



**MARITIME
CYPRUS**



Guide to
Cyprus Tonnage
Tax System



GUIDE TO CYPRUS TONNAGE TAX SYSTEM

Limassol, 2018



**SHIPPING DEPUTY MINISTRY
TO THE PRESIDENT
REPUBLIC OF CYPRUS**





Why Cyprus

A maritime nation committed to a safe, secure and sustainable maritime industry

35° Navigating 33° Excellence

- A leading maritime cluster encompassing the full range of shipping and shipping related activities.
- The largest ship management centre in Europe and among the top 5 in the world.
- Business friendly common law jurisdiction.
- Comprehensive and favourable Tonnage Tax System, approved by the European Union, applicable to Ship Owners, Charterers and Ship Managers.
- More than 60 Double Tax Avoidance Treaties.
- Strategic location with easy access to markets.
- Ideal time zone for running international operations.
- Highly skilled and multilingual shipping workforce.
- Value for money professional services of excellent quality.
- Top quality public services to the shipping industry 24/7.
- Strong involvement in international shipping fora (IMO, ILO) and EU. Member of the IMO Council since 1987.
- Constant supporter of the IMO's endeavours for enhancing maritime safety, environmental protection, maritime security and facilitation of maritime traffic.

Index

- 7 | **1. Introduction**
- 8 | **2. Beneficiaries and Eligibility Requirements**
 - 2.1. Owners of Cyprus Ships
 - 2.2. Owners of Foreign Ships
 - 2.3. Charterers
 - 2.4. Ship Managers
- 10 | **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 - Percentage 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
- 16 | **4. Admission to the Tonnage Tax System**
 - 4.1. Exercise of Option
 - 4.2. "All or Nothing" Option
- 18 | **5. Exemption from Income Tax**
- 20 | **6. General Provisions**
 - 6.1. Declaration for Taxation
 - 6.2. Reduction of Tonnage Tax
 - 6.3. Tonnage tax premium on non-Community ships listed by the Paris MOU
 - 6.4. Arm's Length Principles
 - 6.5. Separate accounting
- 24 | **7. Electronic Tonnage Tax System – "eTTS"**
- 26 | **8. Owners of Cyprus Ships**
 - 8.1. Terms of Payment
 - 8.2. Tonnage Tax payable on Provisional Registration
 - 8.3. Tonnage Tax payable on Permanent Registration
 - 8.4. Tonnage Tax payable on Parallel Registration
 - 8.5. Cyprus Registry Maintenance Annual Fee
- 28 | **9. Appendices**

