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TAX SERVICES

The Cyprus Shipping Regime

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Cyprus: A Modern Business and Maritime Center

Location

The unique geographical location of Cyprus, situated between three continents at the very edge of the Eastern Mediterranean basin, makes the island an ideal hub for the important trade routes of Europe, Africa, the Arabian Peninsula and East Asia.

Administrative and Legal Framework

Cyprus became an independent Republic in 1960 and adopted a governmental structure modelled on Western democracies, and particularly on the United Kingdom framework.

The Cyprus legal system is based on the same principles as those that underpin the English legal system. The statutes that regulate business and financial procedures are based on the equivalent legislation governing English law and English case law is frequently applied.

On 1 May 2004, Cyprus became a Member of the European Union and gained access to all the rights and freedoms provided by the European Acquis. This also provided certainty that Cyprus was and would remain a Western democracy where human rights, political pluralism and private property are safeguarded.

Furthermore, Cyprus is a member of the United Nations, the Council of Europe, the Organization for Security and Co-operation in Europe, the British Commonwealth, the Non-Aligned Movement, the International Monetary Fund and the World Bank. Although Cyprus is not a member of the OECD (Organisation for the Economic Co-operation and Development), the Organisation's principles and guidelines are fully adopted by Cyprus.

In its effort to promote international economic cooperation, Cyprus has signed and ratified a number of agreements and conventions, including:

- the General Agreement on Tariffs and Trade (GATT) and
- the Multilateral Investment Guarantee Agency Agreement (MIGA), the main objective of which is the encouragement of productive investments among member countries through the provision of guarantees to foreign investors against non-commercial risks.

Business Climate

Cyprus is a well established international business and maritime center within the European Union. The efficient corporate planning opportunities, the highly developed infrastructure and the sound business platform are all key advantages that encourage business activity to flourish on the island.

Cyprus is used extensively for international tax planning by established multinational companies from all over the world including the United States, Canada and major European countries such as Germany, the United Kingdom, Denmark and Sweden. The majority of foreign direct investment made into Central and Eastern Europe and Russia is routed through Cyprus because of Cyprus' very advantageous double tax treaty network.

Cyprus has a highly educated work force, particularly with respect to the provision of professional services, with many Cypriot lawyers being members of the United Kingdom Inns of Court. These professionals are at the forefront of developments in international commercial law.

The standards of the accountancy profession are equally high since the majority of its members are qualified Chartered or Certified Accountants of the United Kingdom or Certified Public Accountants of the United States of America. Moreover, International Financial Reporting Standards, as well as International Standards on Auditing, are strictly adhered to.

The adoption of the Euro, the liberalization of the Foreign Direct Investment (FDI) policy, the favorable tax system, the extensive Double Tax Treaty network and, now, the introduction of a very sophisticated, yet extremely beneficial, tonnage tax system, have all helped to establish Cyprus as an ideal location for ship owning, ship management and ancillary shipping activities.



Fiscal Incentives

Cyprus enjoys a favorable tax system in line with the EU requirements and OECD principles. In summary, the Cyprus tax system offers the following advantages:

- A low corporate tax rate of 12,5% for trading operations
- Exemption from tax in almost all inbound dividend payments
- Exemption from taxation of profits derived by foreign permanent establishments
- No capital gains tax
- No tax on trading in securities
- Exemption from withholding tax on payment of interest, dividends and royalties
- No wealth / inheritance taxes
- No Controlled Foreign Corporation (CFC) legislation
- No thin-capitalization rules
- Tax neutral re-organizations
- Extensive Double Tax Treaty network
- Access to all European Directives.

Why Cyprus?

Cyprus, is developing into a key player in the maritime industry; through its structured administrative, legal and financial reporting framework, as well as its sound maritime infrastructure, favorable tax regime and beneficial tonnage tax system, Cyprus has established itself as a sound maritime and business center.

Many of the ship management companies operating on the island rank among the largest of their kind in the world and it is estimated that they manage over 20% of the world's third-party management fleet. Cyprus ranks 10th amongst the global merchant fleets and 3rd in the European Union.





The Merchant Shipping (Fees and Taxing Provisions) Law 44(I) of 2010

The new tonnage tax law is fully compatible with the requirements of the EU acquis on State Aid to Maritime Transport. It will remain in force until 31 December 2019 and, subject to the approval of the European Commission, the validity period may be extended by a decision of the Council of Ministers.

