

Cyprus issues announcement regarding bilateral Competent Authority Agreement with the United States

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Executive summary

Country-by-Country (CbC) Reporting data will be exchanged pursuant to bilateral competent authority arrangements (CAAs). The Cypriot and United States (US) competent authorities are currently negotiating such a CAA. It appears that the negotiations are going well, because the Cypriot Tax Department recently announced that the CAA for the exchange of CbC reports between Cyprus and the US is expected to be finalized soon and effective for Reporting Fiscal Years (RFYs) starting on or after 1 January 2019.

However, the Cypriot Constituent Entity (CE) of a US multinational enterprise (MNE) group will have a local filing obligation in Cyprus for its reporting year ending on 31 December 2018, even if a CbC report has or will be submitted in the US.

Detailed discussion

On 30 October 2019, the Cypriot Tax Department issued an announcement regarding the status of the bilateral CAA for the exchange of CbC reports between Cyprus and the US that is currently being negotiated by the Cypriot and US competent authorities. The announcement informed taxpayers that the CAA is expected to be finalized soon and will be effective for RFYs starting on or after 1 January 2019.

As a consequence of the above, the secondary filing mechanism for a Cypriot CE of an MNE group with a US tax resident Ultimate Parent Entity (UPE), is triggered for RFYs starting on or after 1 January 2018 and before 2019.

Accordingly, a Cypriot CE whose UPE is a tax resident in the US, will have an obligation to proceed with the local filing of the CbC report in Cyprus for its RFY ending on 31 December 2018, even if a CbC report has or will be submitted in the US.

The Cypriot Tax Department has further noted that in cases where notifications have already been filed in Cyprus by Cypriot CEs for RFYs starting on or after 1 January 2018 and before 1 January 2019, such notifications must be revised accordingly if they are affected by the announcement. If such notifications are revised before 31 December 2019, no penalties will be imposed for RFYs starting on or after 1 January 2018 and before 1 January 2019.

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