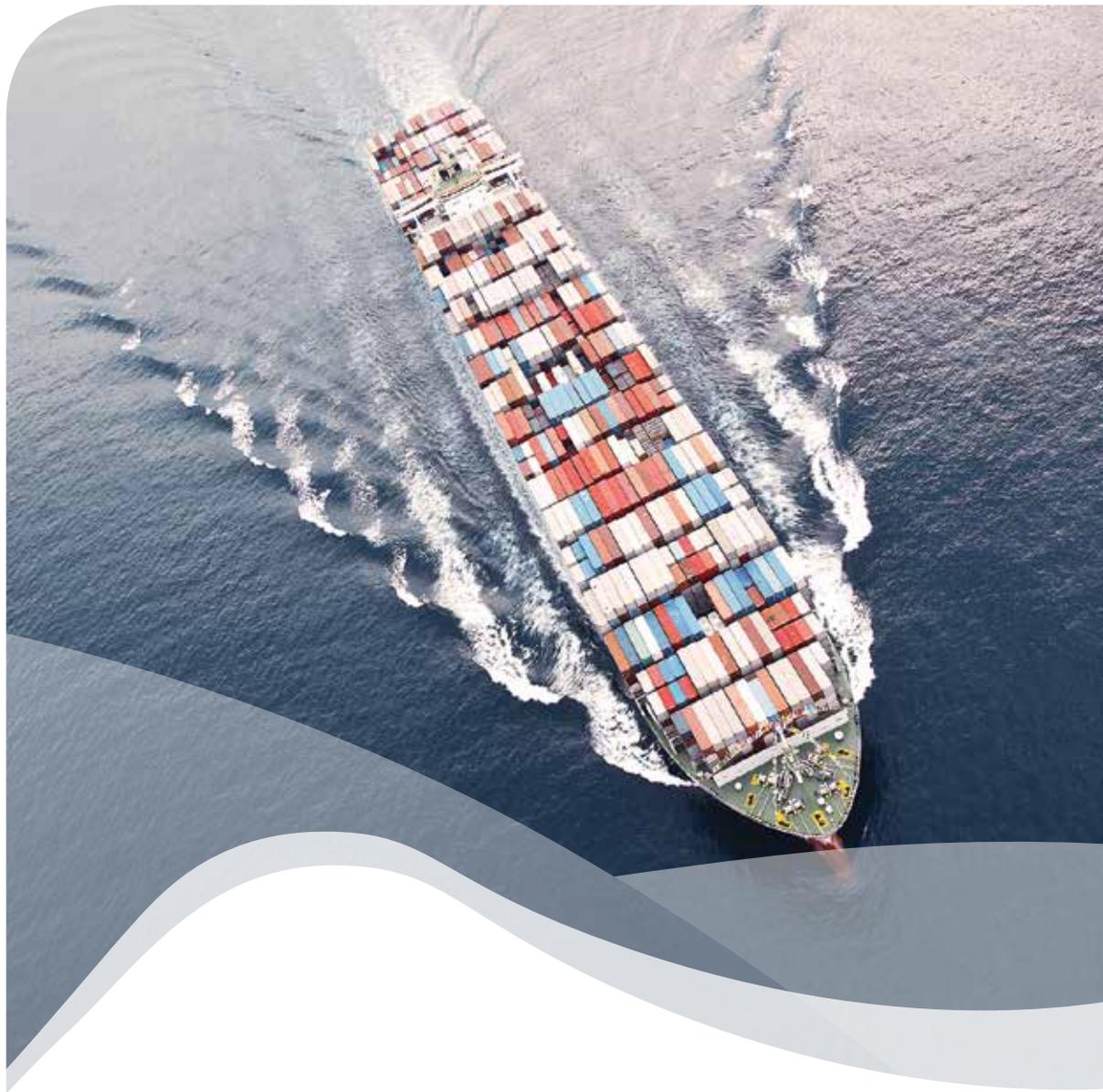


1. Introduction

The Tonnage Tax System (TTS) for Cyprus merchant shipping was approved by the European Commission on 24th March 2010, **as compatible with the requirements of the EU acquis**, in accordance with the relevant guidelines on State Aid to Maritime Transport.

The TTS is applicable as from the fiscal year 2010 and governed by *the Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (Law 44(I)/2010)*. Full text of relevant Law (44(I)/2010) in an English unofficial translation and all the subsidiary legislation (Notifications) issued thereunder as well as all the relevant Circulars are available on our website **www.shipping.gov.cy**.

Qualifying owners of Cyprus and foreign ships, charterers and ship managers who opted and are accepted 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 prescribed in Appendix 1.



2. Beneficiaries and Eligibility Requirements

The TTS is available to any **owner, charterer or ship manager** who owns, charters or manages **a qualifying ship 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 8.

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.

Furthermore, the owner 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.

Furthermore the charterer must comply with the following requirements:

- Minimal Share of the Fleet in Ownership - Percentage 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 management) to qualifying ships and meets at any time the following requirements:

- Maintains a fully fledged office in Cyprus;
- Employs a sufficient in number and qualifications personnel;
- At least 51% of the total number of its personnel 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 and MS TT 6*);
- 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*).



3. Analysis of Requirements

3.1. General Requirements (applicable to all Beneficiaries)

3.1.1. Qualifying ship

Qualifying ship is any seagoing ship 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;
- Vessels used primarily for sport or recreation;
- Inland waterway navigation vessels;
- Harbour, estuary and river ferries and tug boats;

- Fixed offshore installations (not used for maritime transport);
- Non self-propelled floating cranes;
- Non-ocean going tug boats;
- Floating hotels, restaurants, casinos.

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 ships and comply with the following requirements:

- a) are classed with 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 traditional 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:

- Cable-laying activities;
- 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);
- 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 TT 4).

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

The definition of maritime transport includes also **ancillary activities** to maritime transport such as all hotel, catering, entertainment and retailing activities on board a qualifying ship, as well as the loading and unloading of cargo, the operation of ticketing facilities and passenger terminals.

