

Technical Report

This publication should be used as a source of general information only. It is not intended to give a definitive statement of the law. For the specific applications of the law, professional advice should be sought. Our directors would be glad to address any questions you may have.

Andreas Athinodorou
Chief Executive Officer
andreas.athinodorou@aspentrust.com

Marina Zevedeou
Chief Operations Officer
marina.zevedeou@aspentrust.com

Tel. No.: +357 22418888
Fax No.: +357 22418890
Website: www.aspentrust.com
In association with the Cyprus tax advisors


ATHINODOROU & ZEVEDEOU
CHARTERED ACCOUNTANTS BUSINESS ADVISORS

Members of:


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IN ENGLAND AND WALES

Shipping in Cyprus

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The shipping industry in Cyprus

Cyprus has a unique location in the Eastern Mediterranean at the hub of three continents and close to the trade routes linking Western Europe with the Middle East, Africa and the Far East. The island's ideal location has contributed to its development into a thriving international business and shipping centre.

Cyprus's development into an international maritime centre began in 1963 when the government first offered incentives encouraging ship ownership and the registration of vessels under the Cyprus flag.

Cyprus has an established shipping industry with well-founded infrastructure and services that enable the country to successfully meet the high demands of today's globalised shipping industry. The tax legislation in Cyprus is a strong force propelling the rapid expansion of the shipping industry and has been doing so for the past half a century.

In the early 1980's, the Cypriot merchant fleet ranked 32nd on the list of maritime nations. Today, Cyprus ranks tenth in the world with ships exceeding 20 million gross tonnage, and it has the third largest fleet within the European Union (EU) with a percentage of 12,7% of the total fleet of the 27 EU member states.

Besides the country's excellent geographical position, this achievement is also due to the cost competitiveness of the Cyprus ship registry, the island's well-developed maritime infrastructure, and its international relations, in conjunction with the tax benefits introduced for both foreign and local ship owners.

In 2004 Cyprus joined the European Union as one of the only two countries with "Open Registry". This accession created new prospects for developments in the Cyprus shipping industry. The EU upholds a high standard, especially in regards to the level of safety for ships. EU standards prompted the government of Cyprus to prepare a plan of action, adopting new policies for the qualitative upgrading of the fleet and more generally for the enhancement of the Cyprus flag.

The plan of action involves, besides legislative work, the enhancement of the Department of Merchant Shipping, assigning new posts in the fields of inspection of ships, the control of the register, labour relations in shipping, the protection of the marine environment, nautical education and the issuance of certificates, the registering of ships, the legal department and the investigation of accidents.

Cyprus has adopted a maritime safety policy, which focuses on the effective control of ships and the improvement of the quality of the island's merchant shipping fleet.

Specialised ship management companies currently manage a substantial percentage of the vessels in the Cyprus ship registry. These companies are fully manned in Cyprus, a factor promoting a transparent and close relationship between the government and the shipping community. The government's policy on shipping is constantly upgraded to improve the Cyprus shipping industry, and thereby enhance the reputation of Cyprus as a high quality maritime nation.

As a result, Cyprus is home to some of the world's largest international ship management companies who have established their headquarters on the island and the country is now recognised as one of the most attractive shipping and ship management centres in the world.

Advantages of Cyprus as a shipping centre

- EU flag.
- Classification of the Cyprus flag in the White List of the Paris and Tokyo Memorandums of Understanding (MOUs) and exclusion from the "List of Targeted Flag States" of the US Coast Guard resulting in fewer inspections of the ships and less delays at the ports.
- Maritime offices in New York, London, Rotterdam, Piraeus, Brussels and Hamburg offering services to Cyprus ships.
- Member of the IMO and the ILO, and has ratified or adopted all international maritime conventions.
- Signatory to all international maritime conventions on safety and pollution prevention.

- A network of inspectors of Cyprus ships, covering important ports worldwide to ensure efficient and effective control of Cypriot vessels and to avoid detentions by port state control.
- Bilateral agreements with 23 countries in the field of merchant shipping. These agreements with labour supplying countries provide for specific terms of employment which are beneficial to both the ship owners and the seafarers.
- Efficient and qualitative provision of services by the Department of Merchant Shipping.
- Strategic location of the island at the crossroads of three continents.

