



**GUIDE TO  
CYPRUS TONNAGE TAX SYSTEM (TTS)**

**Limassol, 2021**

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## Index

### 1. Introduction

### 2. Beneficiaries and Eligibility Requirements

- 2.1. Owners of Cyprus Ships
- 2.2. Owners of Foreign Ships
- 2.3. Charterers
- 2.4. Ship Managers

### 3. Analysis of Requirements

- 3.1. General Requirements
  - 3.1.1. Qualifying ship
  - 3.1.2. Qualifying shipping activity
- 3.2. Specific Requirements
  - 3.2.1. "Community - Flagged Share" Requirement
    - 3.2.1.1 Commercial and Strategic Management of the Fleet
  - 3.2.2. Minimal Share of the Fleet in Ownership - % of Chartered – in ships
  - 3.2.3. Economic Link of Managed Ships with the Community –The "2/3 Rule"
  - 3.2.4. Sufficient in Number and Qualifications Personnel
  - 3.2.5. Restrictions for ships Chartered-out under bareboat charter terms

### 4. Admission to the TTS

- 4.1. Exercise of Option
- 4.2. "All or Nothing" Option

### 5. Extension of the option to be taxed under the TTS

### 6. Income Tax Exemptions

- 6.1. Exemption from Income Tax for TTS Beneficiaries
- 6.2. Exemption from Income Tax for Seafarers of Community Ships

### 7. General Provisions

- 7.1. Declaration for Taxation
- 7.2. Reduction of Tonnage Tax
- 7.3. Reduction of Tonnage Tax for environmental preservation of the marine environment
- 7.4. Tonnage tax premium on non-Community ships listed by the Paris MOU
- 7.5. Arm's Length Principles
- 7.6. Separate accounting

### 8. Electronic Tonnage Tax System – "eTTS"

### 9. Owners of Cyprus Ships

- 9.1. Terms of Payment
- 9.2. Tonnage Tax payable on Provisional Registration
- 9.3. Tonnage Tax payable on Permanent Registration
- 9.4. Tonnage Tax payable on Parallel Registration
- 9.5. Cyprus Registry Maintenance Annual Fee

### 10. Appendices



## 1. Introduction

The Cyprus Tonnage Tax System (TTS) applicable to merchant shipping was initially approved by the European Commission in 2010, for a 10-year period, **as compatible with the requirements of the EU acquis** and in line with the Guidelines on State aid to maritime transport.

According to the Scheme, Qualifying owners of Cyprus and foreign ships, charterers and ship managers who are approved to be taxed under the TTS are subject to an annual tax referred to as tonnage tax, which is calculated on the basis of the net tonnage of the qualifying ships they own, charter or manage as indicated in Appendix 1.

The European Commission, following a formal assessment of the Cyprus Tonnage Tax System, decided on 16 December 2019, on the **prolongation of the Cyprus Tonnage Tax and Seafarer Scheme**, for another ten years, **until 31st December 2029**.

The Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (Law 44(I)/2010) has been amended accordingly to take into consideration the aforementioned decision of the European Commission.

The Merchant Shipping (Fees and Taxing Provisions) Laws of 2010 and 2020 (Law 44(I)/2010 as amended by Law 39(I)/2020) and all the subsidiary legislation (Notifications) as well as all the relevant Circulars are available on the website of the Shipping Deputy Ministry **[www.shipping.gov.cy](http://www.shipping.gov.cy)**.

## 2. Beneficiaries and Eligibility Requirements

The TTS is available to any **owner, charterer or ship manager** who owns, charters or manages a **qualifying ship engaged in a qualifying shipping activity**.

### 2.1. Owners of Cyprus Ships

Eligible for the TTS is an owner of a Cyprus ship, who owns:

- a qualifying ship, which is
- engaged in a qualifying shipping activity.

Owners of Cyprus ships fall automatically within the scope of the TTS. For further information, see Chapter 9.



## 2.2. Owners of Foreign Ships

Eligible for the TTS is an owner of a foreign ship, who:

- is a tax resident of the Republic of Cyprus,
- has opted to be taxed under the TTS and
- owns a qualifying ship, which is
- engaged in a qualifying shipping activity.

Owners of foreign ships must comply with the following requirement:

- "Community-Flagged Share" Requirement.

## 2.3. Charterers

Eligible for the TTS is a charterer who charters ships under bareboat, demise, time or voyage charter and:

- is a tax resident of the Republic of Cyprus,
- has opted to be taxed under the TTS and
- charters a qualifying ship, which is
- engaged in a qualifying shipping activity.

The charterer must comply with the following requirements:

- Minimal Share of the Fleet in Ownership - % of Chartered-in ships,
- "Community-Flagged Share" Requirement.

