CFO BRIEFING: CYPRUS INTERNATIONAL TAX RISKS 2026: THE FIVE TOP PRIORITIES FOR MNES TO PROTECT CASH FLOW AND PREPARE FOR TAX AUDITS

PRESENTATION BY
Christos Theophilou
BSc (Econ.), FCA, ADIT,
LLB Law,
MSc Tax Law (Oxon),
Ph.D. Candidate in Tax Law (Pillar 2)

February
2026

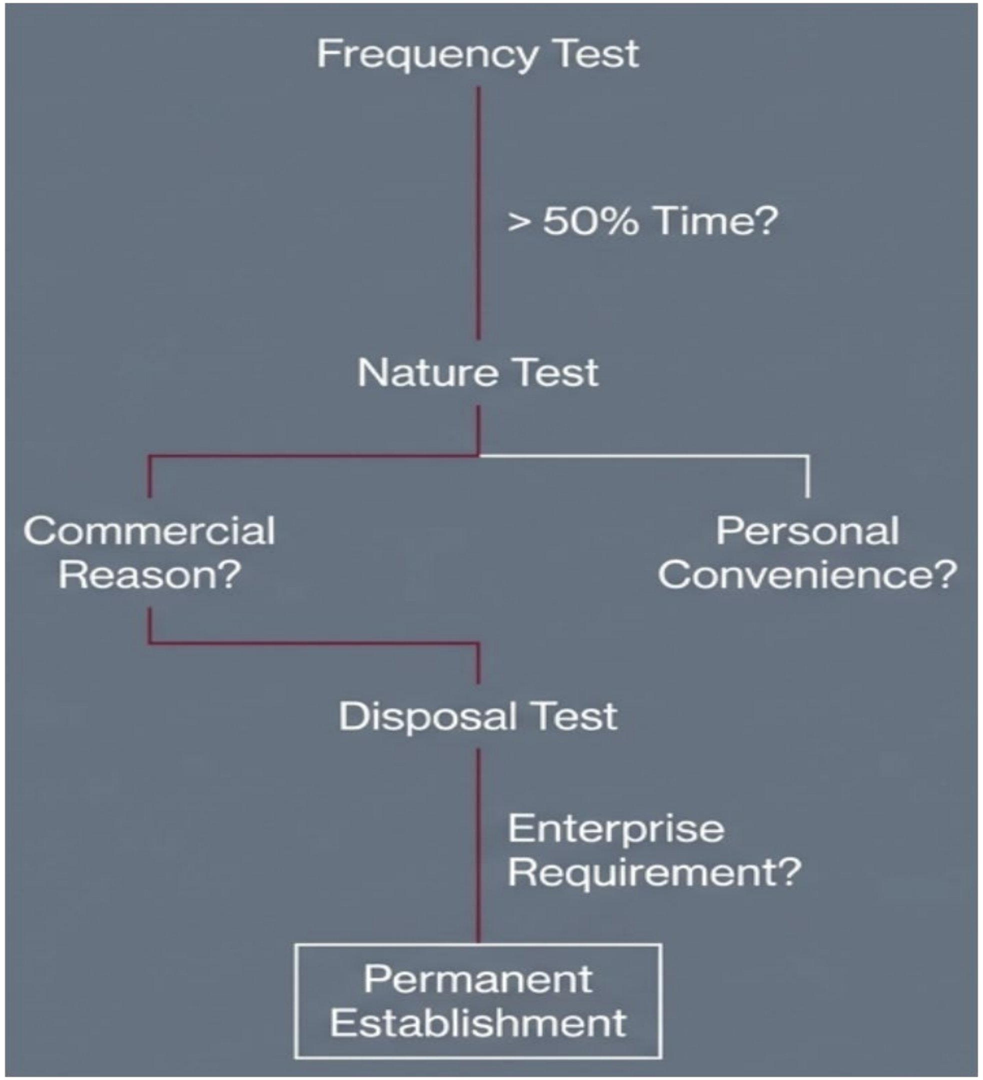
Your global tax partner

CONTENTS

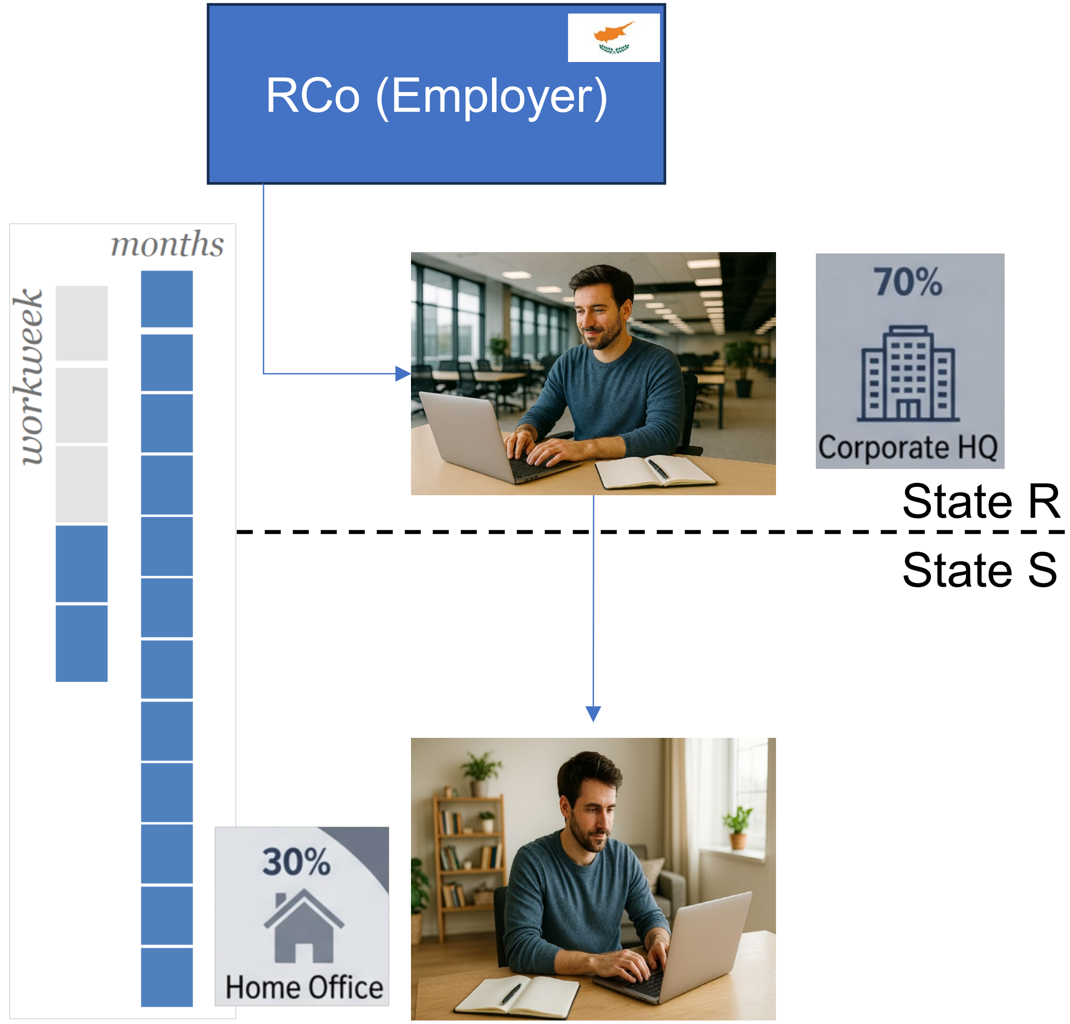
THE 2025 UPDATE TO THE OECD MODEL TAX CONVENTION

Risk #1: OECD PERMANENT ESTABLISHMENT: USE OF A HOME OFFICE

- **November 2025** the OECD published the **2025 Update** to the OECD Model Tax Convention (impacts tax treaties)
- OECD Model Article 5(1) remains unchanged
- Updates wholly to the Commentary on Article 5(1)
- **The Baseline:** A home office is generally NOT a PE if used intermittently or incidentally.
- **The Shift**: PE risk crystallizes when the home office becomes a "fixed place of business "through continuous use AND enterprise requirement.



OECD Example B – Scenario: The Hybrid Worker



- An Employee of RCo works 1-2 days/week from home **(30% total time)** over a 12-month period.
- The **home in State S** from which she works **should be considered fixed**
- The individual **spends less than 50 per cent** of her working time working from her home in State S, the home **would not be a place of business** of RCo

VERDICT: NO PERMANENT ESTABLISHMENT

OECD Example C – Scenario: The Local Market Sales Representative

RCo (Employer)

State R

State S

Fact Pattern: 80% work from home. Regular visits to local clients.