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 oils.

The qualifying ships under management do not necessarily have to be engaged in maritime transport.

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

3.2. Specific Requirements

3.2.1. "Community-Flagged Share" Requirement (Applies to Owners of Foreign Ships, Charterers and Ship Managers)

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% per cent 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" for 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 7).

For the purposes of calculating the above mentioned share in a given fiscal year, only the net tonnage of the ships owned/chartered/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 to the President of the Republic of Cyprus (Deputy Ministry) shall carry out an assessment upon expiry of the third year (on the 31st December) as from the aforementioned date of opting to be taxed under the TTS and thereafter a further assessment every three years during 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 ten per cent (10%) on the total amount of tonnage tax payable for all the 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 and a practical example on the method of calculation of the "Community-Flagged Share" and "Global Share" 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 case 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.

In case the percentage of net tonnage chartered-in is 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.

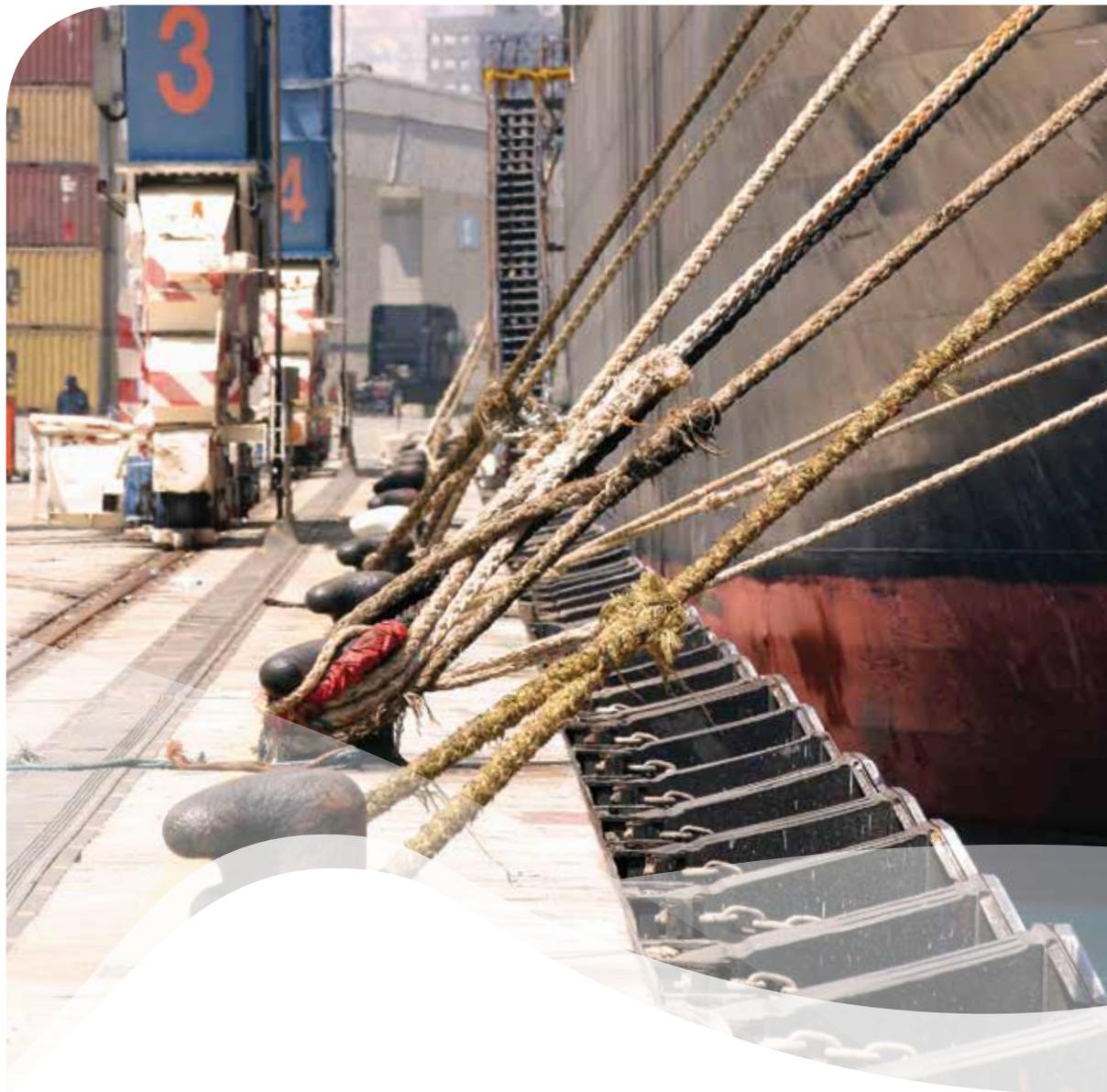
For the purpose of calculating the above mentioned share in a given fiscal year, only the net tonnage of the qualifying ships managed as at 31st December of that year will be taken into account. The Economic link of managed ships with the Community - The “2/3 Rule” is calculated automatically by the 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 calculation of the economic link of managed ships with the Community is contained in Schedule II of the relevant Declaration for the Taxation of Ship Management Services (Form MS TT 2C).