20 Leading Merchant Fleets 2008

Country / Registry	No. of vessels	Tonnage	Age	% of WT
Panama	8,065	183,503,499	18	22,09
Liberia	2,306	82,389,489	12	9,92
Bahamas	1,446	46,542,634	15	5,60
Marshall Islands	1,265	42,636,787	9	5,13
Singapore	2,451	39,885,781	9	4,80
Hong Kong	1,371	39,100,472	11	4,71
Greece	1,498	36,822,333	22	4,43
Malta	1,532	31,633,307	15	3,81
China	3,916	26,811,081	23	3,23
Cyprus	1,016	20,109,441	13	2,42
Germany	961	15,282,810	21	1,84
United Kingdom	1,676	15,246,897	20	1,84
Norway (NIS)	601	15,039,674	15	1,81
Korea, South	3,001	14,144,727	25	1,70
Italy	1,588	13,599,875	23	1,64
Japan	6,316	13,536,370	16	1,63
U.S.A.	6,524	11,267,802	27	1,36
Denmark (DIS)	470	10,094,200	16	1,22
Bermuda	153	9,592,499	13	1,15
Antigua & Barbuda	1,195	9,536,889	10	1,15
Totals	47,351	676,776,567		81,47
Other	52,390	153,927,845	22	18,53
World Total (WT)	99,741	830,704,412		100,00

Source: Lloyd's World Fleet Statistics 2008

Ship registration in Cyprus

Ownership requirements

A vessel may only be registered in the Cyprus Ship Registry if:

1. More than fifty percent (50%) of the shares of the ship are owned:
 - i. by Cypriot citizens, or
 - ii. by citizens of other EU member states or of the European Economic Area who, in the instance of not being permanent residents of the Republic, will have appointed an authorised representative in the Republic of Cyprus, or
2. The total (100%) of the shares of the ship are owned by one or more corporations, which have been established and operate:
 - i. in accordance with the laws of the Republic of Cyprus and have their registered office in the Republic, or

- ii. in accordance with the laws of any other EU or EEA member state and have their registered office, central administration or principal place of business within the European Economic Area and which will have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community ship management company having its place of business in Cyprus, or
- iii. outside Cyprus or outside any other EU or EEA member state but controlled by Cypriot citizens or citizens of a member state and have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community ship management company having its place of business in Cyprus.

Applications for registration of ships must be made through a Cypriot lawyer.

At the time of registration, the ship must be surveyed by an approved classification society.

Types of registration

The main types of vessel registration in Cyprus are Provisional, Permanent and Parallel registration.

1. Provisional registration

The Cyprus merchant shipping legislation provides the possibility of provisional registration of a vessel (when the vessel was not previously a Cyprus ship) and it is common that owners choose to provisionally register their ship first before applying for permanent registration.

The provisional registration may be effected in Limassol by the Registrar of Cyprus Ships or at any diplomatic mission or consular post of the Republic of Cyprus abroad who will act on instructions issued by the Cyprus Ships Registry.

The provisional registration runs for a period of up to six months and is under this period deemed a full registration. This period can be extended for a further three months by submitting an application prior to the end of the initial six-month period. In essence, this gives the owners up to nine months (including the three month extension) during which they have the possibility to complete the administrative formalities needed for permanent registration.

2. Permanent registration

A provisionally registered ship in Cyprus has nine months (including the three-month extension) to complete the formalities to register permanently under the Cyprus flag. It is not necessary for the ship to be present at a Cyprus port for this procedure.

Permanent registration under the Cypriot flag is completed once the Registrar issues the Certificate of Cypriot Registration (Form MS 4B).

3. Parallel registration

Cyprus legislation accommodates for the possibility of parallel registration (also known as bareboat registration). Two different forms of bareboat registration are permitted by the legislation: "Parallel-in" registration and "Parallel-out" registration, corresponding to the two forms of internationally accepted bareboat registrations. Both of them offer very interesting opportunities for leaseback, hire purchase and finance agreements.

The Parallel-in registration offers the possibility to a foreign flag vessel on bareboat charter to a Cyprus Shipping company to be registered in parallel under the Cyprus flag for a period that usually covers two years.