The tonnage tax system (TTS) is based on the payment by beneficiaries of tonnage tax on the basis of the net tonnage of ships and provides full exemption from all income taxes that would normally be imposed under the Cyprus income and defence tax laws.

The tonnage tax rates are as follows:

	Shipowners/ charterers	Ship managers
Net Tonnage (NT)	€TT/100 units	€TT/400 units of NT
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

TTS also applies to mixed fleets, i.e. fleets comprising of EU/EEA and non-EU/EEA flag ships, making Cyprus an EU approved Open Registry.

Highlights of the TTS Main Provisions

Beneficiaries

The TTS is available to

- Ship owners
- Charterers
- Ship managers

who respectively own, charter or manage a **qualifying ship** engaged in a **qualifying shipping activity**.

Qualifying ship

A qualifying ship is any seagoing vessel certified under applicable international or national rules and regulations and registered in the ship register of any member of the International Maritime Organisation / International Labour Organisation which is recognized in Cyprus. Certain ships are specifically excluded from this definition, as follows:

- fishing and fish factory vessels
- vessels used primarily for sports or recreation
- vessels constructed exclusively for inland waterway navigation
- harbour, estuary and river ferries and tug boats
- fixed offshore installations which are not used for maritime transport
- non self-propelled floating cranes
- non ocean going tug boats
- 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)

Qualifying shipping activity

Any activity that constitutes **maritime transport**, or crew and/or technical management of a qualifying ship is a qualifying shipping activity.

Maritime transport

Maritime transport means the carriage of goods or passengers by sea between ports and/or offshore facilities and also includes ancillary services such as hotel, catering, entertainment and retailing activities on board a qualifying vessel, the loading and unloading of cargo, the operation of ticketing facilities and passenger terminals. Towing, dredging and cable laying are also eligible for tonnage tax under certain conditions.

Fleet

A fleet consists of at least 2 vessels belonging directly or indirectly to the same person(s) or companies of the same group. A group means 2 or more companies in a direct or indirect parent/subsidiary relationship or that are directly or indirectly subsidiaries of the same parent company.

Ship owners

Ship owners of Cyprus flag ships automatically fall within TTS whereas Cyprus tax resident ship owners of EU/EEA flag ships and of fleets comprising of EU/EEA and third country flag ships may opt to be taxed under TTS.

Ship owners of third country flag ships must comply with certain requirements to be eligible for TTS. In addition to being a Cyprus tax resident, other criteria apply including the requirement that at least 60% of their fleet in terms of tonnage must be comprised of EU/EEA flag ships (flag-share requirement), or, if the EU/EEA ships are less than 60% of the fleet, the EU/EEA flagged share must not be reduced in the three-year period following the exercise of the option and the commercial and strategic management of the fleet must be carried out from the territory of the EU/EEA.

Any ship opting to be taxed under TTS must remain under TTS for 10 years. Early withdrawal, for reasons other than the sale of the ship, will result in penalties calculated as the difference between the amount paid under TTS and the amount that would have been paid had it been subject to corporation tax in the same period. Furthermore, the ship owner will lose the right to opt for TTS until the 10 year period from the date the option was first exercised has lapsed.



TTS benefits

Tax exemption is given on the following sources of income:

- profits from shipping operations
- profits from the disposal of the ship or interest therein
- profits from the disposal of shares in the shipowning entity
- dividends paid, directly or indirectly, out of the above profits
- bank interest earned on funds used as working capital and/or on income from shipping operations provided these funds are used for the financing and/or operation and/or maintenance of the ship

Charterers

Tax resident charterers of Cyprus or EU/EEA ships, or of a fleet comprising EU/EEA and non-EU/EEA ships, under bareboat, demise, time or voyage charter are eligible to opt for TTS provided the net tonnage of ships under time and/or voyage charters does not exceed, for more than three consecutive years, 75% of the total net tonnage of all ships chartered and owned (i.e. at least 25% of the net tonnage must be owned or bareboat chartered). This increases to 90% if all the ships chartered are EU/EEA ships or their crew and technical management are carried out from EU/EEA territory. Furthermore, at least 60% of the fleet must be comprised of EU/EEA flag ships, or, if the EU/EEA ships are less than 60% of the fleet in terms of tonnage, the EU/EEA flagged share

