

The new Cyprus Tonnage Tax System



The new tonnage tax system for Cyprus merchant shipping was approved by the European Commission on 24th March 2010 (case N. 37/2010), as **compatible with the requirements of the EU acquis**, in accordance with the relevant guidelines on State Aid to Maritime Transport. This simplified tonnage tax system is approved for the first time for an EU Member State, a state with an open registry. It extends the favourable benefits applicable to owners of Cyprus flag vessels and ship managers to owners of foreign flag vessels and charterers. It also extends the tax benefits that previously covered only profits from the operation of vessels in shipping activities, to cover profits on the sale of vessels, interest earned on funds used other than for investment purposes and dividends paid directly or indirectly from shipping related profits.

The Merchant Shipping (Fees & Taxing Provisions) Law was enacted in May 2010 and introduces a new tonnage tax system in Cyprus, applicable as from the fiscal year 2010.

Why is this significant development for the shipping industry?

The new tonnage tax system contains most of the favourable features found in tonnage tax systems in other EU countries, and more. The system, therefore, provides Cyprus with a competitive advantage and is expected to significantly contribute to the improvement

of the already strong position of the country in the shipping world.

The main provisions of the new tonnage tax system are described below.

The tonnage tax system is available to any

Owner, charterer or ship manager who

Owns, charters or manages a

Qualifying ship in a

Qualifying shipping activity.

The tonnage tax is calculated on the net tonnage of the ship according to a broad range of bands and rates prescribed in the legislation. The rates applicable to ship managers are 25% of those applied for ship owners and charterers.

Qualifying ship

A qualifying ship is any seagoing vessel certified under applicable international or national rules and regulations and registered in the ship register of any member of the International Maritime Organization and the International Labour Organization, which is recognized by Cyprus.

The new tonnage tax system specifically excludes certain types of ships, such as

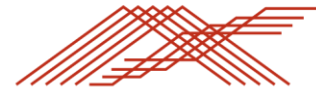
- Fishing vessels,
- Ships used primarily for sports or recreation,
- River vessels,
- Non-self propelled floating cranes and
- Non-ocean going tug boats,
- Stationary vessels employed for hotel and/or catering operations
- Vessels employed mainly as gambling facilities and/or casinos

Qualifying shipping activity

Any commercial activity that constitutes **maritime transport**, crew management and/or technical management is considered a qualifying activity.

APSEROU SHIAKA & CO

52, Kyriacou Matsi Avenue, Suite 7, 1082 Nicosia, Cyprus
Phone: 00357 22 424096, Fax: 00357 22 424097
e-mail: info@shiakas.com website: www.shiakas.com



Chartered Certified Accountants

The definition of **maritime transport** includes the traditional carriage of goods and passengers, as well as ancillary services such as all hotel, catering, entertainment and retailing activities on board a qualifying vessel, the loading and unloading of cargo, the operation of ticketing facilities and passenger terminals. Towage, dredging and cable laying are also eligible for tonnage tax.

Ship owners

Ship owners of Cyprus flag ships, which are Qualified Ships and engaged in Qualified Shipping Activities, automatically fall within the scope of the tonnage tax system.

Ship owners of community flag ships and foreign flag ships may opt to be taxed under the tonnage system.

A Qualified Ship owner can be:

- A ship owner of a Cyprus flag ship provided the ship is a Qualified Ship engaged in Qualified Shipping Activities or
- A ship owner of an EU-flag ship that elects to be taxed under the TTS provided is a Cyprus tax resident and the ship is a Qualified Ship and engaged in Qualified Shipping Activities or
- A ship owner of a fleet of EU or non-EU ships (mixed fleet) that elects to be taxed under the TTS provided
 - is a Cyprus Tax resident and
 - the ships are Qualified Ships and engaged in Qualified Shipping Activities.
 - A mixed fleet must consist of at least 60% EU ships carrying an EU flag in order for the Ship owner to meet the requirements of the Law as Qualified Ship owner. If less than 60% then a share of the fleet must comprise of EU vessels and that share must not be reduced in three year period (flag share requirement) following the exercise of the option and
- The commercial – strategic management must be carried out from the EU/European Economic

Area.