- An **employee of RCo**, an enterprise of State R, works from his home in **State S for 80** per cent of his working time in a twelve-month period
- The employee regularly visits clients of RCo in State S in order to provide services to those clients.
- The **home** in State S from which she works **should be considered fixed**

VERDICT: YES – PERMANENT ESTABLISHMENT

RISK #2: TRANSFER PRICING: UPDATES TO THE OECD COMMENTARY ON ART. 9 – FINANCIAL TRANSACTIONS (E.G. LOANS)

- 2025 Update and the OECD Model Tax Convention
- OECD Model Article 9 remains unchanged
- Updates wholly to the Commentary on Article 9
- The guidance in **Chapters** I, II, III and **X** of the **OECD Transfer Pricing Guidelines should be followed** to price the controlled transaction.
- **Article 9 does not** deal with the issue of whether **expenses are deductible** when computing the taxable income of either enterprise. **The conditions for the deductibility of expenses are a matter to be determined by domestic law**.
- The changes provide additional certainty concerning the application of tax treaties based on the OECD Model and domestic laws concerning the deductibility of interest payments

ARTICLE 11(6) OECD AND UN MC: EXCESSIVE INTEREST TP RULE

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

Parent

8% interest-bearing loan amounting to 100 million

State R

State S

Interest 8 million

Third party bank is willing to provide the loan to the subsidiary with 5% interest

Subsidiary

The tax treaty provisions restricts the source state tax up to the arm's length amount (i.e. up to the 5 millions)

State S will deny the Treaty Tax benefit for the excessive interest 3 millions (100 million @ 3%)

RISK #3:

CYPRUS ENFORCES TAX RULES ON LOW TAX AND BLACKLISTED JURISDICTIONS

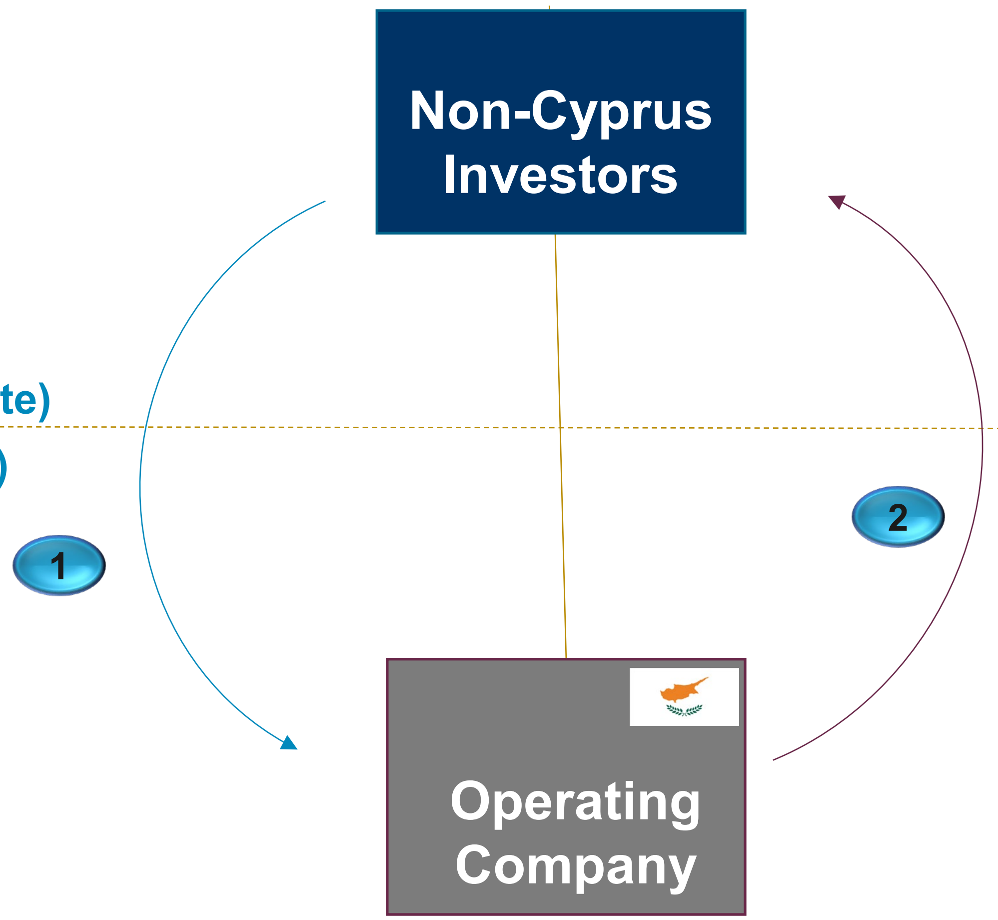
TAX ISSUES TO CONSIDER FOR PAYMENTS MADE BY A CYPRUS RESIDENT COMPANY TO NON-CYPRUS AFFILIATES (LOW-TAX AND "BLACKLISTED" JURISDICTIONS)