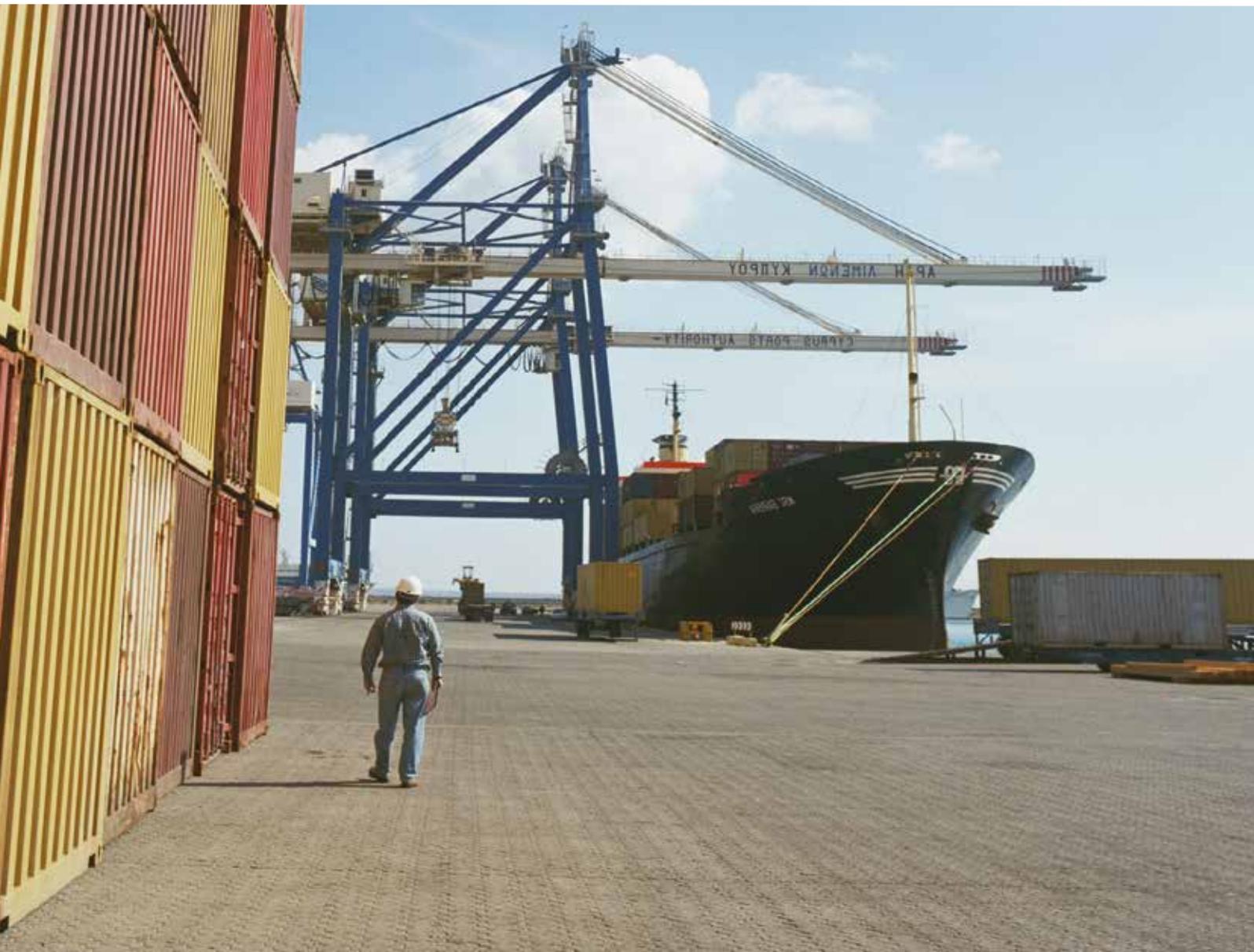
must not be reduced in the three-year period following the exercise of the option.

TTS benefits

Tax exemption is given on the following sources of income:

- profits from shipping operations
- dividends paid, directly or indirectly, out of such profits
- bank interest earned on funds used as working capital and/or on income from shipping operations provided these funds are used for the financing and/or operation and/or maintenance of the ship

The 10 year rule applies also to charterers and the same penalties as with ship owners apply for early withdrawal.



