



# Cyprus Tax Alert

Limassol, 11 March 2025

## **PILLAR TWO: ADOPTION CALLS FOR MULTINATIONAL ENTERPRISE GROUPS (MNE) AND LARGE-SCALE DOMESTIC GROUPS LAW**

**This alert summarizes the introduction of the global minimum tax of multinational groups and large-scale domestic groups law.**

### **PURPOSE OF PILLAR II**

The Cyprus House of Representatives has passed the global minimum tax of Multinational Enterprise Groups (MNE) and large-scale domestic groups law known as Pillar Two. This action signifies Cyprus' alignment with international tax standards and the country's commitment to global tax reform and combating tax avoidance to ensure fair taxation.

Pillar Two law was published in the Official Government Gazette on 18 December 2024 and implements the EU Directive issued on 14 December 2022.

The law introduces a 15% minimum effective tax rate for MNE groups and large-scale domestic groups that have an annual revenue of €750m or more in the Consolidated Financial Statements of the Ultimate Parent Entity in at least two of the four fiscal years preceding the relevant fiscal year.

**Pillar Two law does not amend the Cypriot Income tax Law. Instead, it establishes an additional tax framework that functions alongside the existing income tax law.**

### **KEY PROVISIONS**

#### **Income inclusion rule (IIR)**

Applies for financial years starting 31 December 2023 and requires parent entities of MNE groups or large domestic groups to pay a top-up tax on their low-taxed income and that of their subsidiaries, ensuring an overall minimum tax rate of 15%.

#### **Undertaxed profit rule (UTPR)**

Effective for financial years starting 31 December 2024, the UTPR imposes a top-up tax to address any insufficient taxation not taxed by IIR. This rule acts as a backstop to the IIR.



### **Domestic minimum top-up tax (DMTT)**

Effective for financial years starting 31 December 2024, the rule applies to component entities in Cyprus. The DMTT imposes a top-up tax on low-tax income within Cyprus and is designed to prevent tax avoidance by ensuring that all profits are taxed at a minimum rate, regardless of the jurisdiction in which they are all earned.

This provision takes precedence over the two rules above, ensuring that all constituent entities meet the minimum tax requirements.

### **IIR IN RELATION TO THE PROFITS SUBJECT TO MINIMUM TAX**

An Ultimate Parent entity (UPE) incorporated in Cyprus is subject to supplementary tax in respect of its low taxed component entities incorporated in another jurisdiction or that have no nationality.

An intermediate parent company (IPC) incorporated in Cyprus which is owned by the UPE registered in a third country or in a jurisdiction that does not apply the supplementary tax according to IIR, is subject to supplementary tax in respect of its low taxed component entities that are incorporated in another jurisdiction or have no nationality, unless another IPC that directly or indirectly has control on the Cyprus registered IPC applies IIR rule.

An IPC incorporated in Cyprus, owned by a UPE that is exempted, is subject to IIR rule in respect to low taxed component entities that are in another jurisdiction or have no nationality, unless another IPC that directly or indirectly has control on the Cyprus registered IPC applies IIR rule.

In situations where either an UPE or IPC incorporated in Cyprus apply IIR and was itself low taxed, then top-up tax must also be imposed on it.

Individuals who own shares in an entity that have an annual revenue of €750m and more are not considered an MNE and IIR does not apply.

### **EXEMPTIONS**

Entities that are exempted from Pillar Two Law are listed below:

- Governmental entities
- International organizations
- Non-profit organizations
- Pension fund companies
- investment fund companies being ultimate parent companies,
- real-estate investment companies being ultimate parent entities,
- entities where at least 95% of the nominal value of their shares is held, directly or through one or more entities, by exempt entities, except for entities providing retirement pension services and those which conduct business activity consisting exclusively or almost



exclusively in holding assets or running auxiliary activity for the benefit of exempt entities only,

- entities where at least 85% of the nominal value of their shares is held, directly or through one or more entities, by exempt entities, except for entities providing retirement pension services, provided their almost entire revenue comes from exempt dividends.

#### **ACTIONS FOR MULTINATIONALS**

- Evaluate the impact of these changes on their operations, including their data, systems, technology and processes, to ensure that they meet the new requirements and ensure full compliance.
- Evaluate the applicability of the law to determine whether the group falls within the scope of the rules, along with an impact analysis to identify high-risk subsidiaries based on their location.
- Conducting high-level safe harbor testing based on country-by-country reporting.
- Performing quantitative impact assessments to calculate the top-up tax due.
- Evaluating the potential for substance-based income exclusions.

#### **KEY ADMINISTRATIVE PROVISIONS**

Entities within the scope of Pillar II law must notify the Cyprus Tax Authorities within 15 months after the fiscal year-end. For the transition year, i.e. the first year being in scope, the deadline is extended to 18 months.

In the event where the GloBE information Return (GIR) is filed by a foreign registered entity, a notification must be made to the local authorities of the jurisdiction located and identity of the entity that is filing the GIR.

In addition, entities must submit a local self-assessment filing and make any payments due within 30 days of the GloBE Information Return submission deadline.

#### **PENALTIES**

For fiscal years starting on or before 31 December 2026 and ending no later than 30 June 2028, no administrative fines or penalties will be imposed, provided that the Cyprus Tax Authority is satisfied that the relevant MNE or large domestic group has taken all required steps to comply with the Law.

Failure to comply will lead to penalties that may vary from €1.500 - €20.000 depending on the nature of the issue of non-compliance.



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## SUMMARY

It is essential for in-scope groups to act promptly to avoid unnecessary penalties. PKF can assist you in evaluating the potential impact and implications of the Pillar II Law, ensuring compliance.

In case of any further clarification please do not hesitate to contact us.

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