Low Tax Jurisdiction

A "jurisdiction with a low corporate tax rate" is identified as a third-country jurisdiction where the corporate tax rate is less than 50% of Cyprus' corporate tax rate, equating to less than 7.5%

State R (Resident State)

State S (Source state)



Intra-group payments: Dividend, **Interest** or **Royalties**

POSSIBLE LIST OF LOW-TAX JURISDICTIONS

Tax Foundation: Countries Without General Corporate Income Tax 2025

Country	Continent	Tax Rate Accounting for Global Minimum Tax
Anguilla	North America	0%
Bahamas	North America	15%
Bahrain*	Asia	15%
Belize*	North America	0%
Bermuda*	North America	15%
British Virgin Islands	North America	0%
Cayman Islands	North America	0%
Guernsey	Europe	15%
Isle of Man	Europe	15%
Jersey	Europe	15%
Saint Barthelemy	North America	0%
Tokelau	Oceania	0%
Turks and Caicos Islands	North America	0%
Vanuatu	Oceania	0%
Wallis and Futuna Islands	Oceania	0%

2026 Dutch list of states without a profit tax or with a profit tax at a rate of less than 9%

- **Anguilla** (included in the EU-list of non-cooperative jurisdictions)
- Bahamas
- Bahrein
- Bermuda
- British Virgin Islands
- Cayman Islands
- Guernsey
- Isle of Man
- Jersey
- Turkmenistan (8% Corporate Tax Rate)
- Turks and Caicos Islands
- **Vanuatu** (included in the EU-list of non-cooperative jurisdictions)

TAX ISSUES TO CONSIDER FOR PAYMENTS MADE TO LOW-TAX JURISDICTIONS (EFFECTIVE DATE 1 JANUARY 2026)

Character of the Income	Timing Rule	Recipient	Sourcing Rule	Defensive Tax Measure
Dividend	Receiving (λαμβάνει)	Company or Permanent Establishment	from a Cyprus tax resident company	**5% WHT**
Royalties	Paid (καταβάλλονται) as consideration for [..] regardless of whether they have been paid (καταβληθεί) or not.	Company or Permanent Establishment	from a Cyprus tax resident company	**Deduction denied**
Interest	Paid (καταβαλλόμενος) […] regardless of whether it has been paid (καταβληθεί) or not.	Company or Permanent Establishment	from a Cyprus tax resident company	**Deduction denied**

RISK #4:

BUSINESS RESTRUCTURING: TRANSFER PRICING RISKS ASSOCIATED WITH THE TRANSFER OF "HIDDEN" ASSETS.

IN SCOPE TRANSACTIONS OF BUSINESS RESTRUCTURING: OECD TPG CHAPTER IX

Cross-border transfers of something of value:

- Transfers of tangible assets,
- Transfers of **intangibles (including off-balance sheet assets**) and
- Transfers **rights** (or surrendered) **in intangibles** (e.g. valuable long-term contracts with independent customers that carry significant profit potential), and
- Transfers of **activities** (ongoing concern).

The termination or substantial renegotiation of existing arrangements (e.g. changes in the risk and functional profiles of the parties)

- Manufacturing arrangements,
- Distribution arrangements,
- **Licences**,
- **Service agreements**, etc.

Requirement: Local files must indicate if a restructuring occurred in the current or immediately past year.

THE "HIDDEN" ASSETS: DEFINING INTANGIBLES

The Trap: Not all valuable intangibles are legally protected or recorded for accounting purposes. Identification is the first line of defense.

RISK #5
PILLAR 2

PILLAR 2: REVENUE THRESHOLD TEST – EXAMPLE

Further rules for applying the consolidated revenue threshold in the case of Merger & Demerger transactions

The consolidated revenue for the current year is not factored in the four-year calculation.

2024 - Relevant Fiscal Year

Look-back period of four years:
The four-year test applies to any of the two of the four fiscal years (i.e. not cumulatively) immediately preceding the fiscal year being tested.