Ship managers

A qualifying ship manager is a Cyprus tax resident legal person providing crew and/or technical ship management services to qualifying ships. In addition, the ship manager must satisfy the following conditions:

- must have a fully fledged office in Cyprus and employ personnel **sufficient in number and qualifications as per the table below:**

	No of Ships	Skilled crew managers	Qualified marine engineers	Min. required number of other Employees
Crewing & Technical	1-10	1	1	3
	>10	1	2	7
Crewing	1-10	1	n/a	4
	>10	2	n/a	8
Technical	1-10	n/a	1	4
	>10	n/a	2	8

- at least 51% of the total number of persons employed onshore by the ship manager are EU/EEA citizens
- the crew and technical management of at least 2/3 of the total tonnage of the fleet is carried out from EU/EEA territory; the income of the ship manager corresponding to the tonnage in excess of 1/3 of the tonnage not entirely managed from EU/EEA territory is taxed under the income tax laws
- at least 60% of the fleet under management is comprised of EU/EEA flag ships, or, if the EU/EEA flag ships are less than 60% of the fleet in terms of tonnage, the EU/EEA flagged share must not be reduced in the three-year period following the exercise of the option
- all ships and crew under management must comply with international standards and EU law requirements relating to maritime security, safety, training and certification of seafarers, the environment, on-board working conditions, etc.
- crew managers must fully implement the provisions of the Maritime Labour Convention 2006
- Ship managers performing technical management services must be certified under the ISM Code

TTS benefits

Tax exemption is given on the following:

- profits from the provision of crew and/or technical ship management services
- dividends paid, directly or indirectly, out of such profits
- bank interest earned on funds used as working capital and/or on income from shipping operations provided these funds are used for the financing and/or operation and/or maintenance of the ship

The 10 year rule applies also to ship managers and the same penalties as with ship owners apply for early withdrawal.

Tax exemption for crew

TTS benefits

The salary or other benefits from the employment of the master, the officers and other crew members of a qualifying Cyprus flag ship (incl. ships under "parallel in" registration) are not subject to tax in Cyprus.

General provisions

- 'All or Nothing' option: all qualifying ships and all qualifying companies belonging to a group must enter TTS
- Option for TTS must be exercised by 30 November and entry will be effective from 1st of January of the following year
- Non shipping income and shipping income not eligible for TTS are subject to tax under the Income Tax Laws/Special Contribution to the Defence Tax Law, as appropriate
- Qualifying owners, charterers and ship managers should maintain books and records such that it will be possible to determine the income subject to TTS and any other income separately and prepare separate accounts.



Ship Registration

Ownership requirements

- More than half of the shares of the ship must be owned by EU/EEA citizens who, if not permanent residents of Cyprus, will have to appoint an authorised representative in Cyprus, or
 - The total of the shares of the ship must be owned by corporations registered in the EU/EEA and have their registered office, central administration or principal place of business within the EU/EEA, or by corporations registered outside the EU/EEA but controlled by EU citizens. In both the latter cases they must have either appointed an authorised representative in Cyprus or the management of the ship must be entrusted in full to an or EU/EEA shipmanagement company.
- At the time of its registration, the ship must be surveyed by an approved classification society.

Types of registration

There are three types of registration, namely provisional, permanent and parallel (parallel in, parallel out) registration.

Registration fees

For vessels other than passenger ships:

Gross Tonnage (GT)	€/GT
0 - 5.000	0,170860
5.001 - 10.000	0,136688
> 10.001	0,068344
The minimum fee is €213,58 and the maximum fee is €5.125,80	

For passenger ships:

Gross Tonnage (GT)	€/GT
For each gross unit	0,256290
The minimum fee is €427,15	

Government policy for the registration of ships

Except as noted below, vessels of any size and type may be registered in the Cyprus Register of Ships or the Special Book of Parallel Registration as long as they comply with the provisions contained in the merchant shipping legislation and the circulars of the Department of Merchant Shipping (DMS) and satisfy certain conditions according to their age and type.

Vessels of any age constructed exclusively for inland waterway navigation and vessels which are banned by any Memorandum of Understanding on port state control or a port state on grounds of safety, pollution prevention or for security reasons are not accepted for registration in the Cyprus Register of Ships.

Furthermore, vessels detained by port state control authorities 3 times or more within the last 2 years prior to the date of application for registration at ports of the Paris MOU, Tokyo MOU or the US Coastguard, on grounds of safety, pollution prevention or for security reasons are not accepted for registration in the Cyprus Register of Ships.

Approved classification societies

The vessel must be classed with one of the classification societies that the Cypriot Government recognises (ABS, LRS, DNV, BV, GL, RINA, NKK, KRS, CCS, RS, PRS).

Recognised Radio Traffic Accounting Authorities

The vessel must be covered by one of the radio traffic accounting authorities which the Cyprus Government recognises.

Crew nationality

Crew members may be of any nationality provided they are holders of certificates of competency issued by one of the countries whose certificates of competency Cyprus has recognised.