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	N/A	4
	Over 10	10	2	N/A	8
Technical	1-10	5	N/A	1	4
	Over 10	10	N/A	2	8



4. Admission to the Tonnage Tax System

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 due to their registration under the Cyprus flag unless the **qualifying ships** are sold, lost or broken up.

In case of re-flagging of the Cyprus qualifying ship to a foreign flag and the owner is still a tax resident of Cyprus, then this owner is considered as an owner of a foreign ship and continues to remain in the TTS until the expiration of the 10 years period (no corporate tax option).

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 with tonnage tax.

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) 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 will 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 ten 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 Law of 2002 as amended (Law 118(I)/2002 as amended)* 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 express first 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 7) 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 the 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) together with other supporting documents listed in the Form MS TT 1.

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.



- 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 a 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.

5. Exemption from Income Tax

Notwithstanding the provisions of the Income Tax Laws (*Law 118 (I) of 2002 as amended*) 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);



6. General provisions

6.1. Declaration for Taxation

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

The Declaration of the object of the tax 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 addition, Tables A, B and C of the Declaration must 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.

The date of submission of the tax Declaration shall be the date on which the hard copy is received by the Deputy Ministry. 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 be signed by a duly authorised director of the qualifying ship manager and must always be certified by an independent accountant.

The Permanent Secretary examines the Declaration and:

- (a) either accepts the object of the tax mentioned in the Declaration and imposes the tax accordingly, or
- (b) does not accept the object of the tax, whenever he is of the opinion that the object of the tax of any person is reduced either by transactions which in the reasoned opinion of the Permanent Secretary are artificial or fictitious, or by omissions. In such case, the Permanent Secretary may demand from the person, the submission of additional supporting documents within a timeframe of thirty (30) days. The Permanent Secretary, if not satisfied, may disregard any such transaction or omission 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 to the person, 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 case where the person has paid an amount less than what had been imposed as a result of subparagraph b) described above, then the person is obliged to pay the difference within sixty (60) days from the date the notice for the imposition of the tax was served.

If the Declaration is not submitted or if the tax is not paid within the time limits prescribed above, 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)*.

Every person who disputes the imposed tax, may apply, by notice of objection in writing, to the Permanent Secretary for the review and revision of same. 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*.

6.2. 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 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 her judicial arrest, or by act of piracy, or armed robbery, or by force majeure, then the tonnage tax payable is reduced by 75% for the period during which the vessel is inoperative.

6.3. 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.

6.4. Arm's Length Principles

Law 44(I)/2010 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*.

6.5. 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 such books and records so that it will be possible to determine the income subject to the TTS and the other income separately and prepare separate accounts.

Separate accounts must also be prepared for all ships which are 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 managers);
- 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.



7. The Electronic Tonnage Tax System (eTTS)

An Electronic Tonnage Tax System (*eTTS*) has been prepared for the electronic submission of the tables containing information about the ships owned/ chartered/ managed, which accompany the Application to enter the TTS and the Tax Declaration for every fiscal year electronically.

The *eTTS* can be accessed through the Deputy Ministry's website at www.shipping.gov.cy.

Qualifying owners of foreign ships, qualifying charterers, and qualifying ship managers must use their access code and password provided to them when exercising their option for admission to the TTS (see Chapter 4) every time they want to access the *eTTS*.

The *eTTS* enables the user to complete electronically the 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 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 year for future use. This means that the user has to enter only the changes from one fiscal year to the next fiscal year when preparing the company's Declaration form.