## 2.4. Ship Managers

Eligible for the TTS is a ship manager who:

- is a tax resident of the Republic of Cyprus,
- has opted to be taxed under the TTS,
- provides ship management services (crew and/or technical) to qualifying ships and meets at any time the following requirements:
  - Maintain a fully fledged office in Cyprus;
  - Employ a sufficient in number and qualifications personnel;
  - At least 51% of the total number of the personnel employed ashore must be EU/EEA citizens;
  - "Community – Flagged Share" Requirement;
  - Economic link of managed ships with the Community (EU/EEA) – The "2/3 Rule";
  - Provision of crew management services in accordance with the MLC 2006 requirements for crew managers (Notification P.I. 511/2010 and Forms MS TT 5-N and MS TT 6-N);
  - Certified under the ISM Code (DOC) by the competent authority of the flag States of the ships under its technical management (Notification P.I. 511/2010 and Form MS TT 7-N).

### 3. Analysis of Requirements

#### 3.1. General Requirements (Apply to all Beneficiaries)

##### 3.1.1. Qualifying ship

Qualifying ship is any seagoing vessel certificated under the applicable international or national rules and regulations and registered in the ship register of any member of the International Maritime Organization (IMO) and the International Labour Organization (ILO), which is recognized by the Republic of Cyprus.

The TTS specifically **excludes** certain types of ships such as:

- Fishing and fish factory vessels;
- Private yachts and vessels used primarily for sports or recreation;
- Vessels constructed and used exclusively for inland waterway navigation;
- Fixed offshore installations and floating storage units which are not used for maritime transport;
- Non-ocean going tug boats and non-ocean going dredgers;
- Stationary vessels employed for hotel and/or catering operations (floating hotels or restaurants);
- Vessels employed mainly as gambling facilities and/or casinos (floating or cruising casinos);
- Non-propelled barges;
- Other types of vessels which may be determined, from time to time, as not being qualifying ships in compliance with the applicable Community policy-guidelines on State aid to maritime transport.

Qualifying Community ship is a qualifying ship which is registered and flying an EU or EEA (Norway, Iceland and Liechtenstein) flag (see relevant Notification P.I.354/2010 and Circulars No. 42/2010 and No. 8/2011).

Qualifying non-Community ships are eligible for the TTS if they are qualifying and comply with the following requirements:

- a) are classed by a classification society recognised by the EU and
- b) are duly certificated as appropriate in accordance with the international Conventions regulating maritime safety, security and protection of the environment which are in force at any time and
- c) are manned by seafarers who are duly certificated in accordance with the STCW Convention.

For points b) and c) above to be satisfied, the flag of the non-Community ship must be recognised by both the IMO and the ILO.

##### 3.1.2. Qualifying shipping activity

Any commercial activity that constitutes **maritime transport** or **ship management** (crew management and/or technical management) is considered a qualifying shipping activity.

##### Maritime Transport

The definition of maritime transport includes the carriage of goods and passengers by sea, outside the territorial waters of the Republic of Cyprus, between a Cyprus port and a foreign port or an off-shore facility, or between foreign ports, or off-shore facilities, including:

- Ancillary activities to maritime transport, provided that the revenues from such activities shall not exceed fifty per cent (50%) of the total gross revenues from the operation of each qualifying ship under tonnage tax by a qualifying owner or qualifying charterer; (For more information on ancillary activities, see Notification P.I. 182/2020).
- Towage activities, provided that the ocean going tug is a Community ship and spends at least 50% of its time in towage or salvage activity at sea (Form MS TT 3-N);
- Dredging activities, provided that the dredger is self propelled, has carrying capacity for dredged material, is a Community ship and spends at least 50% of its time in the carriage of dredged goods (Form MS TT4-N);
- By analogy cable-laying activities.

(For more information on Towage and Dredging Activities see Notification P.I. 353/2010).

**Ancillary activities** to maritime transport means:

- (a) the activities related to a qualifying ship under tonnage tax, which have a substantial connection with the core maritime transport activities of a qualifying owner or a qualifying charterer but which exclude commercial activities that form part of an operation of a port carried on for profit, or
- (b) where the qualifying owner or the qualifying charterer of a qualifying ship under tonnage tax is a member of a group of companies, the activities related to such qualifying ship's core maritime transport activities provided by another member of that group which is a tax resident of the Republic.

## Ship management

The provision of crew and/or technical management services to a qualifying ship.

Crew management services means among others:

- (a) selecting and engaging the vessel's crew, including payroll arrangements and insurances for the crew;
- (b) ensuring compliance with the requirements of the law of the flag of the vessel in respect of manning levels, rank, qualification and certification of the crew;
- (c) ensuring that the crew has undergone a medical examination and possesses a valid medical certificate issued in accordance with the appropriate flag State requirements;
- (d) arranging transportation of the crew, including repatriation;
- (e) training of the crew and supervising their efficiency.

Technical management services means among others:

- (a) the provision of competent personnel to supervise the maintenance and general efficiency of the vessel;
- (b) the arrangement and supervision of dry dockings, repairs, alterations and the upkeep of the vessel to the standards required by the law of the flag of the vessel and of the places where she trades, and all requirements and recommendations of its classification society;
- (c) the arrangement of the supply of necessary stores, spares and lubricating oil.