CORE PROVISIONS OF THE GloBE Model Rules (the Six Step approach + 1)

Step 1 – Determine whether the MNE Group is within scope

Identify Groups within scope

Step 2 –Allocate income of Constituent Entities on a Jurisdictional Basis

Identify the location of each Constituent Entity within the Group and allocate the income to these Constituent Entities

Step 3 – Calculate the GloBE Income

Determine GloBE Income of each Constituent Entity

Step 4 – Determine Adjusted Covered taxes

Determine taxes attributable to GloBE Income of a Constituent Entity

Step 5 – Compute the Effective Tax Rate and calculate the Top-up Tax

Calculate the Effective Tax Rate for all Constituent Entities located in the same jurisdiction and determine resulting Top-up Tax

Step 6 – Charge the Top-up Tax under QDMTT, IIR or UTPR

Impose Top-up Tax under QDMTT, IIR or UTPR in accordance with agreed rule order and allocation mechanisms

Step 7 – Administration

Filing Obligations and Safe Harbours,

READING MATERIALS

RELEVANT PUBLICATIONS

- **Risk #1: Home Office PE**
  - Article published in Bloomberg Tax TMIJ (Tax Management International Journal): *Are Companies' Remote Workers Creating Permanent Establishments?: Part 1* Click here
  - Article published in Bloomberg Tax TMIJ: *OECD Clarifies Home Office Permanent Establishment Rules: Part 2* Click here
- **Risk #2: Excessive Interest TP Rule**
  - Article published in International Tax Review *OECD FT Report: A potential solution to excessive debt financing* *Click here*
  - Article published in Bloomberg Tax TMIJ: Debt–Equity Rules Shape Transfer Pricing Risk for Taxpayers Click here
- **Risk #3: Defensive tax measures targeting low-tax and "blacklisted" jurisdictions**
  - Article published in Bloomberg Tax TMIJ: *Cyprus Enforces Tax Rules on Low Tax and Blacklisted Jurisdictions* Click here
- **Risk #4: Business restructuring: TP risks associated with the transfer of "hidden" assets.**
  - Chapter IX Transfer pricing aspects of business restructurings: OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022 Click here
- **Risk #5: Pillar Two**
  - Article published in Bloomberg Tax TMIJ: *Cyprus' Pillar Two Adoption Calls for MNE Safe Harbor Testing* Click here
  - Article published in Bloomberg Tax TMIJ: *Deconstructing Pillar Two – Impact on Multinational Enterprise* Click here

THANK YOU!

Christos Theophilou is a distinguished tax expert, providing advisory services to both private and corporate clients on intricate international tax and transfer pricing issues. His expertise encompasses cross-border investments, private equity structuring, structured finance, intellectual property structuring, and international trade.

Christos holds an MSc in Tax Law from Oxford University, a Bachelor's degree in Economics, and an LLB Law degree. He is a Chartered Accountant in England & Wales and has obtained the Advanced Diploma in International Taxation (ADIT) from the UK Chartered Institute of Taxation. Christos is currently a Ph.D. Candidate in Tax Law (Pillar 2).

Christos is a prolific contributor to various esteemed international tax publications, including IBFD, Tax Notes International, Bloomberg Tax, International Tax Review, Edward Elgar, and IFA. Furthermore, Christos is currently a member of the Tax Policy and Strategy committee of ICPAC.

Christos also serves as a freelance lecturer for Tolley's (LexisNexis), IBFD, and QMUL, where he lectures on ADIT Paper 1 Principles of International Tax, Transfer Pricing, and Pillar 2. He is a frequent speaker at international tax conferences, sharing his extensive knowledge and insights with the global tax community.

Christos A. Theophilou

BSc (Econ.), FCA, ADIT, MSc Tax Law (Oxon), LLB Law (Hons), Ph.D. Candidate in Tax Law (Pillar 2)

