



Tax obligations for Cypriot companies that belong to large multinational enterprise groups

Introduction

The international tax landscape has been changing at an unprecedented pace over the last few years, especially for companies that belong to multinational enterprise groups with a total consolidated turnover in excess of €750 million per annum (large MNE groups). Here, we briefly touch upon the obligations applicable to Cyprus companies that belong to such large MNE groups.

Pillar Two and global minimum tax rules

The global minimum tax is the second pillar of the two-pillar solution developed by the OECD to address the tax challenges arising from the modern international economy. Pillar two aims to ensure that large MNE groups are taxed at a minimum effective tax rate of 15%, irrespective of where they operate. Cyprus is due to transpose the EU Directive, which harmonises the application of Pillar Two throughout Member States, into its domestic legislation.

The mechanism to enforce the collection of additional tax under Pillar Two where the effective tax rate (ETR) in a jurisdiction is less than 15% is underpinned by two interconnected rules:

- The first, known as the Income Inclusion Rule (IIR), is expected to be effective from 1 January 2024. If, for example, the Ultimate Parent Entity (UPE) is a tax resident of Cyprus, then the minimum tax of 15% on profits earned in lower tax jurisdictions will be paid by the UPE to the Cyprus Tax Authorities.
- The second, known as the Undertaxed Payment Rule, is expected to come into effect from 1 January 2025. This is a backstop mechanism to ensure that Pillar Two tax is paid by other group entities when the IIR does not result in the payment of the global minimum tax.

Country-by-Country (CbC) Reporting

Large MNE groups must file a CbC Report providing information to tax authorities on a jurisdictional basis, such as where profits are recognised, where taxes are paid, and the number of employees and assets. Since 2016, when the UPE is resident in Cyprus or under certain other circumstances, the CbC Report must be filed in Cyprus. Other Cypriot Constituent Entities of a large MNE group must file CbC notifications in Cyprus.

The introduction of public CbC Reporting, which is expected after 2025, will require public disclosure of similar information by large MNE groups operating in the EU. For UPEs and other entities in Cyprus, the details will become clearer when the provisions of the relevant EU Directive are transposed into domestic law, expected later this year.

Transfer Pricing Documentation

In Cyprus, as from 1 January 2022, companies which are the UPE or Surrogate Parent Entity of a large MNE group have been required to maintain a Master File including an overview of global business operations, profit drivers, supply chain, as well as transfer pricing policies.

It is important to recognise that the existing tax obligations of large MNE groups, with respect to their global operations, will increase significantly in 2024 with the introduction of Pillar Two. Meeting these obligations and ensuring full compliance will require a collaborative effort with their tax advisors.

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