International conventions adopted

SOLAS, MARPOL, LL, CLC, INMARSAT, STCW, COLREG, TONNAGE, FUND, LDC, CSC, SUA, STP, SAR, HNS, BUNKERS, LLMC, FAL, AFS, ILO

Specific requirements

Language of submitted documentation

Most of the documents are admissible in the English language.

Ownership

The application for registration must be accompanied by documents attesting ownership and compliance with the various conditions which need to be fulfilled at the time of the provisional registration, the direct permanent registration or the parallel-in registration, as the case may be.

Entry / occasional annual inspection

An entry / occasional inspection is carried out by the surveyors of the DMS at the expense of the shipowner/ bareboat charterer.

An entry inspection should be carried out within 3 months from the date of provisional or parallel-in registration, or within 1 month from the date of permanent registration if effected directly.

The ISM Code

The International Safety Management Code (ISM Code) is mandatory for passenger vessels and self-propelled cargo vessels, irrespective of type, of 500 gross tonnage and upwards.

The management companies must hold a valid interim or full term Document of Compliance (DoC) issued by or on behalf of the Republic of Cyprus and each passenger vessel and cargo vessel of 500 gross tons and upwards, should be provided with an Interim Safety Management Certificate (SMC).



Document of Safe Manning

Every Cyprus ship should be in possession of a valid document of safe manning issued by the DMS specifying the number and composition of her complement.

Provisional & permanent registration

Provisional registration

Cyprus merchant shipping legislation allows for the provisional registration of a vessel and most owners usually opt to have their ship provisionally registered first, especially where the vessel was not previously a Cyprus ship. This allows sufficient time (up to 9 months) to complete the administrative formalities for permanent registration.

Permanent registration

The permanent registration of a provisionally registered vessel must be effected within this 9 month window. It is not necessary for the vessel to be present in a Cyprus port during this process.

A ship may be provisionally registered under the Cyprus flag either in Limassol, by the Registrar of Cyprus Ships or at any diplomatic mission or consular post of the Republic of Cyprus abroad who will act on instructions issued by the Registrar of Cyprus Ships.

Once the required documents are submitted and the administrative process is completed the Registrar of Cyprus Ships will issue the 'Certificate

of Cyprus Registry' and the vessel will be permanently registered under the Cyprus flag.

Parallel registration

Cyprus merchant shipping legislation also allows for the parallel or bareboat registration of vessels. The legislation provides for both forms of internationally accepted bareboat registration: 'Parallel-in' registration and 'Parallel-out' registration, thus offering some very interesting opportunities for leaseback, hire purchase and financing arrangements. The parallel registration of vessels under the Cyprus regime may be effected with more than 20 states whose legislation is compatible with Cyprus legislation.

'Parallel-in' registration allows a foreign flag vessel on bareboat charter to a Cyprus shipping company to be registered in 'parallel' under the Cyprus flag for a period, usually 2 years, which is then renewable.

Under this type of registration, the deletion of the registration in the foreign register is not required, but the foreign nationality is suspended and the foreign registry is operative only with respect to the ownership and encumbrances status of the ship.

The law of the country of the foreign registry must allow the parallel registration of the ships registered in its register.

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Mortgages are created only by the shipowner and in accordance with the law of the country of the foreign registry in which they shall be recorded. The constitution of such mortgages and other encumbrances is only notified to the Registrar of Cyprus Ships.

'Parallel-out' registration allows a Cyprus ship to be bareboat chartered to a foreign person/company and registered in the respective foreign register for the duration of the charter. This allows for the financing and mortgaging of the ship under Cyprus flag and then the registration in a foreign registry through a bareboat charter arrangement. The parallel-out registration of the vessel is for a period not greater than 3 years which is renewable.

The parallel-out registration of a Cyprus ship is possible if she is bareboat chartered to a foreign individual or corporation and the law of the country of the foreign registry allows the parallel registration of vessels of another registry, under prerequisite conditions similar to those set out for the parallel-in registration of ships in the Register of Cyprus Ships.

Transfers of ownership and any transactions affecting mortgages (i.e. creation, registration, transfer and discharge) on Cyprus ships registered parallel-out, are exclusively governed by Cyprus legislation and no action in relation to these matters may be taken by the foreign registry.

Entries made in the Register of Cyprus Ships regarding transfers of ownership or mortgages on Cyprus ships registered parallel-out, are only notified by the Registrar of Cyprus Ships to the foreign registry.

