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Cyprus: A Reputable International Maritime Centre



Introduction

Cyprus has developed into an international shipping centre over the last 50 years due a number of favourable factors the most important of which are the following:

- A favourable European Union (EU) approved shipping tax regime offering generous tax incentives
- An ideal geographical position at the crossroad of 3 continents
- Its accession to the main international maritime conventions and bilateral agreements
- Membership to the EU and the Eurozone
- Its success as an international business centre

Nowadays, Cyprus is a highly reputable international shipping centre, ranking among the top 10 leading maritime nations in the world; with a merchant fleet exceeding 21 million gross tonnage and nearly 2000 vessels. In addition, Cyprus constitutes one of the largest ship management centres in the world.

Cyprus will continue to strengthen its position in the world economy by sustaining and further enhancing its excellent maritime infrastructure, its beneficial taxation regime and its competitive ship registration and annual tonnage tax rates.

Shipping activities in Cyprus

The main shipping activities carried out by businesses in Cyprus are the following:

Shipowning activities

Cyprus ships are owned by Cyprus companies having foreign or local interests.

Bareboat chartering

It is possible for a vessel registered under the Cyprus flag to be bareboat chartered to a foreign entity for parallel registration (subject to foreign laws and regulations). Similarly, a foreign flag vessel may be bareboat chartered to a Cyprus shipping company for parallel registration under the Cyprus flag.

Shipmanagement headquarters

Many international ship management companies establish their headquarters in Cyprus. Such companies manage ships under various flags and offer full management services to shipowners worldwide. They are also engaged in chartering, crewing, ship-broking and other related activities

Taxation

Cyprus offers complete tax exemption on all profits and dividends at all levels of distribution arising from qualifying shipping operations. This tax relief has been in existence since 1963.

The taxation system in respect to shipping activities has undergone major modernization to comply with EU regulations. The 2010 amendments to the Merchant Shipping law and the introduction of the Tonnage Tax System (TTS) have introduced a range of additional tax benefits increasing the competitiveness of Cyprus ship-owners and ship management companies and at the same time encourage more shipping companies to setup their business on the island.

The TTS regime

The long-awaited shipping legislation extended significantly the scope of the TTS (and exemption from profits tax) currently applicable to shipowners and shipmanagers and introduced two new TTS schemes applicable to shipowners of non-Cyprus flag vessels.

The new EU-approved TTS regime aims to support the shipping sector in Cyprus and provides incentives for the employment of EU seamen and registration of vessels in the EU and enhances the competitiveness of shipowners and shipmanagers operating in the EU.

The TTS regime provides for full exemption from corporation tax on profits from qualifying shipping activities. Instead, tonnage tax on the net tonnage of the vessels applies. Qualifying persons are regulated by the Department of Merchant Shipping instead of the Cyprus Tax Authorities.

The tonnage tax rates provided under the TTS regime are as follows:

Units of net tonnage	Shipowners & charterers	Shipmanagers
	€TT per 100 units	€TT per 400 units
0 – 1.000	36,50	36,50
1.001 – 10.000	31,03	31,03
10.001 – 25.000	20,08	20,08
25.001 – 40.000	12,78	12,78
>40.000	7,30	7,30

The regime applies to qualifying persons, performing qualifying activities in relation to a qualifying vessel:

- Qualifying persons** are shipowners, charterers and shipmanagers providing technical and/or crewing services.
- Qualifying activity** is any crew and/or technical management activity (e.g. towage, dredging, cable laying) as well as any maritime transport of goods or people between Cyprus ports and foreign ports.
- Qualifying vessel** is a sea-going vessel certified under applicable international and national rules. It is also registered in an International Maritime/Labour Organisation (IMO or ILO).

The TTS: Shipowners

The TTS applies to shipowners owning qualifying vessels which carry out a qualifying activity and who choose to enter the TTS (for a minimum of 10 years).

The tax exemption covers:

- Profits from using of a qualifying vessel
- Profits from disposing shares in a shipowning company
- Profits from disposing an interest in a qualifying vessel
- Dividends paid out of profits from any shipowning related activity
- Interest income related to the financing/maintenance/use of a qualifying vessel and the working capital.

The TTS: Charterers

The TTS applies to charterers chartering qualifying vessels (subject to non-stringent conditions) which carry out a qualifying activity and who choose to enter the TTS (for a minimum of 10 years).

The tax exemption covers:

- Profits from using a qualifying vessel
- Dividends paid out of profits
- Interest income related to the working capital/qualifying activity provided that the interest is used to pay expenses arising from the charter.

The TTS: Shipmanagers

Shipmanagers (tax resident legal persons that provide ship management services to qualifying vessels) can choose (the option should be for a minimum of 10 years) to pay tonnage tax at 25% of the rates applicable to shipowners and charterers for all vessels under their management. Alternatively, they will be subject to 10% corporation tax.

Shipmanagers should meet additional criteria in relation to the maintenance of an office in Cyprus, employing qualified personnel and managing a minimum of 2/3 tonnage within the EU/EEA.

The tax exemption covers:

- Profits from technical and/or crew management activities
- Dividends paid out of profits
- Interest income related to the working capital/qualifying activity provided that the interest is used to pay expenses related to ship management activities.

Cyprus ship registry

In order for a vessel to be registered in the Cyprus Ship Registry, more than 50% of the shares of the ship should be owned by Cypriot or EU citizens. Alternatively, all shares of the vessel should be owned by Cyprus or EU registered companies or by overseas entities controlled by Cypriot or EU citizens. In the course of registration, the vessel should be surveyed by an approved classification society.

The Cyprus merchant shipping legislation allows for the provisional, permanent and parallel registration of vessels.

The **Provisional registration** of a vessel can be effected outside Cyprus and where the former has an Embassy or a Consulate. The provisional registration is deemed to be a full registration for a period of 6 months and can be extended for a further 3 months.

The **Permanent registration** of a provisionally registered vessel can be effected within 9 months from the date it has been provisionally registered.

The **Parallel (bareboat) registration** includes the "parallel-in" and "parallel-out" registration. The "parallel-in" registration is available to a foreign flag vessel to be bareboat chartered to a Cyprus shipping company for parallel registration under the Cyprus flag for a period of 2 years (renewable). The "parallel-out" registration is available to a vessel registered under the Cyprus flag to be bareboat chartered to a foreign entity for parallel registration (subject to foreign laws and regulations) for the duration of the charter period.

Registration fees, age limit and mortgages

In terms of **registration fees** and **taxes**, Cyprus is considered to be among the most competitive shipping centres in the world.

Vessels of up to 15 years of age may be registered at the Cyprus Ship Registry provided that they comply with the merchant shipping law and related regulations. Older vessels may also be registered at the Cyprus Ship Registry but need to comply with additional requirements.

A **mortgage** on a Cyprus vessel needs to be filed at the Cyprus Ship Registry and remains an encumbrance on the vessel until it is discharged by the mortgagee. A mortgage can be created on a vessel which is either provisionally or permanently registered.

Our Services

- Vessel registration under the Cyprus flag
- Drafting of contracts/agreements for shipping matters
- Financing, security and enforcement of mortgages
- All related company law and tax matters