- Any ship owner opting for the tonnage tax system must remain in the system for 10 years. Early withdrawal will result in penalties, calculated as the difference between the amounts paid during the period the ship owner was under the tonnage tax system and the amount that would have paid had it been subject to corporation tax in the same period. In addition, the ship owner will lose the right to opt for tonnage taxation until expiration of the 10-year period from the date the option was first exercised.

Charterers

Any charterer who charters:

- a ship under bareboat
- demise charter
- time or voyage charter

is eligible to opt for TTS provided:

- that the ship charterer is a tax resident of Cyprus and
- the tonnage of the ships under time and/or voyage charters do not exceed 75% of the total tonnage of ships chartered and owned for more than 3 consecutive years. The eligibility percentage increases to 90% if the ships chartered are EU ships or their crew and technical management are carried out from the EU. The charterers of 3rd country flag ships must comply with the additional requirements that apply for 3rd country flag ship owners (i.e. flag share requirement).

Ship managers

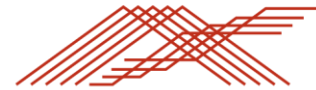
A ship manager who provides:

- crew management services and/or
- technical management services

can opt to be taxed under the TTS provided it satisfies the following criteria:

APSEROU SHIAKA & CO

52, Kyriacou Matsi Avenue, Suite 7, 1082 Nicosia, Cyprus
Phone: 00357 22 424096, Fax: 00357 22 424097
e-mail: info@shiakas.com website: www.shiakas.com



Chartered Certified Accountants

- is a tax resident of Cyprus
- maintains a fully fledged office
- employment of a sufficient number of qualified personnel (51% of whom should be EU citizens)
- at least 2/3 of the management is carried out from the territory of the EU
- at least 60% of the fleet in terms of tonnage must comprise of EU flag vessels
- all vessels and crew under management must comply with international standards and EU law requirements relating to maritime security, safety, training and certification of seafarers, the environment, on-board working conditions and so on

additionally

- for crew managers there is an obligation for full implementation of the 2006 Maritime Labour Convention and
- for technical managers, they must have the ISM Code certification

10-year rule

Any ship owner, charterer or manager opting for the TTS must remain in the system for 10 years. Early withdrawal will result in penalties, calculated as the difference between the amount paid during the period under the TTS and the amount that would have paid had it been subject to corporation tax in the same period. In addition, the right to opt for tonnage taxation until expiration of the 10-year period from the date the option was first exercised is lost.

Economic benefits

- No tax on income derived from the operation of a Cyprus registered vessel
- No tax on dividends paid to shareholders of a Cyprus registered vessel out of profits made from the operation or from the sale of a ship
- No tax on interest earned on working capital of a Cyprus registered vessel
- No tax on the income or profit made from the sale of a Cyprus registered vessel

- No tax on the wages or other benefits of officers and crew members of a Cyprus registered vessel
- No estate duty on the inheritance of shares in a ship owning company
- No stamp duty on ship mortgage deeds or other security documents

Tonnage tax rates

The following table summarises the applicable rates for the tonnage tax calculation:

Net Tonnage				
0 – 1.000	1.001 – 10.000	10.001 – 25.000	25.001 – 40.000	> 40.000
€36,50	€31,03	€20,08	€12,78	€7,30
per 100 NT	per 100 NT	per 100 NT	per 100 NT	per 100 NT

Note: The rates applicable to ship managers are 25% of the above.

Example:

Calculation of the annual tonnage tax for a 19.538 net tonnage vessel:

1.000 NT:	1.000/100 =	10 x €36,50 =	€ 365,00
9.000 NT:	9.000/100 =	90 x €31,03 =	€2.792,70
9.500 NT:	9.500/100 =	95 x €20,08 =	€1.907,60
38 NT:	38/100 =	0,38 x €20,08 =	€ 7,63
Annual tonnage tax due			€5.072,93

DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned acting or refraining from acting on the basis of this publication.

CONTACT US

If you would like to receive further information please feel free to contact us.