The Parallel-out registration offers the possibility to owners of Cyprus ships to bareboat charter them to a foreign person or company and to effect a "Parallel" registration in a foreign register for the duration of the charter party.

Crew’s nationality

Crew members may be of any nationality, provided that they are holders of Certificates of Competency issued by a country whose authority is recognised by Cyprus.

Officers have to apply for endorsement of their certificates of competency in accordance with the STWC 1978 Convention as amended. Cyprus recognises the Certificates of Competency of 65 countries.

Vessels’ age limit

Vessels, (except fishing vessels) of any size and type, and not older than 15 years, may be registered in the Cyprus Ship Registry as long as they comply with the provisions contained in the Merchant Shipping legislation and the circulars of the Department of Merchant Shipping.

The conditions listed below apply to vessels exceeding 15 years of age:

Type of vessel	Age of ships	Entry inspection	A vessel should be operated by a Cyprus or an EU ship management company based in Cyprus*
Cargo vessels and ocean- going tug boats	15-20 years	√	n/a
	20-23 years	√	√
	Over 23 years	Not acceptable for registration	Not acceptable for registration

* The Cyprus ship management company should be staffed with a sufficient number of qualified personnel and certificated for compliance with the International Safety Management (ISM) code.

Special cases:

Notwithstanding the provisions above, the following vessels may exceptionally be accepted by the Cyprus Ship Registry:

1. A vessel over 20 years of age may be registered if it is owned by a company which belongs to a group of companies having, at the time of its registration, at least five vessels aged up to 12 years and under the Cyprus flag, and provided that:
 - i. it has not been detained by port state control on grounds of safety or pollution prevention more than once within the last 12 months prior to the date of application for registration, and
 - ii. it undergoes an entry inspection, which is completed with satisfactory results.

2. A vessel over 23 years of age may be registered provided that:
 - i. the vessel will serve the Cyprus trade and will call at Cyprus ports at least twice per month or at least 24 times in any one year, and
 - ii. it has not been detained by port state control more than once within the last 12 months prior to the date of application for registration, and
 - iii. it undergoes an entry inspection, which is completed with satisfactory results, and
 - iv. it is operated by a Cyprus or other EU ship management company with place of business in Cyprus and staffed with a sufficient number of qualified personnel who is certificated for compliance with the ISM Code.

Type of vessel	Age of ships	Entry inspection	Condition (A)	Condition (B)	Condition (C)
Passenger vessels	Up to 30 years	√	√	n/a	n/a
	30-40 years	√	√	√	√
	Over 40 years	Not acceptable for registration**			

Condition (A) In case it is engaged in a service which includes at least two calls per month to a Cypriot port, for a period of at least six months, at least two cadets who are Cypriot citizens and/or citizens of the EU who are resident in Cyprus for the last six months, if available, are engaged for sea-going training for a period of up to six months.

Condition (B) An inspection of the hull, machinery and general condition of the vessel is completed with satisfactory results prior to the registration of the vessel in the Cyprus Ship Registry.

Condition (C) Where this is required by legislation, it is operated by a Cypriot or other EU ship management company that has its place of business in Cyprus, and is staffed with a sufficient number of qualified personnel certificated for compliance with the ISM Code.

** Special cases:

Notwithstanding the provisions mentioned above, a vessel over 40 years of age may exceptionally be re-registered in the Cyprus Ship Registry provided that:

- i. the vessel will serve the Cyprus trade and will call at Cypriot ports at least twice per month or at least 24 times in any one year, and
- ii. it has not been detained by port state control more than once on grounds of safety or pollution prevention within the last 12 months prior to the date of application for registration, and
- iii. it undergoes an entry inspection, which is completed with satisfactory results prior to the commencement of the commercial operation of the vessel and is subject to subsequent annual inspections, and
- iv. where this is required by legislation, it is operated by a Cypriot or other EU ship management company having its place of business in Cyprus, which is staffed with a sufficient in number and qualifications personnel and is certificated for compliance with the ISM Code.

For further information and for the conditions applicable to fishing vessels, fish factory vessels, auxiliary vessels and pleasure crafts, please contact the Department of Merchant Shipping.

Mortgages

Once a ship has been registered under the Cyprus flag, a mortgage can be created thereby securing a loan or other financial obligations on conditions agreed to by the parties, without the need for exchange control permission. The creation of a mortgage under Cyprus Laws is not allowed on vessels registered as Parallel-in in the Cyprus ship registry.