Commercial management does not fall within the scope of the TTS.

## 3.2. Specific Requirements

### 3.2.1. "Community-Flagged Share" Requirement

**(Applies to all Beneficiaries)**

At the time of opting to be taxed under the TTS, **at least a share** of the fleet in terms of tonnage must be comprised of Community ships.

This share (known as Reference Share) **must not be reduced in the three-year period** following the exercise of the option.

In case the share of Community ships is more than 60% at the time of opting, then the above restriction does not apply; i.e. the "Community-Flagged Share" can vary from year to year between 60% - 100%. If the Reference Share falls below 60% in an assessment then this share is considered as the new Reference Share and the restriction mentioned in the previous paragraph above applies.





The "Community-Flagged Share" of a group of companies is calculated for the whole group on a sectoral basis i.e. companies engaged in the same activities. The "Community-Flagged Share" Requirement is calculated automatically by the eTTS (see Chapter 8).

For the purposes of calculating the abovementioned share for a given fiscal year only the net tonnage of the ships owned, chartered or managed as at 31st December of that year will be taken into account.

For the purposes of assessment of the "Community-Flagged Share" of each company or group of companies, the Permanent Secretary of the Shipping

Deputy Ministry of the Republic of Cyprus (Deputy Ministry) shall carry out an assessment upon expiry of the third year (on the 31st of December) as from the date of opting to be taxed under the TTS and thereafter a further assessment every three years until the expiration of the ten-year period (see Chapter 4 and Circular No. 13/2011).

In the case of a company or a group of companies whose "Community-Flagged Share" at the time of assessment is less than the Reference Share (unless is over 60%), then until the company or the group of companies raises its "Community-Flagged Share" back to the Reference Share as a minimum, any additional non-Community ships which the company or group of companies owns, charters or manages shall be considered as non-qualifying ships and shall not enter the TTS, unless the "Community-Flagged Share" of the relevant global tonnage eligible for tonnage tax in the Republic (Global Share) has not decreased.

This means that if the Global Share has remained unchanged or increased, companies with their "Community-Flagged Share" reduced may take advantage of the Global Share to include additional non-Community ships in the TTS.

In such case the said company or group of companies is subject to an increase of 10% on the total amount of tonnage tax payable for all qualifying non-Community ships in the fleet.

In the case of a company or a group of companies whose "Community-Flagged Share" at the time of the three year assessment is zero (0%), i.e. there are no community flag vessels in the fleet, then the provisions of section 15(5)/ 25(5)/ 35(4) and section 51(4) of the Law are not satisfied and the company or the group of companies is deemed to be non-qualifying and is no longer eligible to remain in the TTS.

For more information on the method of calculating the "Community-Flagged Share" and "Global Share", together with practical examples, refer to Notification P.I.536/2010.

### **3.2.1.1. Commercial and Strategic Management of the Fleet (Applies to Owners of Foreign Ships)**

In the event that the Community ships are less than sixty per cent (60%) of the fleet in terms of tonnage, the commercial and strategic management of the fleet must be carried out from the territory of the European Union/ EEA.

Strategic management means the decisions on significant capital expenditure and disposals. Important in assessing where the strategic function is carried out, will be the location of headquarters, including senior managers and the location of decision making of both directors' board and operational board.

Commercial management means the route planning, taking of bookings for passengers or cargo, provisioning and catering ships, personnel management and training, technical management of ships, including the taking of decisions on the repair and maintenance of vessels. Also relevant is the maintenance of support facilities such as training centres, terminals, etc and the extent to which foreign offices or branches work under the direction of personnel based in the territory of the EU/ EEA.



**3.2.2. Minimal Share of the Fleet in Ownership - Percentage of Chartered-in ships  
(Applies to Charterers)**

A charterer is eligible to enter the TTS only when at the time of opting, the total net tonnage of the ships chartered-in does not exceed 75% of the total net tonnage of all ships chartered-in or operated by the qualifying charterer.

The percentage of chartered-in ships is calculated automatically by the eTTS.

**Chartered-in ship** is a ship taken on a time charter (T/C) or on a voyage charter (V/C) or on a contract of affreightment (CoA) basis.

**Ship operated** is a ship owned or bareboat chartered.

This percentage can reach 90% provided that every chartered-in ship flies an EU/ EEA flag or is entirely managed (crewing and technical) from the territory of the EU/ EEA.

Following the entry into the system, the charterer may increase the percentage of net tonnage chartered-in from the absolute max., 75% or 90% (as the case maybe), provided that this excess **does not occur for more than three consecutive tax periods.**

In case the percentage of net tonnage chartered-in exceeds the 75% or 90% threshold (as the case maybe) for more than three consecutive tax periods, then the relevant ships representing the tonnage in excess, cease to be qualifying ships and the charterer's income from those ships is no longer eligible to be included in the TTS and thus will be taxed in accordance with the provisions of the Income Tax Laws in force. For such purpose, separate accounts must be kept for qualifying and non-qualifying ships.