Partner | International Tax – Transfer Pricing – Pillar 2 | STI Taxand

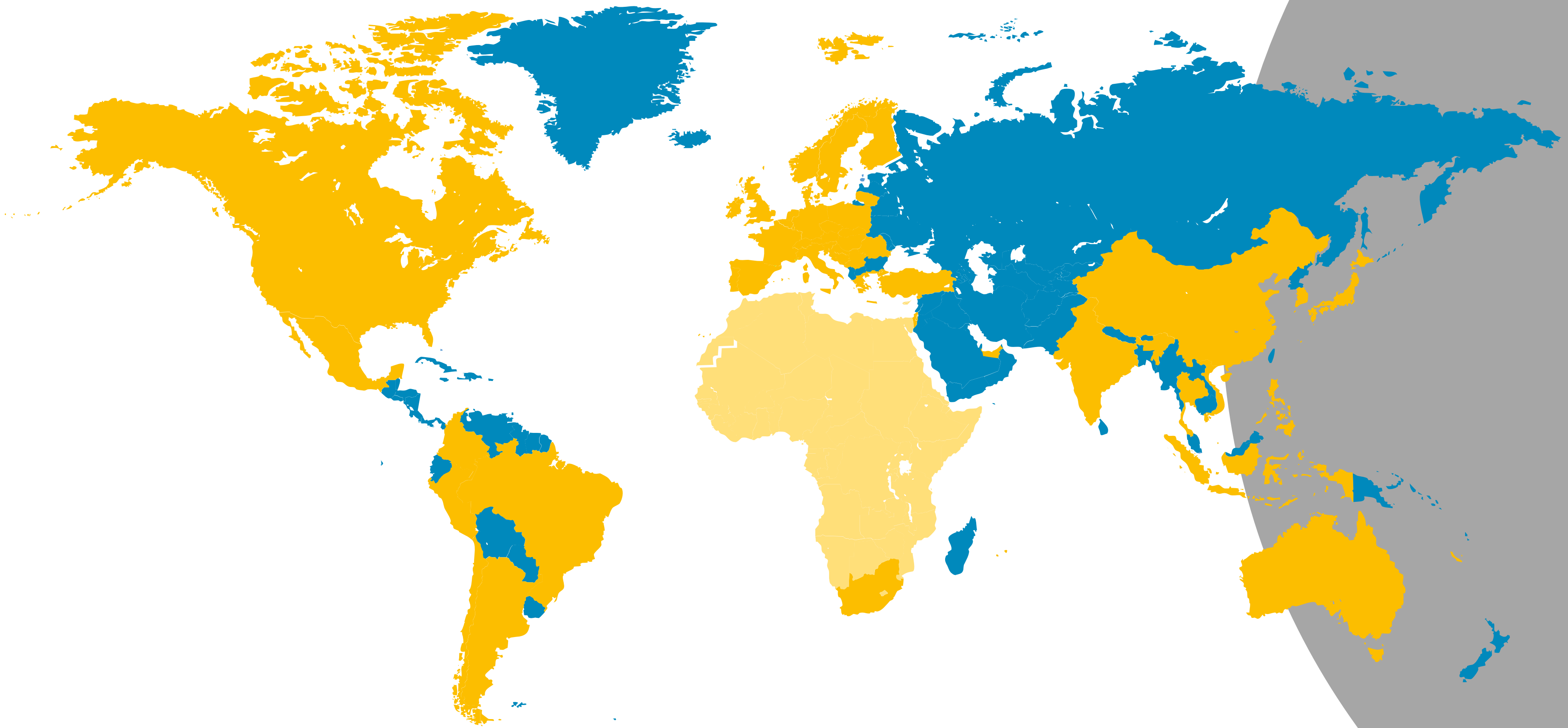
E: ctheophilou@stitaxand.com

Questions!

Thank you for your attention!

This presentation is for general information purposes only and should not be regarded as a comprehensive or sufficient tax advice for making decisions, nor should it be used in place of a written professional tax advice. We suggest that you do not act upon the information contained in this presentation without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this presentation, and, to the extent permitted by law, STI Taxand, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this presentation or for any decision based on it. Theses slides set does not constitute an opinion. Nothing in this presentation purports to give any advice on the feasibility of the mentioned concepts.