A mortgage, once created, must be deposited with the Registrar of Cyprus Ships or with a consular officer on the instructions of the Registrar. Whether deposited with the Registrar or with a consular officer, the mortgage is recorded thereafter in the Register as from the date and hour of its deposit and remains an encumbrance on the vessel until discharged by the mortgagees. A mortgage may be created independently of whether the ship is provisionally or permanently registered.

If the ship on which a mortgage was created belongs to a Cypriot company, the mortgage will also have to be registered with the Registrar of Companies within a maximum period of 42 days after its creation. The mortgagee's security is protected in the case of liquidation of the ship owning company.

Ship management services

There are three main types of internationally accepted ship management services;

1. Management services relating to the supply of crew (“crewing”)

The term crewing denotes services relating to the supply of either the whole or part of the crew, as stated in the safe manning certificate of the ship.

2. Technical management

This refers to the monitoring of the hull, the engines and the equipment of the ship in order to maintain the standards acceptable by her Flag State and according to the relevant laws and regulations in force.

3. Commercial management

Refers to:

- a) The provision of chartering services; which includes seeking and negotiating employment of the ship and the conclusion of charter parties or other contracts relating to the employment of the ship, in accordance with the instructions of the ship owner,
- b) The payment to ship owners of all hire and freight revenues and any other moneys, to which the ship owners are entitled and arise out of the employment of the ship,
- c) The provision of voyage estimates, accounts, the calculation of hire, freights and demurrage, and/or the dispatch of moneys due from or to the charterers of the ship.

The commercial manager is the person/professional/company that acts on behalf of the ship owner, against payment and by virtue of a written ship management agreement that covers the activities (a), (b) and (c) of the above definition simultaneously.

For a ship management company to be eligible for tax benefits, it needs to be “Sufficient in number of qualified personnel” defined as follows:

1. Persons providing management services related to the supply of crew or technical ship management services who have an office in the Republic of Cyprus, staffed:
 - i. in the case where they manage up to 10 ships, with at least 5 persons (including one qualified marine engineer or one skilled crew manager, as the case may be),
 - ii. in the case where they manage more than 10 ships, with at least 10 persons (including two qualified marine engineers or one skilled crew manager, as the case may be).
2. Persons providing commercial ship management services who have an office in the Republic of Cyprus staffed with one skilled commercial manager and at least three other persons.

Overview of a Cyprus ship management company

General	
Type of company	LLC
Share capital	Nominal or actual
Company name	Requires approval
Corporate requirements	
Minimum number of shareholders	One
Minimum number of directors	One
Transfer of shares between foreign shareholders	Allowed
Company secretary	Required
Local requirements	
Local secretary	No
Board meetings	Anywhere*
Registered address	Yes
Local shareholder	No
Local directors	No*
Publicly accessible records of directors	Yes
Annual requirements	
Requirement to file annual returns	Yes
Requirement for audited accounts	Yes
Requirement to keep accounts locally	No
Requirement to keep accounts in local currency	No

* Management and control issues to be addressed

Tax and other incentives and benefits

For ship owners

- Exemption on any income/corporation tax on the income of a ship owner of a Cyprus ship from the operation of such ship in any shipping enterprise between Cyprus and ports abroad or between foreign ports (including chartering).
- No tax on profits from dividends that are paid directly or indirectly from profits of ships as per above.
- No defence fund contribution is levied on dividends paid by ship owning companies.
- No capital gains tax on the sale or transfer of a Cyprus-registered vessel or the shares of a vessel owning company.
- Reduction of tonnage tax where a Cyprus ship management company manages the ship.
- No estate duty on the inheritance of shares in a ship-owning company.
- No stamp duty on ship mortgage deeds or other security documents.
- Low registration fees that compare favourably with those of other registries.
- Double tax treaties with over 40 countries.
- No exchange control and freedom of movement of foreign currency.
- Full protection for financiers and mortgagees through nominee or trustee shareholders.
- Favourable tax regime for ship management.
- Low set up and operating costs for companies.
- Recognition of Competence Certificates from many countries.
- Easy deletion from the Register.

