

Profit Margins on Back-to-Back Loans with Related Parties

Last updated on April 2017



Author: Maria Vira

ROYAL PINE

Building Trust
with Consistency

Profit Margins on Back-to-Back Loans with Related Parties

The Inland Revenue has announced on the 8th February 2017, new rules regarding the profit margins on back-to-back financing transactions with related parties. The new rules are in line with the requirements of the OECD and in essence follow the arm's length principle.

Current Regime

At present, the minimum acceptable net profit margins on back to back financing transactions between related parties depend on the total amount of the loan advances and are as follows:

- for advances up to €50m a margin of 0.35% is required;
- between €50m and €200m a margin of 0.25% is required;
- for more than €200m a margin of 0.125% is required;
- for advances made on an interest free basis a deemed margin of 0.35% will be used.

In case interest, free intra-group loans are provided Income tax authorities will impose tax on a deemed interest basis, per the margins set out above.

The Current regime will apply for the year 2017 up to 30 June 2017 and thereafter the new regime will apply.

In addition, all the tax rulings which were previously issued in relation to the above matter will cease to apply as from 30 June 2017.

The New Regime

As from 1 July 2017 the interest rates applied on back-to-back financing transactions with related parties should be in accordance with transfer pricing rules (arm's length principles) and be supported by a transfer pricing study according to OECD rules performed by independent experts.

For loans existing before 1 July 2017, applicable interest rates should be adjusted in accordance with transfer pricing rules.

* This publication has been prepared as a general guide and for information purposes only. It does not purport to be comprehensive or to render professional advice. Before making any decision or taking any action that may affect you and/or your business, bespoke advice should be obtained.

About

Royal Pine is a boutique advisory firm offering a comprehensive spectrum of solution-based products addressing the needs of Corporate clients, Private clients or their family offices and Regulated institutions on areas of investments, financial, tax, legal and corporate matters.

Contact



Berengaria 25, 4th Floor
25 Spyrou Araouzou
3036 Limassol, Cyprus



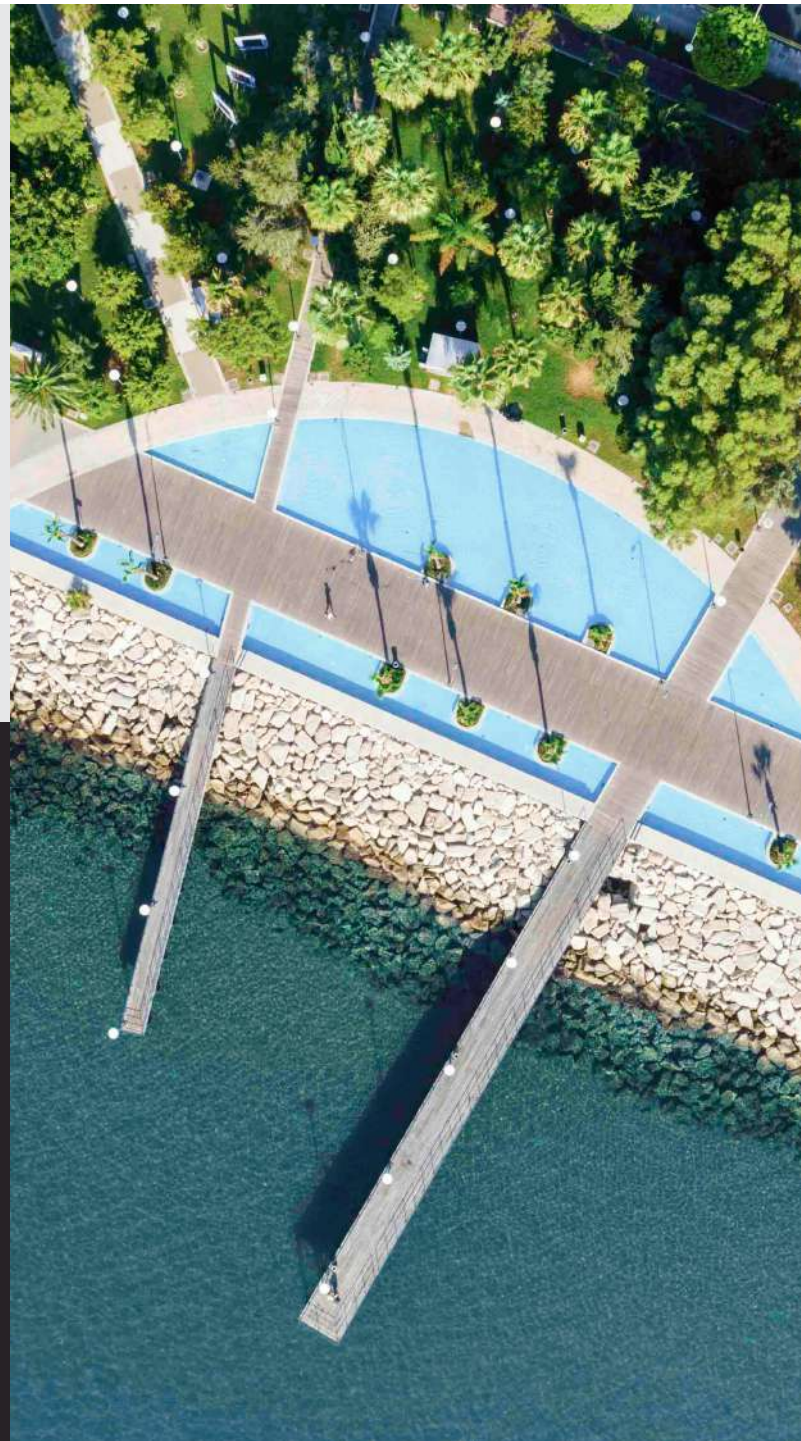
+357 25040404 / +357 25050600



info@royalpine.com



www.royalpine.com



ROYAL PINE