On the occasion that the percentage of net tonnage chartered-in reaches 100% (i.e. no vessels owned or bareboat chartered) for more than three consecutive tax periods, then the provisions of section 18 of the Law are not satisfied and the charterer is deemed to be a non-qualifying charterer and will be taxed in accordance with the provisions of the Income Tax Laws in force.

The share of the fleet in ownership in a given fiscal year (as at 31st December) is calculated on the basis of the net tonnage of each ship chartered-in or operated which is included in the TTS, on a pro rata basis (i.e. (NT of a vessel) X (no. of days chartered-in or operated)). Practical examples can be found in Circular No. 13/2011.

**3.2.3. Economic Link of Managed Ships with the Community – The “2/3 Rule”  
(Applies to Ship Managers)**

A qualifying ship manager may benefit from the TTS only if at least two thirds (2/3) of the total tonnage of the qualifying ships managed in a given fiscal year is managed from the territory of the EU /EEA.

For the purpose of calculating the abovementioned share for a given fiscal year, only the net tonnage of the qualifying ships managed as at 31st December of that year will be taken into account. The Economic link of managed ships with the Community –The “2/3 Rule” is calculated automatically by the eTTS.

The Permanent Secretary shall carry out an assessment for each ship manager every fiscal year. Tonnage in excess of one third of the tonnage which is not entirely managed from the territory of any Member State, is not eligible for the TTS; the relevant vessels shall cease to be qualifying ships and shall no longer be eligible to remain in the TTS for the specific fiscal year. The income of the qualifying ship manager derived from the management of those vessels will be taxed in accordance with the provisions of the Income Tax Laws in force.

A practical example of the method of calculating the “2/3 Rule” is contained in Schedule II of the relevant Declaration for the Taxation of Ship Management Services (Form MS TT 2C-N).

**3.2.4. Sufficient in Number and Qualifications Personnel  
(Applies to Ship Managers)**

Ship management services provided	Number of ships under management	Minimum number of employees required	Skilled Crew Managers	Qualified Marine Engineers	Other personnel
Crewing & Technical	1-10	5	1	1	3
	Over 10	10	1	2	7
Crewing	1-10	5	1	-	4
	Over 10	10	2	-	8
Technical	1-10	5	-	1	4
	Over 10	10	-	2	8

### 3.2.5. Restrictions for ships Chartered-out under bareboat charter terms (Apply to Ship Owners of Cyprus and Foreign Ships)

An owner benefiting from the tonnage tax system is deemed to be a qualifying owner of a qualifying ship that is chartered-out on bareboat charter terms only if:

I. the ship is bareboat chartered out to a charterer forming part of the same group as the aforementioned owner (intra-group transaction);

or

II. the owner demonstrates that the ship was bareboat chartered out due to short-term over-capacity and the term of the charter does not exceed 3 years, provided that at least 50% of the tonnage taxed fleet during a fiscal year must still be operated by the owner (Form MS TT 13A-N /13B-N / 13C-N).

The term "short-term over-capacity" refers solely to ships acquired (bought or chartered) by the owner for the purposes of carrying out its own maritime transport activities and shall not include any ships specifically acquired (bought or chartered) for the purposes of chartering out on a bareboat basis.

## 4. Admission to the TTS

### 4.1. Exercise of Option

Qualifying owners of Cyprus ships **do not need** to exercise the option to be taxed under the TTS. They are **automatically subject to tonnage tax** upon registration under the Cyprus flag until the qualifying ships are sold, lost or broken up.

In case of re-flagging of a Cyprus qualifying ship to a foreign flag, the owner of said vessel will remain in the TTS as an owner of a foreign ship, until the expiration of the 10-year period (no corporate tax option), provided that the owner is still a Cyprus tax resident and meets the requirements of the Law.

Qualifying owners of foreign ships, qualifying charterers, and qualifying ship managers, tax residents in the Republic of Cyprus, have the right to opt to be taxed in respect of any particular fiscal year under the TTS.



The option, which will be **valid for ten years**, may be exercised by a written Application for Approval of the Option to be taxed under the Cyprus TTS (the "Application" Form MS TT 1-N) addressed to the Permanent Secretary of the Deputy Ministry with a copy to the Commissioner of Taxation, Tax Department, at least thirty days prior to the 1st January of the relevant year.

Upon submission, the Permanent Secretary will assess the Application and its supporting documentation and will decide, within thirty (30) days, whether the applicant qualifies and hereupon communicate his decision to the applicant and to the Commissioner of Taxation.

