

## New Tonnage Tax Measures Enhance Cyprus Shipping

On 29 April 2010 the Cyprus Parliament enacted the Merchant Shipping (Fees & Taxing provisions) Law (the “**Law**”) which is expected to boost the already thriving shipping industry in Cyprus. The Law introduces a new shipping tax system in Cyprus which significantly broadens the applicability of the fiscally advantageous tonnage tax option to a wider range of shipowners and shipmanagers. The Law, which has received EU approval, is applicable retroactively as from 1 January 2010 and remains in force till 31 December 2019 (unless extended with EU approval, by decree of the Council of Ministers).

The new regime extends the tax benefits previously applicable only to owners of Cyprus flag vessels and ship managers, to owners of foreign flag vessels and charterers. Moreover, it extends the tax benefits that previously only applied to profits from the exploitation of vessels in shipping operations to profits on the disposal of vessels, interest earned on funds and dividends paid directly or indirectly from shipping-related profits. The tonnage tax option is also now extended to crew management companies who otherwise would have been exposed to a 10% corporate tax.

The main provisions of the new tonnage tax regime are summarized below.

### PERSONS AND ACTIVITIES COVERED BY THE LAW

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 provisions of the Law are applicable to owners of ships registered under the Cypriot flag automatically. Other qualifying persons who may elect to be taxed under the provisions of the tonnage tax regime (or alternatively will remain subject to corporation tax) include owners of ships registered under the flag of an EU or European Economic Area (“EEA”) member state who are resident for tax purposes in Cyprus, owners of a fleet of both EU/EEA and non EU/EEA ships which meet certain threshold criteria and ship managers providing technical and/or crewing services in respect of qualifying ships. Once a qualifying person makes an election for the tonnage tax regime, such person must remain under this regime for at least 10 years at the risk of suffering withdrawal penalties, calculated as the difference between the amount paid during the tonnage tax period and the amount that would have been payable had a corporation tax election been made in the same period.

A “qualifying ship” is any seagoing vessel certified under applicable international regulations and registered in the ship register of any member of the International Maritime Organisation and/or the International Labour Organisation, recognized by

Cyprus. Certain ships, such as fishing vessels and tug boats, are specifically excluded from the new regime. A “qualifying shipping activity” consists of any commercial activity which constitutes maritime transport, crew management and/or technical management. The term “maritime transport” includes the carriage of goods and passengers and certain ancillary services, such as dredging and cable laying, as well as accommodation and catering on board a qualifying ship.

## TAX BENEFITS

The Law provides for a number of tax benefits the most important being that:

- i. profits from the operation of a qualifying ship from a qualifying shipping activity are exempted from taxation;
- ii. dividends paid directly or indirectly out of profits from a qualifying shipping activity are exempted from taxation;
- iii. interest income resulting on working capital or from the financing, operation and maintenance of a ship (excluding interest on funds used for investment purposes) is exempted from taxation;
- iv. profits made from the disposal of a ship or from the disposal of a share in a ship are exempted from taxation; and
- v. profits from the disposal of shares in a ship-owning company are exempted from taxation.

## RATES OF TONNAGE TAX

The rates of tonnage tax are calculated on the net tonnage of the qualifying ship based on a range of bands and rates which range from €36.50 for every 100 tons for ships with a net tonnage of up to 1.000 tons to €12.78 for every 100 tons for ships with a net tonnage in excess of 40.000 tons.

The rates of tonnage tax for ship managers are 25% of the above rates.

## CONCLUSION

The enactment of the Law is expected to assist in the continuing rise of Cyprus, whose ship registry now ranks 3rd in Europe and 10th internationally as a reputable, reliable and tax-efficient shipping centre. Apart from extending the nature of tax benefits, the expansion of application to non EU shipping companies will undoubtedly foster the growth of the already thriving shipping industry in Cyprus.

## FURTHER INFORMATION

For more information on this topic please contact:

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