain conditions be obliged to submit a CBC report in Cyprus (under the secondary filing mechanism) or be designated by the MNE Group as the sole substitute of the ultimate parent entity (under the surrogate parent mechanism). The first CBC report should be prepared for the financial year of the MNE Group starting on or after January 1, 2016. MNE Groups need to disclose the amount of revenue, profit before tax and corporate taxes paid and accrued, capital retained earnings and tangible assets and number of employees as well as identify each entity within the group doing business in a certain jurisdiction with a description of its economic activity.

Under certain conditions, a CBC reporting requirement may also apply for Cyprus tax resident entities belonging to an MNE Group. Cyprus tax resident constituent entities of an MNE Group should notify the Cyprus tax authorities of whether they are the reporting entity and if they are not, the details of the reporting entity of the MNE Group. In line with the relevant EU Directive, the Cyprus tax authorities will apply the EU automatic exchange of information mechanism in order to exchange CBC reports filed by MNE Groups in Cyprus with the tax authorities of the other EU Member States in which the MNE Group operates.

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