In case a qualifying owner of foreign ships/ charterer/ ship manager, who has opted to be taxed under the TTS, elects to withdraw, otherwise than as a result of the disposal/ termination of the charter/ termination of the ship management of all ships under its operation/ management, from the TTS prior to the expiration of the 10-year period, the said owner/ charterer/ ship manager will be liable to pay the difference between the tax which the owner/ charterer/ ship manager would have been liable to pay had the provisions of the Income Tax Laws of 2002 to (No.4) of 2009 applied and the amount of relevant tax which should have been paid during the period the owner/ charterer/ ship manager remained in the TTS.

Qualifying owners of foreign ships, qualifying charterers and qualifying ship managers, who intend to exercise their option for admission to the TTS have to initially express their preliminary interest to be taxed under the TTS by completing the Form "Preliminary Interest to be taxed under the Cyprus TTS".

On the basis of the information provided in this Form, the Deputy Ministry will create in the Electronic Tonnage Tax System - eTTS (see Chapter 8) an account for the interested company and will provide that company with its access details (log-in name and password). The eTTS can be accessed through the Deputy Ministry's website at **www.shipping.gov.cy**.

The applicant company will use the access details to enter the eTTS and complete online Tables A, B and C which contain all necessary information relating to the ships of the fleet of the applicant company. These Tables will then be attached to the Application Form (Form MS TT 1-N) together with other supporting documents listed in Form MS TT 1-N.

#### **4.2. "All or Nothing" Option**

In case the qualifying owner, qualifying charterer and qualifying ship manager is part of a group of companies which are tax resident in the

Republic of Cyprus and **exercise the same activity** as the applicant company, then **all such qualifying companies must enter** (by submitting separate Application(s)) **the TTS** as soon as one company of the group has opted to enter the TTS.

#### **5. Extension of option to be taxed under the TTS**

Qualifying owners of foreign ships, qualifying charterers, and qualifying ship managers, have the right to extend their option to be taxed under the TTS for another 10 years, upon expiration of the first 10-year period. The extension of the option to be taxed under the TTS may be exercised by a written notification for Extension of the Option to be Taxed under the Cyprus Tonnage Tax System (Form MS TT 1A-N), addressed to the Permanent Secretary of the Deputy Ministry with a copy to the Commissioner of Taxation, Tax Department, within 3 months from the date of expiration of the 10-year period.

Qualifying owners of foreign ships, qualifying charterers, and qualifying ship managers, after exercising the extension of the option to be taxed under the TTS in accordance with the provisions of the Law, will enter the TTS from the date that follows the date of expiration of the previous 10-year period. The new Reference Share will be the share of community ships in the fleet at the date of expiration of the 10-year period.

#### **6. Income Tax Exemptions**

##### **6.1. Exemption from Income Tax for TTS Beneficiaries**

Notwithstanding the provisions of the Income Tax Laws of 2002 to (No.4) of 2009 or any other Law in force in the Republic of Cyprus, no tax shall be charged, levied or collected upon the:

- Income of a qualifying owner/ charterer derived from the operation of a qualifying ship in a qualifying shipping activity;
- Income of a qualifying ship manager from the rendering of crew and/ or technical management services (ship management) to a qualifying ship;
- Profit dividends paid to shareholders directly or indirectly:
  - from the operation/ ship management of a qualifying ship, or
  - from the sale of a qualifying ship (only for owners);
- Bank interest earned on working capital or shipping revenue provided that the said working capital or shipping revenue is used by a qualifying:
  - owner to pay expenses for the financing and/ or operation and/ or maintenance of the ship;
  - charterer to pay expenses arising out of the charter party;
  - ship manager to pay expenses relevant to the management of a qualifying ship;
- Income or Profit made by a qualifying owner from the sale of a qualifying ship or from the sale of any shares in a qualifying owner entity that is the owner of a qualifying ship.



## 6.2. Exemption for Income Tax for Seafarers of community ships

Notwithstanding the provisions of the Income Tax Laws of 2002 to (No.4) of 2009 or any other Law in force in the Republic, no tax shall be charged, levied or collected upon the salary or other related benefits from the employment of eligible seafarers:

- who are liable to income tax in the Republic, and
- who are employed on board a Community ship which is a qualifying ship, engaged in maritime transport.

Eligible seafarers means:

- seafarers who are citizens of a Member State in the case they are employed on board vessels (including ro-ro ferries) providing scheduled passenger services between ports of Member States;
- all seafarers who are citizens of a Member State or a non - Member State in all other cases.

## 7. General provisions

### 7.1. Declaration for Taxation

Qualifying owners of foreign ships, qualifying charterers and qualifying ship managers are obliged, between **January 1 and February 28** of the year following the tax year, to submit to the Permanent Secretary a Declaration for Taxation (the "Declaration"- Form MS TT 2A-N/ 2B-N/ 2C-N) of the object of the tax and to pay the calculated amount according to the Declaration.

The Declaration is submitted to the Deputy Ministry in hard copy, duly signed and stamped by the company's authorised director and duly certified by an independent accountant.

