



SHIPPING SERVICES



INTRODUCTION

Over the last 40 years, Cyprus has built a reputation as one of the key maritime centres of the world and the Cyprus flag strongly features as a high quality flag.

The Cyprus Ship Registry with gross tonnage exceeding 21 million metric tonnes, currently ranks 3rd in the European Union and 10th internationally.

As a ship-management centre, Cyprus has attracted more than 60 major ship-management companies, which accounts to 20% of the World third party ship-management market, making it an attractive hub for shipping business.

THE UNIQUE BENEFITS OFFERED BY CYPRUS

- Modern EU flag with maritime offices in New York, London, Rotterdam, Hamburg, Brussels and Piraeus.
- Member of the International Maritime Organisation.
- Member of the International Labour organisation and EMSA.
- Implemented almost all international conventions regarding maritime safety and security, protection of marine environment and maritime labour.
- Since 2003 Cyprus sits on the Marine Environment Protection committee.
- Bilateral merchant shipping agreements for co-operation in relation to provisions for the employment on Cyprus ships of properly qualified seamen. One of the only two 'open registries' in the European Union.
- On the white list of Paris MOU and the Tokyo MOU illustrating its strong commitment to maritime safety.
- A modern and highly technical Department of Merchant Shipping.
- Low registration costs for ships.
- Very low set up and operating costs for ship-owning and third-party management companies.
- A beneficial Tax system based on net tonnage and other tax benefits for shipping companies operating in Cyprus.
- Extensive double tax treaty network.
- Tax benefits for owners and ex-pat management staff to move to Cyprus.
- Split shipmanagement activities allowed (crewing or technical).
- A skilled and well educated network of qualified accountants, lawyers, IT and other professionals servicing the sector.

**EXCELLENT MERCHANT SHIPPING
LEGISLATION AND FAVORABLE TAX
LEGISLATION MAKES CYPRUS
A HIGHLY TAX EFFICIENT HARBOR
FOR SHIPPING GROUPS AND AN IDEAL
HOLDING COMPANY LOCATION.**

THE TONNAGE TAX SYSTEM

The Merchant Shipping Law (fees and taxing provisions) grants the option to 'qualifying persons' performing 'qualifying activities' in relation to 'qualifying vessels' to be taxed under the Tonnage Tax regime ('TT') that provides for TT based on net tonnage rather than corporation tax on profits.

Tax Rates for qualified ship-owners and qualified charterers:

0 – 1,000 NT	FOR EVERY 100 NT	€ 36.50
1001 – 10,000 NT	FOR EVERY 100 NT	€ 31.03
10,001 – 25,000 NT	FOR EVERY 100 NT	€ 20.08
25,001 – 40,000 NT	FOR EVERY 100 NT	€ 12.78
OVER 40,000 NT	FOR EVERY 100 NT	€ 7.30

QUALIFYING VESSELS

- Cyprus flag vessels
- EU/European Economic Area (EAA) flag vessels
- Fleet comprising at least 60% EU/EAA vessels

QUALIFYING ACTIVITY

This refers to any activity or business constituting maritime transport, technical management or crew management of the above qualifying ships. For this purpose, 'maritime transport' is defined as 'the carrying of goods or passengers by sea outside the territorial waters of the Republic, between a port of Cyprus and a foreign port, or an offshore facility, or between foreign ports or offshore facilities.' Maritime transport also covers towage, dredging and cable laying activities as well as ancillary activities in relation to:

- The carrying of passengers by sea, hotel, catering, entertainment and retailing on a ship that qualifies in the above definition, provided these services are activities ancillary the carriage of passengers by sea only consumed or used on board the ship.
- The activity of loading or unloading a vessel that qualifies in the above definition operated by a qualifying owner or charterer. This would cover moving containers within the port area immediately after or before a voyage.
- The operation of ticketing facilities, passenger terminals and office facilities in relation to shipping activities which are subject to tonnage tax.

QUALIFYING PERSONS

This refers to ship owners, charterers and ship-managers providing technical and/or crewing services who qualify under the definition provided by the Law.

A 'Qualifying Owner' is:

- The owner of a Cyprus vessel.
- The owner of a European community vessel who is tax resident in Cyprus.

The owner of a fleet of European Community and non-European Community vessels which are all 'qualifying vessels' engaged in 'qualifying activities'.

Owners of qualified vessels which are Cyprus vessels and engage in qualified activities as above will be taxed under the tonnage tax system. Owners of foreign vessels who qualify may opt to be taxed under the tonnage tax system for any specific year but they have to remain in system for minimum 10 years.

A 'Qualifying Charterer' is:

- A charterer of a Cyprus vessel who is tax-resident in Cyprus and chooses to be taxed under the Tonnage Tax System and who engages in a 'qualified shipping activity'.
- A charterer of a European Community vessel who is tax-resident in Cyprus and chooses to be taxed under the Tonnage Tax System and who engages in a 'qualified shipping activity'.
- A charterer of a fleet of European Community and non-European Community vessels who chooses to be taxed under the Tonnage Tax System, who satisfies a certain quota of community vessels in the fleet set by the Law and who engages in a qualified shipping activity.

However there is a composition requirement that at least 25% of the net tonnage of vessels subject to tonnage tax are owned or are bareboat chartered. This is reduced to 10% where all the vessels of the charterer carry EU/EEA flags or are managed (crewing and technical) in the EU/EEA.

Qualifying shipmanagers

Qualifying shipmanagers have the option to opt into the Tonnage Tax regime in relation to vessels that qualify at 25% of the rates applicable to shipowners and charterers.

As well as the fleet composition requirements applicable to shipowners and charterers and the 10 year minimum duration, the following additional conditions must be met:

- Must maintain a fully fledged office in the Republic that employs a sufficient number of qualified employees. More than 50% of its onshore employees must be EU/EEA citizens.
- At least 2/3 of tonnage of the fleet under management must be managed within the EU/EEA. Any shortfall is taxed under corporation tax.
- A manager that provides crewing services has to make sure that the MLC 2006 of the ILO has been implemented by the crew's employer, whether that is the crew manager itself or the by vessel's owner.
- A qualified technical manager must be ISM certified by the relevant authority of the managed vessel's flag states. The technical manager must also be mentioned in the Safety Management Certificates of the managed vessels.



OTHER TAX BENEFITS

- No tax on dividends derived from shipping activities that are taxed under TT.
- No tax on the disposal of qualifying vessels or shares in qualifying vessels.
- No stamp duty on ship mortgage deeds.
- No withholding taxes on dividends and interest paid abroad.
- No tax on the profits from foreign permanent establishments (subject to conditions).
- No tax on profits from sale of shares in companies.
- No income tax on the wages of officers.
- The standard rate of corporation tax is only 12.5% and applies to non-shipping income.

OUR SERVICES

BDO provides cost-efficient and high quality services to shipping clients:

- Audit and book-keeping services to ship-owning and ship-management companies.
- Tax solutions to shipping companies and assistance on the enrolment in the Cyprus Tonnage Tax system.
- Registration of ships and yachts under the Cyprus flag.
- Registration of shipping companies at the Cyprus Registry.
- Assistance on implementing the Yacht VAT leasing scheme.
- Legal advice on shipping matters and on general corporate matters.
- Payroll services for crew members.



**FOR ANY FURTHER INFORMATION
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