For ship management companies

As from the fiscal year 2000 a new tax regime was implemented, giving ship management companies the option, subject to the conditions listed below, to be taxed in two different ways:

- i. According to the differential corporate rate of 4.25% under the Income Tax Law, or
- ii. Subject to a special tax which is levied on the basis of the tonnage of ships for which ship management services have been rendered.

Interested parties may exercise the second option with a written notice addressed to the Department of Merchant Shipping with a copy to the Commissioner of Income Tax. For a specific fiscal year, the notice must be filed at least 30 days prior to the 1st of January of the relevant fiscal year, and may remain in force until its withdrawal by the same procedure.

This special tax is applicable to any ship managed by a Cypriot or a community ship manager (Cyprus flag or foreign flag vessel), and is equal to 25% of the amount calculated as prescribed in the Second Schedule of the Merchant Shipping (Fees and Taxing Provisions) Laws 1992-2004.

The taxation regime covers the three basic types of ship management services, which are commonly effected internationally, i.e. crewing, technical and commercial management.

The ship management companies who are eligible to benefit from this tax regime are subject to the following conditions:

1. Have an office in the Republic of Cyprus;
2. Be staffed with a sufficient number of qualified personnel (as described in the section above);
3. Provide ship management services to the ships they manage for a period longer than one month.

For foreign vessels under management in Cyprus, the Merchant Shipping Law states that to the period ending 31 December 2020, any income arising from the provision of ship management services is subject to a tax rate equal to 25% of the tonnage tax rates of the vessels under management. Ship management services offered to Cyprus flag vessels are exempt from tonnage tax.

The legislation states further that no tax will be withheld from dividends distributed out of profits generated from ship management activities and no tax is imposed to the recipient shareholder in respect of these dividends at all levels of distribution.

Also, no defence fund contribution is levied on dividends paid by ship management companies.

For community ships

It should be noted that the tax regime of ship managers operating in the Republic of Cyprus, offers now the possibility for ship managers to be exempted from the relevant tax in respect also of any Community ship to which the provision of ship management services in relation to its crewing and technical management is entirely contracted to a Cyprus or a Community ship management company.

The ship management company must have an office in Cyprus staffed with a sufficient number of qualified personnel, for technical, administration and accounting matters relating to ships.

For the crew

- No income tax for crew members
- Total tax exemption for non-Cypriot crew, provided that a Double Tax Treaty exists between Cyprus and their home country
- Cyprus recognises the Certificates of Competency of 65 countries

Other important general tax provisions in Cyprus include:

- Extensive double treaty network,
- Full tax exemption on disposal of shares and similar titles,
- General corporate tax of 10% (lowest in the EU),
- Full adoption of all EU directives,
- Tax neutral reorganisations for both EU and non EU group companies,
- No CFC legislation,
- No thin capitalisation rules,
- Zero withholding tax on payments of dividends, interest and royalties to non residents,
- Zero taxation on dividends received (minor conditions must apply),

Government fees

1. Provisional registration fees

a) On ships, other than passenger ships:

i.	On each gross unit not exceeding 5.000 units	€ 0.170860
ii.	On each gross unit exceeding 5.000 units but not exceeding 10.000 units	€ 0.136688
iii.	On each gross unit exceeding 10.000 units	€ 0.068344
iv.	Minimum fee	€ 213.58
v.	Maximum fee	€ 5,125.80

b) On Passenger ships:

i.	On each gross unit	€ 0.256290
ii.	Minimum fee	€ 427.15

2. Permanent registration fees

No other fees and taxes are levied for the permanent registration of a vessel if the relevant registration fees have been paid at the time of the provisional registration of the vessel and the period of provisional registration has not expired.

3. Parallel registration fees

The fees for the parallel registration of a ship are 20% higher than those applicable to the provisional or permanent registration of a vessel.

4. Fees for the recording of mortgages and the transfer of mortgages:

a)	On each gross unit not exceeding 10.000 units	€ 0.034172
b)	On each gross unit exceeding 10.000 units	€ 0.017086
c)	Minimum fee	€ 51.26

No fee is payable for the discharge of mortgages.