In case the Declaration of an owner of foreign ships or a charterer is not certified by an independent accountant, the Permanent Secretary may require the said person to produce supporting documents with regard to the Declaration.

The Declaration of ship managers must always be certified by an independent accountant.

Tables A, B and C of the Declaration must also be submitted to the Deputy Ministry electronically, through the Electronic Tonnage Tax System (eTTS), available on the Deputy Ministry's website at [www.shipping.gov.cy](http://www.shipping.gov.cy).

The date of submission of the Tax Declaration shall be the date on which the hard copy of the declaration is submitted, provided that the payment of the tonnage tax is received by the Deputy Ministry within the time limits. If either the Declaration is not submitted or the payment of the tax not received within the time limits prescribed above, interest for late payment as well as an administrative fine shall apply.

(For more information on administrative fines, please refer to the Directions issued by the Shipping Deputy Minister to the President P.I. 559/2020).

The Permanent Secretary examines the Declaration and:

- either accepts the object of the tax mentioned in the Declaration and imposes the tax accordingly, or
- does not accept the object of the tax, whenever he is of the opinion that there was a miscalculation either by records which in the reasoned opinion of the Permanent Secretary are artificial or fictitious, or by omissions. In such case, the Permanent Secretary may demand, the submission of additional supporting documents within a timeframe of thirty (30) days. The Permanent Secretary, if not satisfied, may disregard any such records or omissions and impose the applicable tax.

The imposition of the tax is made by a notice in writing and is served personally or sent by registered mail within one hundred and twenty (120) days from the date of the submission of the Declaration to the Permanent Secretary or from the date of submission of any requested additional supporting documents to the Permanent Secretary.

In the event of insufficient tax payment as a result of subparagraph b) above, the tax difference must be paid within sixty (60) days from the date the notice of imposition of the tax was served. If the tax is not paid within the aforesaid time limits, interest shall be charged thereon at the rate of interest determined from time to time by an order of the Minister of Finance by virtue of the provisions of the Uniform Public Interest of Late Payment Law of 2006 (Law 167(I)/2006).

In case of tax dispute, a tax review can be requested, by notice of objection in writing, to the Permanent Secretary. The notice must state the grounds of the objection and must be submitted not later than thirty (30) days from the date the notice of imposition of the tax was served.

For more information, please refer to Notification P.I. 417/2010.

## **7.2. Reduction of Tonnage Tax**

Reduction of the tonnage tax is granted for **Owners and Charterers of Cyprus and Community ships** in the cases listed below.

### **LAID-UP SHIPS**

If the ship is laid up for a period of at least 3 consecutive months the tonnage tax payable is reduced by seventy-five per cent (75%) for the period during which the vessel is laid-up, provided that the Deputy Ministry is duly notified not later than 3 months from the commencement of the lay-up period.

### **INOPERATIVE SHIPS**

If the ship is rendered inoperative for a period of at least three months due to judicial arrest, or by act of piracy, or armed robbery, or by force majeure, then the tonnage tax payable is reduced by seventy-five per cent (75%) for the period during which the vessel is inoperative.

## **7.3. Reduction of Tonnage Tax for environmental preservation of the marine environment (Applies to Owners of Cyprus and Community Ships)**

In case of a Cyprus or Community ship that uses mechanisms-equipment for the environmental preservation of the marine environment and the reduction of the effects of climate change, the amount of chargeable and leviable tonnage tax due by the owner may be reduced by up to thirty per cent (30%) of the tonnage tax rates.

The eligibility criteria for such reduction as well as the level of reduction may be prescribed from time to time by an Order of the Council of Ministers published in the Official Gazette of the Republic.

(For more information on the eligibility criteria for Tonnage Tax reduction, please refer to Notification P.I. 42/2021 and to Circular No. 8/2021)



#### **7.4. Tonnage tax premium on non-Community ships listed by the Paris MOU on Port State Control**

Qualifying non-Community ships, forming part of a fleet of a qualifying owner of foreign ships/ charterer/ ship manager, shall have their annual tonnage tax increased:

- (a) by thirty per cent (30%) if the flag that they are entitled to fly, appears in the Grey List of the Paris MOU;
- (b) by sixty per cent (60%), if the flag that they are entitled to fly, appears in the Black List of the Paris MOU.

The decision whether a flag appears on the Grey List or the Black List of the Paris MOU will be taken by the Permanent Secretary on the basis of the relevant table contained in the Annual Report of the Paris MOU for the year preceding the year for which the tonnage tax is due.

#### **7.5. Arm's Length Principles**

The Law contains the appropriate ring-fencing mechanisms, known as transactions not at arm's length. These mechanisms ensure that profits from other activities are not sheltered within tonnage tax. They prevent the "transfer" of income or expenses between affiliated business entities engaged in activities subject to tonnage tax and income tax.

