

Abolishment of minimum profit margins for back to back loans

We would like to inform you that following relevant developments in international tax matters, the Cyprus Tax Department has notified its intention to abolish the minimum net profit margins applicable for back to back transactions as from 01/07/2017.

What is a back to back transaction

A back to back transaction is a transaction whereby one Cyprus company receives a loan from an associated company and uses the funds in order to grant a loan to another associated company.

Provisions for back to back loans under the current tax regime - applicable until 30/06/2017

Under the tax regime that is currently applicable in Cyprus in relation to loans granted between associated companies under a back to back arrangement, the minimum net profit margins that should remain to be taxed in Cyprus are as shown on the table below.

(a) Interest bearing loans	
Loan (€)	Margin (%)
Loans up to 50million	0.35
Loans from 50million—200 million	0.25
Loans over 200million	0.125
(b) Interest free loans	
The minimum acceptable profit margin regardless of the loan amount will be 0.35%.	

Provisions for back to back loans under the new tax regime - applicable from 01/07/2017

From 01/07/2017 onwards, the minimum net profit margins previously applicable for back to back transactions will be abolished and all such transactions should be supported by appropriate transfer pricing studies prepared by independent consultants and which should be in line with relevant guidance issued by the OECD.

The new practice will be applied to all financing transactions between related entities for the purpose of issuance of tax rulings or during the process of a tax examination.

It is further noted that as from 01/07/2017, all tax rulings that have been issued or will be issued until 30/06/2017 in relation to the minimum margins for back to back transactions will be cancelled and in the case the financing transactions continue to exist after 30/06/2017, the profit margins that should be applied from 01/07/2017 should be supported by appropriate transfer pricing studies.

Copyright © K.Treppides & Co Ltd, All rights reserved.

Our mailing address is:

taxation@treppides.com www.treppides.com