5. Fees for the transfer and deletion of ships

For the transfer of a ship to the ownership of another Cypriot Company the fees payable are as follows:

a)	On each gross unit not exceeding 10.000 units	€ 0.034172
b)	On each gross unit exceeding 10.000 units	€ 0.017086
c)	Minimum fee	€ 51.26

No fee is payable for deletion of ships.

6. Other fees

Examination of an application for the registration of a vessel in the Register of Cyprus Ships	€ 34.17
Examination of an application for change of the vessel's name	€ 34.17
Approval and change of the vessel's name	€ 136.69
Issue of a provisional, permanent or parallel certificate of registration	€ 17.09
Granting of ship's carving and marking note	€ 17.09
Issue of transcript of registry	€ 25.63
Radio licence installation	€ 17.09
Radio licence renewal	€ 17.09
Issue of Continuous Synopsis Record	€ 34.17

The New Tonnage Tax Legislation as approved by the European Union

The new Cypriot Merchant Shipping Tax Legislation was approved by the European Union (EU) on 24 March 2010 as being consistent with the European Union's guidelines on State Aid in relation to Marine Transport. This is the first time that the EU approved such a simplified system of Tonnage legislation for a Member State (MS) that has an open registry.

The legislation extends the favourable tax provisions that were in place for Cypriot ship owners and ship managers, for ship owners of overseas vessels and charterers.

It also extends the tax reliefs, that up to now were covering only profits from exploitation of vessels with shipping activities, to cover profits from sale of vessels, interest (excluding interest relating to capital that was used for investments) and dividends that are derived from profits from exploitation of vessels that are paid directly or indirectly.

The Merchant Shipping (Fees and Taxing Provisions) Legislation came into force in May 2010 and introduces a new Tonnage Tax system that applies retroactively from 1 January 2010.

The new Tonnage Tax system includes most of the favourable provisions of the other EU MS Tonnage Tax systems, and also additional ones that provide Cyprus with a competitive advantage. As a result, it is expected that the position of Cyprus in the global shipping scene will be further improved.

The major provisions of the new system are summarised below:

Qualifying persons

The new system is available to any:

- Ship owner,
- Charterer, or
- Ship manager, that

holds, charter or manages a qualifying vessel that performs a qualifying shipping activity. The Tonnage Tax is calculated based:

- On the vessel's net tonnage, and
- On the range of categories and tax rates as described by the legislation.

The rates applicable for ship managers are 25% of those applicable for ship owners and charterers.

Qualifying vessels

A qualifying vessel is every seagoing vessel that has been certified according to the current international or national regulations and is registered in the register of any country that is a member of the International Maritime Organisation and the International Labour Organisation and that has been recognised by the Cyprus Republic.

The system excludes certain types of vessels, such as fishing boats, boats that are used mainly for athletic or entertaining purposes, boats of domestic navigation, non self-propelled floating cranes, non seagoing haulers, and others.

Qualifying shipping activity

A Qualifying Shipping Activity is any activity that is considered to be of a trading nature that is made of maritime transport, crew management or technical management of a qualifying vessel.

The term “maritime transport” includes the following:

- The traditional maritime transport of goods and people,
- Hotel, entertaining and retail activities on a qualifying vessel,
- The loading and unloading of the cargo of a qualifying vessel,
- The operation of ticket and passenger terminals, and
- The operations of towage, dredging and undersea cable laying.

Ship owners

Cypriot ship owners are assessed automatically under the tonnage tax. EU ship owners or foreign ship owners may elect to be assessed under the tonnage tax.

Foreign ship owners must satisfy certain requirements in order to be eligible to be assessed under the tonnage tax. The major requirements are the following:

- Part of their vessel fleet must be EU registered,
- This EU registered part of their vessel fleet not to be reduced for a period of three years from the date the elected to be taxed under the tonnage system, and
- The trading and strategic management of the fleet to be made within the EU/European Economic Area (EEA).

Any ship owner that elects to be taxed under the tonnage tax must remain within this system for at least 10 years. Withdrawal from the system before the lapse of the 10 years will result on the payment of the difference between the tax paid under the tonnage tax and the corporate tax that would have been paid for the same period if it was not assessed under the tonnage tax system. In addition the ship owner loses the right to elect to be taxed under the tonnage tax system until the period of 10 years has been lapsed.