In other words, the Law contains provisions which ensure that the arm's length principle is applied to transactions between:

- persons qualifying for tonnage tax and non-qualifying persons either within Cyprus or between Cyprus and abroad, and
- activities qualifying for tonnage tax of a qualifying person and non-qualifying activities of the same person.

The arm's length principle means that transactions must take place for business purposes at arm's length prices, i.e. as if the transactions would have been made between independent enterprises (equivalent to market prices).

Persons subject to tonnage tax to whom the provisions of the arm's length principle apply have the duty to give notice within 90 days to any person whose tax liability may be affected by the said provision. Non-compliance with the obligation to give the referred notice may constitute a criminal offence.

For more information, please refer to Circular No. 21/2011.

#### **7.6. Separate accounting**

Qualifying owners, qualifying charterers and qualifying ship managers, who earn income from a qualifying shipping activity and at the same time earn income from a non-qualifying activity shall maintain separate books, records and accounts in order to be able to clearly distinguish income subject to tonnage tax and income not subject to tonnage tax.

Separate accounts must also be prepared for all ships considered as non-qualifying ships due to the following reasons:

- Carriage of goods or passengers within the territorial sea of the Republic of Cyprus;
- Non-compliance with international and community requirements on maritime safety and security;
- Non-qualifying activity;
- Non-qualifying flag;
- Non-qualifying type of ship;
- Not certified under the ISM Code (DOC) for that type of ship (technical managers);
- Not classed with a classification society recognised by the EU;
- Not satisfying the "Community-Flagged Share" requirement;
- Not satisfying the "Minimal Share of the Fleet in Ownership" requirement (charterers);
- Not satisfying the MLC 2006 requirements (crew managers);
- Tonnage in excess of 1/3 of the tonnage entirely managed from the territory of EU/EEA (ship manager);
- Towage, dredging, cable-laying within the territorial sea of the Republic of Cyprus;
- Ship is subject exclusively to commercial management services;

Income arising from non-qualifying activities and non-qualifying ships shall be taxed in accordance with the provisions of the Income Tax Laws in force in the Republic of Cyprus.

#### **8. The Electronic Tonnage Tax System (eTTS)**

The Electronic Tonnage Tax System (eTTS) enables the submission of the tables containing information about the ships owned, chartered or managed, which accompany the Application to enter the TTS and the Tax Declaration for every fiscal year.

The eTTS can be accessed through the Deputy Ministry's website at [www.shipping.gov.cy](http://www.shipping.gov.cy).

A unique access code and password to enter the eTTS is provided to qualifying owners of foreign ships, qualifying charterers and qualifying ship managers when exercising their option for admission to the TTS (see Chapter 4).

The eTTS enables users to complete electronically Tables A, B and C which are requested when submitting the Application form for admission to the TTS or when submitting the Declaration form every fiscal year. These Tables provide all necessary information relating to the ships owned, chartered or managed which are required for the assessment of the entry conditions and requirements (see Chapter 2 & 3) as well as for the assessment and calculation of the tonnage tax levied.



The eTTS calculates automatically the “Community-Flagged Share”, the “2/3 Rule” and the Minimal Share of the Fleet in Ownership (see Chapter 3). Upon completion of the examination and assessment of the Application or Declaration forms by the Deputy Ministry’s Officers, the eTTS stores and transfers automatically all (corrected) ships’ data contained in the Tables of a specific fiscal year to the next for future use. This means that, when preparing the company’s Declaration form for any particular tax year users need to update the eTTs only in case of any changes in the previous year data.

## **9. Owners of Cyprus Ships**

### **9.1. Terms of Payment**

The tonnage tax is payable on 31 March each year. In case of deletion of a ship before this date, the tonnage tax is payable on the date of deletion.

Late payment results in an additional annual fee of ten percent (10%) on the chargeable and leviable amount of tonnage tax for every year of the delay or part thereof, until the final discharge of the chargeable and leviable tax.

In case of deletion of the ship from the Cyprus Register before the expiration of the year for which tonnage tax has been paid, the amount paid in excess shall not be reimbursed to the owner.

### **9.2. Tonnage Tax payable on Provisional Registration**

At the time of the provisional registration of a vessel, tonnage tax for 6 months is payable. For extending the period of the provisional registration of a vessel under the Cyprus flag for a maximum period of 3 months, tonnage tax for 3 months is payable.

### **9.3. Tonnage Tax payable on Permanent Registration**

In case of direct permanent registration of a ship the tonnage tax corresponding to the non-expired part of the year is payable, during which the permanent registration of the ship takes place.

### **9.4. Tonnage Tax payable on Parallel Registration (bareboat Registration)**

The tonnage tax of ships registered in parallel is payable in advance for the entire period of the parallel (bareboat) registration and is not reimbursed even if the parallel registration is terminated earlier.

### **9.5. Cyprus Registry Maintenance Annual Fee**

An annual fee of €300 is payable by the registered owner of every Cyprus ship. This fee is payable in advance on registration of the ship in the Cyprus Register and for subsequent years shall be payable together with the tonnage tax of the ship on 31 March of each year.

