



Back-to-back financing terminated

14 March 2017 – The commonly used back-to-back financing transactions that were extensively used in intra-group financing and other arrangements will be terminated as of 1 July 2017.

The termination of this popular tax planning tool in Cyprus was announced by the Commissioner of Taxation in a notification to the Institute of Certified Public Accountants of Cyprus (ICPAC) on 8 February 2017.

According to the notification letter sent to ICPAC, as from 1 July 2017, the application of the minimum net taxable profit margins of 0.125% - 0.35% on back-to-back financing arrangements will be terminated. At the same time, all rulings provided in the past confirming the acceptability of the minimum back-to-back net taxable profit margins will become void. It is further noted that, as from 1 July 2017 the acceptable taxable net profit margins on back-to-back financing arrangements will be set through transfer pricing rules and possible the submission by the taxpayer of transfer pricing documentation that should be prepared by an independent advisor.

Although those transfer pricing rules have not yet been finalised or published by the Commissioner of Taxation, they are expected to be in consistent with the OECD guidelines.

A further update will be provided once the details of the new transfer pricing rules are approved by the Commissioner of Taxation.

It is, therefore, recommended that all taxpayers which are affected by this development, to thoroughly review their existing back to back financing structures, evaluate the impact on their taxable profits and take whatever suitable corrective actions accepted by the law in order to be in line with the new transfer pricing rules.

The Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal for advice on how to set up your current back-to-back financing arrangements in the most tax efficient manner possible.