

Updated Local File thresholds (2026)

Transfer Pricing alert

January 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 KPMG in Cyprus can assist

Our Transfer Pricing team has extensive experience supporting clients with Cyprus transfer pricing compliance, documentation strategy, and risk assessment. We can assist you in evaluating the impact of these changes on your group, identifying opportunities for simplification, and ensuring continued compliance in an efficient manner.

Should you like to further discuss the content of the legislation and potential impact to your business, please contact one of our trusted advisors from the Tax department at KPMG in Cyprus.

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