The annual fee is non-refundable in case the ship is deleted from the Cyprus Register before the lapse of the year for which the annual fee was paid.

For more information, please refer to Notification P.I. 352/2010.



## 10. Appendices

### Appendix 1

#### TONNAGE TAX RATES FOR QUALIFYING OWNERS AND CHARTERERS OF CYPRUS AND FOREIGN SHIPS

Net Tonnage				
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 100 NT

Any residual tonnage of less than 100 units of net tonnage shall be charged proportionally.

#### Sample calculation of the annual tonnage tax for a 19.538 net tonnage vessel:

$$\begin{aligned}
 1.000 \text{ NT} : 1.000/100 &= 10 \times € 36,50 = €365,00 \\
 9.000 \text{ NT} : 9.000/100 &= 90 \times € 31,03 = €2.792,70 \\
 9.500 \text{ NT} : 9.500/100 &= 95 \times € 20,08 = €1.907,60 \\
 38 \text{ NT} : 38/100 &= 0,38 \times € 20,08 = €7,63
 \end{aligned}$$

$$\text{Annual tonnage tax due} = \underline{\underline{€ 5.072,93}}$$

#### TONNAGE TAX RATES FOR QUALIFYING SHIP MANAGERS OF CYPRUS AND FOREIGN SHIPS

Net Tonnage				
0-1.000	1.001 - 10.000	10.001 - 25.000	25.001 - 40.000	> 40.000
€36,50 per 400 NT	€31,03 per 400 NT	€20,08 per 400 NT	€12,78 per 400 NT	€7,30 per 400 NT

Any residual tonnage of less than 100 units of net tonnage shall be charged proportionally.

Note: The rates applicable to ship managers are 25% of the rates applicable to the Owners and Charterers.

#### Sample calculation of the annual tonnage tax for a 19.538 net tonnage vessel:

$$\begin{aligned}
 1.000 \text{ NT} : 1000/400 &= 2.5 \times € 36,50 = €91,25 \\
 9.000 \text{ NT} : 9000/400 &= 22.5 \times € 31,03 = €698,17 \\
 9.500 \text{ NT} : 9500/400 &= 23.75 \times € 20,08 = €476,90 \\
 38 \text{ NT} : 38/400 &= 0,095 \times € 20,08 = €1,90
 \end{aligned}$$

$$\text{Annual tonnage tax due} = \underline{\underline{€1.268,22}}$$



**Appendix 2**

**CYPRUS TONNAGE TAX SYSTEM INDEX OF FORMS**

NUMBER OF FORM	NAME OF FORM
MS TT 1-N	Application for Approval of the Option to be Taxed under the Cyprus Tonnage Tax System
MS TT1A-N	Extension of option to be taxed under the Cyprus Tonnage Tax System
MS TT 2A-N	Declaration for the Taxation of Owners of Foreign Ships
MS TT 2B-N	Declaration for the Taxation of Charterers
MS TT 2C-N	Declaration for the Taxation of Ship Management Services
MS TT 3-N	Statement Relating to Qualifying Towage Activities for Tonnage Tax (Schedule I, P.I. 353/2010)
MS TT 4-N	Statement Relating to Qualifying Dredging Activities for Tonnage Tax (Schedule II, P.I. 353/2010)
MS TT 5-N	Statement Regarding Compliance of a Qualifying Crew Manager with the obligation of Providing Financial Security for Liability for Claims in the event of Death or Long-Term Disability of Seafarers by virtue of the MLC Convention(Schedules I, P.I. 511/2010)
MS TT 6-N	Statement of a Qualifying Crew Manager Regarding the Obligation to Conclude Private Contractual Arrangements for Compliance with the MLC Convention Provisions (Schedules II, P.I. 511/2010)
MS TT 7-N	Statement Regarding the ISM Certification of Ship Managers Providing Technical Ship Management Services (Document Of Compliance)
MS TT 8-N	Declaration of Owner of a Cyprus Ship

MS TT 8A-N	Declaration of Owner of a Cyprus Ship (Physical/ Natural Person)
MS TT 8B-N	Declaration of Auditors / Legal Representative of an Owner of Foreign Ships Admitted to the Tonnage Tax System
MS TT 8C-N	Declaration of Auditors / Legal Representative of a Charterer Admitted to the Tonnage Tax System
MS TT 8D-N	Declaration of Auditors of a Ship Manager Admitted to the Tonnage Tax System
MS TT 13A-N	Declaration of the Registered Owner of a Cyprus Ship for Bareboat Chartering Out
MS TT 13B-N	Declaration of the Registered Owner of a Cyprus Ship Registered Under the Status of Parallel Out Registration
MS TT 13C-N	Declaration of Owners of Foreign Ships for Bareboat Chartering Out

All forms are available on our website [www.shipping.gov.cy](http://www.shipping.gov.cy)

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