

The Cyprus Tonnage Tax Law

General

The Cyprus registered fleet is among the largest in the European Union and the 10th largest worldwide. This is owed to two important factors. The first one is the strategic position of the island and the second one is the excellent support infrastructure provided by Cyprus. In addition, the Republic of Cyprus is an active member of the International Maritime Organization, the International Telecommunication Union and the United Nations Conference on Trade and Development. The Republic of Cyprus is also a party to the Convention of the High Seas 1958 and United Nations Convention on the Law of the Sea 1982.

Cyprus Shipping legislation has been amended so as to be in line with the *acquis communautaire* of the European Union to which the Republic of Cyprus was admitted on 1st May 2004. The new Cyprus tonnage tax system for 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* and is applicable as from the fiscal year 2010, in accordance with the relevant guidelines on State Aid to Maritime Transport.

Such a simplified tonnage tax system is approved for the first time for an EU Member state with an open registry. It extends the favorable 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 only covered profit from the operation of vessels in shipping activities, to cover profits on the sale of vessels, interest earned on funds other than for investment purposes and dividends paid directly or indirectly from shipping related profits.

The new tonnage tax system is available to any owner, charterer or ship manager who owns, charters or manages a “qualifying ship” in a “qualifying 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.

A “Qualifying ship” is defined as any seagoing vessel, certified in accordance with the applicable international or national rules and regulations, and registered in the ship registry of any member of the International Maritime Organization (IMO)/International Labour Organization (ILO) which is recognized by the Republic Cyprus.

In addition, any vessel which is engaged in the transportation of any United Nations and or European Union humanitarian aid relief operations is considered as a qualifying ship. The following ships are excluded from this definition: Fishing and fish factory vessels, vessels used primarily for sport or recreation and vessels constructed exclusively for inland waterway navigation.

A “Qualifying shipping activity” means any commercial business or activity which constitutes maritime transport, or crew or technical management of qualifying ships.

Tax Incentives Under Cyprus Shipping Tonnage Tax Law

Ship Owners and Ship Charterers

Ship owning companies and ship chartering companies opting to be taxed under the tonnage tax scheme are exempted from:

- Corporate tax on profits derived from shipping operations.
- Any tax on dividends paid directly or indirectly out of shipping operation profits.
- Any tax on profits from the sales of ships.
- Any tax on interest earned on funds used as working capital or for the financing operation and /or maintenance of the ships.

Applicable Tonnage tax rates

Net Tonnage				
0-1.000	1.001-10.000	10.001-25.000	25.001-40.000	>40.001
€36,50 per 100NT	€31,03 per 100NT	€20,08 per 100NT	€12,78 per 100NT	€7,30 per 100NT

Ship Management Companies

Ship management companies opting to be taxed under the tonnage tax scheme are exempted from:

- Corporate tax on profits derived from crew /or technical ship management services.
- Any tax on dividends paid directly or indirectly out of such profits.
- Any tax on interest earned on funds used as working capital or for the payment of expenses relating to the management of the ships.

As already noted the tonnage tax rates applicable to ship manager companies are **25% of the tonnage tax rates** applicable to the ship owners and the ship charterers companies.

Aim of the Cyprus Tonnage Tax System

The introduction of the new Tonnage Tax law aims to:

- **Increase the competitiveness** of Cyprus Shipping within and outside the EU,
- **Encourage new shipping companies** (such as Charterers) to set up business in Cyprus,
- **Secure the tax future** of Cyprus-based Shipping companies.

Should you require any further information or clarifications regarding the above, please do not hesitate to contact us:

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