GLOBAL COVERAGE : 51 COUNTRIES



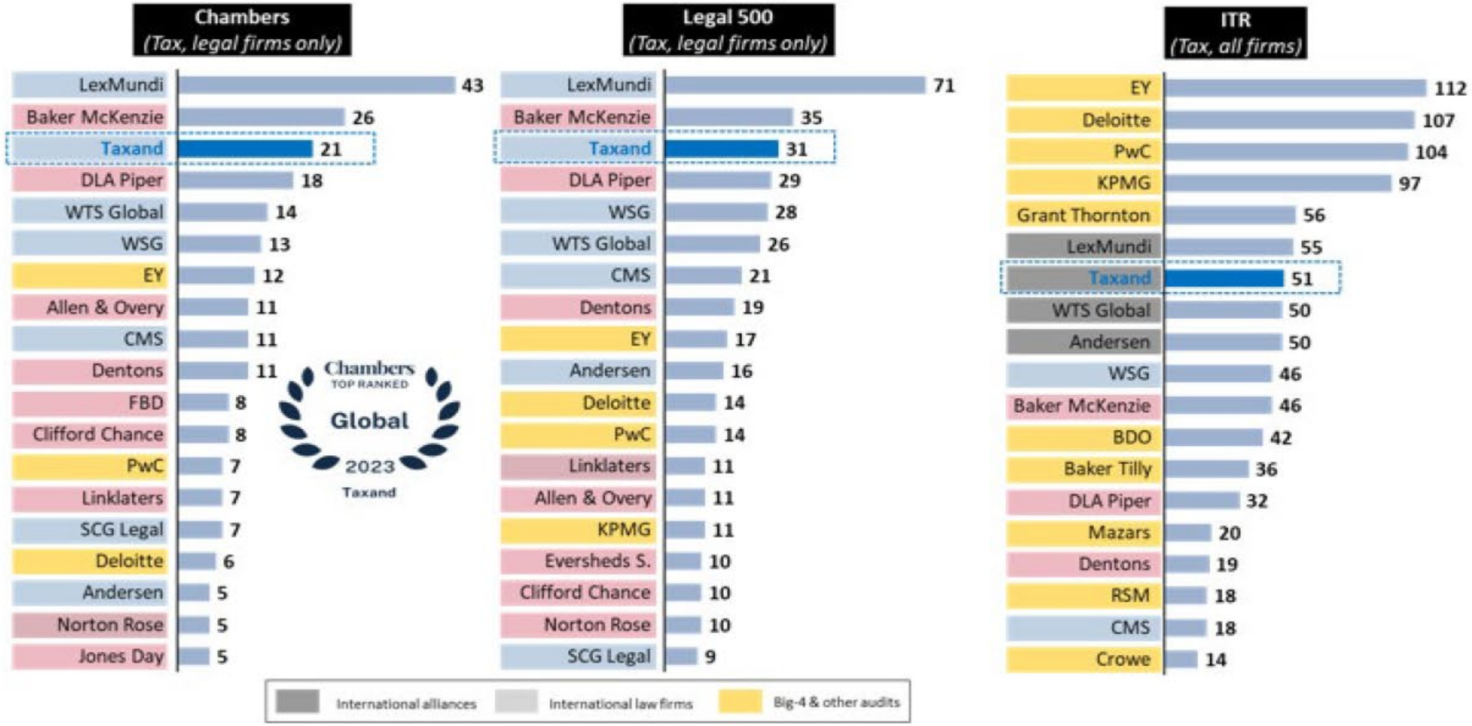
- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Canada
- Chile
- China
- Colombia
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Emirates
- Finland
- France
- Germany
- Greece
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Japan
- Korea
- Luxembourg
- Malta
- Mauritius
- Mexico
- Netherlands
- Norway
- Peru
- Philippines
- Poland
- Portugal
- Puerto Rico
- Romania
- Serbia
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey
- Thailand
- UK
- USA
- Vietnam

Taxand member

Most African countries made accessible via South Africa

AWARDS

IN AGGREGATE TAXAND GLOBAL FIRMS ARE AMONG THE TOP RANKED



The figures provided above are sourced from our **Strategic Review 2022/23**, the latest 2024 Chambers rankings across Global, European, Asian and LatAm guides show further Taxand growth with member firms from **25 countries** ranked for Tax and **69 practitioners** recognised for their tax expertise.

Legal 500, 2024, rankings across 4 guides: APAC, EMEA, LATAM and Canada, with a total of 143 lawyers featured in Legal 500 firm profiles; member firms from 25 countries ranked for Tax by Legal 500 of which 18 are ranked Tier 1.

In 2023, ITR shortlisted Taxand member firms for over **80 awards** across the Americas, EMEA and APAC regions and at September's awards ceremony in London, **Taxand won 19 awards**.

Awards

World Tax 2024

Rankings

Tax
Tier 1
Deloitte
Elias Neocleous & Co
EY
KPMG
PwC
Taxand Cyprus
Tier 2
Baker Tilly South East Europe
Chrysses Demetriades & Co
Consulco
Dr K Chrysostomides & Co
Tier 3
C Savva & Associates
Grant Thornton
Michael Kyprianou & Co

Tax controversy
Tier 1
Chrysses Demetriades & Co
Elias Neocleous & Co
Tier 2
Taxand Cyprus

ITR WORLD TAX TOP TIER FIRM 2022

ITR WORLD TAX TOP TIER FIRM 2023

ITR WORLD TAX TOP TIER FIRM 2024

Dedicated tax firm Taxand Cyprus covers all tax practices such as compliance and contentious, with dedicated partners specialising in various tax areas. The team has partners leading each tax area and sectors such as real estate.