The tonnage tax system covers earnings from:

- Vessel exploitation
- Dividends that are paid directly or indirectly that have been derived from such earnings
- Earnings from sale of vessels
- Interest income from the working capital
- Interest income from financing, exploitation and maintenance of a vessel.

Charterers

Every charterer that charters a vessel under the following regimes:

- Bareboat charter
- Demise charter
- Time charter, or
- Voyage charter

can elect to be assessed under the tonnage system, provided that the tonnage of the vessels under the above mentioned regimes does not exceed for three fiscal years 75% of the total tonnage of all the vessels that are owned or chartered. The percentage is increased to 90% if the vessels that are chartered are register in the EU or if the management of the crew and their technical management are made within the EU/EEA.

The Charterers of foreign vessels must comply with the additional requirements that apply for the foreign ship owners, such as percentage of EU register vessels.

A charterer that elects to be taxed under the tonnage tax system must stay in the system for a period of 10 years. A withdrawal from the tonnage tax system before the 10 years expire, will result to imposition of penalties similar to the ones that are imposed to ship owners as described above.

The tonnage tax system covers earnings from:

- Chartered vessels
- Dividends that are paid directly or indirectly that have been derived from such earnings
- Interest income from the working capital
- Interest income from capital used for the payment of expenses that relates to the charter agreement.

Ship managers

Every ship manager that offers crew management services and/or technical management services can elect to be assessed under the tonnage tax system provided that it complies with the following:

- Maintenance of a fully staffed office in Cyprus
- Employment of satisfactory number and qualified staff (51% to be citizens of the EU)
- 2/3 of the management to be provided from the EU
- A percentage of the managed vessel fleet to be registered in the EU. This EU registered part of their vessel fleet not to be reduced for a period of three years from the date they elected to be taxed under the tonnage system
- All the vessels and the crew that are managed need to comply with the relevant international standards and the requirement of the EU legislation in relation to the safety of the vessel, the training and certification of the crew, the environmental effects, the working conditions on the vessel, etc.

Depending from the type of service provided, certain other requirements need to be met by the ship managers such as:

- Full compliance with the provisions of the Maritime Labour Convention (MLC 2006) for the crew managers
- Certification based on the International Safety Management (ISM) code for the technical services managers

The tonnage tax system covers earnings from:

- Crew management services or technical management
- Dividends that are paid directly or indirectly that have been derived from such earnings
- Interest income from the working capital
- Interest income from capital used for ship management

The 10 year restriction is applicable to the ship managers, as well as, the penalties from withdrawing from the tonnage tax system before the 10 years have been lapsed.

Tonnage tax rates

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

NET TONNAGE (NT)				
0 – 1,000	1,001 -10,000	10,001 - 25,000	25,001 – 40,000	>40,000
€36.50 per 100 NT	€31.03 per 100 NT	€20.08 per 100 NT	€12,78 per 100 NT	€7,30 per 100NT

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

Example

Annual tonnage tax calculation of a vessel with net tonnage of 19,538 tonnes.

1,000 NT: $1,000/100 = 10.00 \times \text{€}36.50 = \text{€ } 365.00$

9,000 NT: $9,000/100 = 90.00 \times \text{€}31.03 = \text{€ } 2,792.70$

9,538 NT: $9,538/100 = 95.38 \times \text{€}20.08 = \text{€ } 1,915.23$

Annual Tonnage Tax €5,072.93

Our services

Our team has the necessary expertise and is in the position to offer an integrated range of professional services and advice on the formation of a structure that is tax efficient and tailored to your specific needs.

We excel on the implementation and management of practical tax solutions aimed at meeting your business objectives.

What we can do for you:

- We can source the tax advice and assist in the architecture of the optimal structure for your business needs.
- Implement the structure in accordance to the advice.
- Offer the day-to-day administration and back office support in line with the agreed advice.
- Liaise with third party auditors to ensure financial reporting and tax compliance in line with the tax advice.

Conclusion

While the current global economic downturn is having an impact on the global shipping industry, the existing and long-standing policy of Cyprus has shown a high degree of dedication towards guaranteeing the continued prosperity and growth of the Cypriot shipping industry.

The combination of location, tax incentives and visionary shipping policies make Cyprus an ideal jurisdiction for ship owners and ship managers.

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