Mortgages

Once a ship has been registered under the Cyprus flag, a mortgage can be created thereby securing a loan or other financial obligations on conditions agreed to by the parties. The creation of a mortgage under Cyprus laws is not allowed on vessels registered parallel-in in the Register of Cyprus Ships.

A mortgage once created must be deposited with the Registrar of Cyprus Ships or with a consular officer on the instructions of the Registrar. The mortgage is recorded thereafter in the Register as from the date and time of its deposit and remains an encumbrance on the vessel until discharged by the mortgagees. A mortgage may be created independently of whether the ship is provisionally or permanently registered.

If the ship on which a mortgage was created belongs to a Cypriot company, the mortgage will also have to be registered with the Registrar of Companies within a maximum period of 42 days after its creation. The mortgagee's security is protected in the case of liquidation of the shipowning company. Transfer of a mortgage may be effected by completing the statutory form of transfer and submitting it to the Registrar of Cyprus Ships or to a consular officer.

In order to discharge a mortgage, a memorandum of discharge will need to be duly executed by the mortgagee. It will then have to be attested and delivered to the Registrar of Cyprus Ships or a consular officer on the instructions of the Registrar.



Summary Of Advantages

Being registered in the Register of Cyprus Ships offers considerable advantages which can be summarised as follows:

- EU flag
- Favourable TTS based on ship net tonnage
- Taxation advantages (see tax exemptions under TTS benefits)
- Classification of Cyprus flag in the White List of the Paris and Tokyo MOUs and removal from the "List of Targeted Flag States" of the US Coast Guard resulting in fewer inspections of the ships and less delays at the ports of both MOUs
- Low registration costs
- Fast / efficient registration process
- No stamp duty on ship mortgage deeds or other security documents
- Full protection for financiers and mortgagees
- Maritime offices in New York, London,

Rotterdam, Piraeus, Brussels and Hamburg offering services to Cyprus ships

- A network of local inspectors of Cyprus ships, covering important ports worldwide in order to ensure efficient and effective control of Cypriot vessels and to avoid detentions by port state control
- Efficient quality provision of services by the Department of Merchant Shipping.

Furthermore, Cyprus:

- is signatory to all international maritime conventions on safety and pollution prevention
- has bilateral agreements with 23 countries, through which Cypriot ships receive either national or favoured nation treatment in the ports of other countries. Those agreements with labour supplying countries provide for specific terms of employment which are beneficial to both the shipowners

and the seafarers

- has double tax treaties with 45 countries (and a further 12 under negotiation)
- has no exchange controls and has freedom of movement of foreign currency
- has low set up and operating costs for companies.



Regulatory Authority and Shipping Associations

The Department of Merchant Shipping (DMS) was established in 1977 and functions as a distinct body within the Ministry of Communications and Works. The DMS activities include:

- registration of ships
- administration and enforcement of the merchant shipping legislation
- control of ships and enforcement of international conventions
- investigation of marine casualties
- resolving labour disputes on-board Cyprus ships
- training and certification of seafarers
- continuous updating of the merchant shipping legislation and harmonisation with the European Union legislation
- taxation of ship owning and ship management companies
- promotion and further development of Cyprus as a maritime centre and an international registry
- international relations, participation in international organisations, bilateral agreements and cooperation with maritime authorities of other countries.

The DMS website (www.shipping.gov.cy) contains further information in relation to the aforementioned activities.

The Shipping industry in Cyprus is

represented by two major Associations:

- The Cyprus Shipping Chamber (www.csc-cy.org) aiming to promote the interests of Cyprus Shipping and furthering the reputation of the Cyprus Flag and
- The Cyprus Union of Shipowners (www.cus.com.cy) which constitutes the representative organization of the international shipping community with vessels under the Cyprus Flag.



How we can Help

KPMG in Cyprus has a team of professionals dedicated to providing services to the shipping industry. Our Shipping specialists have extensive knowledge, understanding and experience of maritime issues and provide a wide range of services to ensure our clients reach their full potential.

KPMG in Cyprus provides shipping clients with the following services:

- Registration of shipping companies (ship owning, charterers or ship management) as well as other ancillary companies (holding/financing companies)
- Ship registrations, deletions, transfers and mortgages
- Maintenance and full compliance services of Cyprus registered companies
- Audit and assurance related services
- SAS 70 (ISAE3402 wef 14/06/2011) service reports on ship managers for communicating information to ship owners on the former's internal controls
- Tax planning, structuring and restructuring
- Provident fund services (for ship management companies)
- Human resource advisory services
- Advisory services (corporate finance, valuations, mergers & acquisitions, restructurings).



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