It is a member of the Taxand network with firms in more than 50 locations worldwide.

WORLD TAX

ABOUT TAXAND

Taxand is a global organisation comprising top tier local independent tax advisory firms who together provide high quality, integrated tax advice to clients worldwide.

Overall, there are more than 700 tax partners and over 3,000 tax advisors across 51 countries, focussed on understanding you and your business needs; collaborating to deliver tailored, practical local and international tax advice, in consideration of your strategic goals.

For more details visit: **www.taxand.com**

"Focused on understanding you and your business needs."

TAXAND AT A GLANCE

World's largest independent tax organization
We are a global collective of top-tier firms in key jurisdictions, with more than **700 tax partners** and **over 3,000 tax advisors** in **51 countries**

One organization of member firms
Established with an entrepreneurial mindset since 2005, Taxand has always sought to grow; adding handpicked firms delivering tax advice in each of the countries we serve, to provide easy access to first-class tax advice globally. **Our approach is personal; our focus is global**

Thinking strategically
Taxand has evolved into an integrated worldwide organization of **leading experts with complementary skills and experience**

Stronger in partnership
The pace of change in our industry is unprecedented. Taxand is committed to applying our **shared knowledge, experience and expertise** to anticipate the challenges, embrace the opportunities and work hand in hand to shape the path ahead for the benefit of our clients

GLOBAL COVERAGE

TOP TIER GLOBAL COVERAGE

- Argentina
- Australia
- Austria
- Belgium
- Brazil*
- Canada
- Chile
- China
- Colombia
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Emirates*
- Finland
- France
- Germany
- Greece
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Japan
- Korea
- Luxembourg
- Malaysia
- Malta
- Mauritius
- Mexico
- Netherlands
- Norway
- Peru
- Philippines
- Poland
- Portugal
- Puerto Rico
- Romania
- Serbia
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey*
- UK
- USA
- Vietnam*

OUR MEMBER FIRMS

التميمي و مشاركوه
AL TAMIMI & CO.

AlmaLED

ALVARADO
TAX & BUSINESS ADVISORS
Taxand

ARSENE
TAXAND NETWORK

ARTEO

ATOZ
TAX ADVISERS LUXEMBOURG

Avanzia
TAXAND

BARROS & ERRÁZURIZ

Bech-Bruun

bmbpartners
TAX AUDIT ADVISORY 25 YEARS

BLG
Borden Ladner Gervais

BORENIUS

BORGEN
TAXAND Global Member

Bruchou & Funes de Rioja

CENTRUM

CORRS CHAMBERS WESTGARTH

COVINGTON

CRIDO

DEMAREST

DFDL
LEGAL & TAX

ELP
ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

ens

Flick Gocke Schaumburg

GARRIGUES

Gómez-Pinzón
SINCE 1992

HENDERSEN
TAXAND

HERZOG
HERZOG FOX & NEEMAN

IQEQ
Know how Know you

LeitnerLeitner
Tax Audit Advisory

Leo Berwick

MAISTO E ASSOCIATI

MIJARES

NAGASHIMA OHNO & TSUNEMATSU

pbTaxand

SL&M
SALVADOR LLANILLO & MIJARES
ATTORNEYS-AT-LAW

Selmer

SKEPPSBRON SKATT
TAXAND

STI TAXAND

Taxpartner
Taxand

TAXHOUSE
TAXAND

TRAVERS SMITH

WILLIAM FRY
TAX ADVISORS

withers KhattarWong LLP

YULCHON
Attorneys at Law

ZEPOS & YANNOPOULOS

SERVICES

Pillar 2	Energy tax	Financial services tax	Indirect tax	M&A tax	Private client services	Real estate tax	Tax disputes resolution	TP & business restructuring

- Providing high quality advice that addresses your strategic concerns and improves your bottom line by:
  - Understanding and managing the tax consequences of cross-border tax transactions
  - Considering organisational (re)structuring options in full awareness of the tax implications
  - Realising tax, supply chain and overall operational efficiencies
  - Interpreting technical tax provisions
  - Lowering effective tax rates
  - Addressing and preventing tax leakages
  - Ensuring tax compliance
  - Managing relationships with tax authorities