8. Owners of Cyprus Ships

8.1. Terms of Payment

The tonnage tax is payable on 31st 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 leivable amount of tonnage tax for every year of the delay or part thereof, until the final discharge of the chargeable and leivable 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 for, the amount paid in excess shall not be reimbursed to the owner.

8.2. 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.

8.3. Tonnage Tax payable on Permanent Registration

In case of a direct permanent registration of the ship, there shall be charged, levied and collected the tonnage tax corresponding to the non-expired part of the year, during which the permanent registration of the ship takes place.

8.4. 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.

8.5. Cyprus Registry Maintenance Annual Fee

An annual fee of €300,00 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 31st March of each year.

The annual fee is not 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*.



9. 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:

1.000 NT	: 1.000/100 =	10 x € 36,50 =	€ 365,00
9.000 NT	: 9.000/100 =	90 x € 31,03 =	€ 2.792,70
9.500 NT	: 9.500/100 =	95 x € 20,08 =	€ 1.907,60
38 NT	: 38/100 =	0,38 x € 20,08 =	€ 7,63

Annual tonnage tax due = € 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 400 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:

1.000 NT	: 1.000/400 =	2.5 x € 36,50 =	€ 91,25
9.000 NT	: 9.000/400 =	22.5 x € 31,03 =	€ 698,17
9.500 NT	: 9.500/400 =	23.75 x € 20,08 =	€ 476,90
38 NT	: 38/400 =	0.095 x € 20,08 =	€ 1,90

Annual tonnage tax due = € 1.268,22

Appendix 2

CYPRUS TONNAGE TAX SYSTEM INDEX OF FORMS

NUMBER OF FORM	NAME OF FORM
MS TT 1	Application for Approval of the Option to be Taxed under the Cyprus Tonnage Tax System
MS TT 2 A	Declaration for the Taxation of Owners of Foreign Ships
MS TT 2 B	Declaration for the Taxation of Charterers
MS TT 2 C	Declaration for the Taxation of Ship Management Services
MS TT 3 (EN)	Statement Relating to Qualifying Towage Activities for Tonnage Tax (Schedule I, P.I. 353/2010)
MS TT 4 (EN)	Statement Relating to Qualifying Dredging Activities for Tonnage Tax (Schedule II, P.I. 353/2010)
MS TT 5 (EN)	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 (EN)	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	Statement Regarding the ISM Certification of Ship Managers Providing Technical Ship Management Services (Document Of Compliance)
MS TT 8	Declaration of Owner of a Cyprus Ship
MS TT 8 A	Declaration of Owner of a Cyprus Ship (Physical/ Natural Person)
MS TT 8 B	Declaration of Auditors / Legal Representative of an Owner of Foreign Ships Admitted to the Tonnage Tax System
MS TT 8 C	Declaration of Auditors / Legal Representative of a Charterer Admitted to the Tonnage Tax System
MS TT 8 D	Declaration of Auditors of a Ship Manager Admitted to the Tonnage Tax System

All forms can be found on our website at www.shipping.gov.cy.



SHIPPING DEPUTY MINISTRY TO THE PRESIDENT Republic Of Cyprus

P.O.BOX 56193, 3305 Limassol, Cyprus
Tel.: +357 25848100 | Fax: +357 25848200
Email: maritimeadmin@dms.gov.cy
Website: www.shipping.gov.cy

OVERSEAS MARITIME OFFICES

GREECE

Maritime Office,
Embassy of the Republic of Cyprus in
Greece
96 Iroon Polytechniou Ave., 6th Floor,
GR 185-36 Piraeus, GREECE
Tel.: + 30 210 4536371/2
Fax: + 30 210 4536373
e-mail: dmspiraeus@dms.gov.cy

UNITED KINGDOM

Maritime Office,
Cyprus High Commission
13 St. James's Square,
London, SW1Y 4LB, UNITED KINGDOM
Tel.: + 44 207 321 4100/150/151/154
Fax: + 44 207 321 4171
e-mail: dmslondon@dms.gov.cy

GERMANY

Consulate General of the Republic of
Cyprus
Rothenbaumchaussee 3, 2nd Floor,
D - 20148 Hamburg, GERMANY
Tel.: + 49 40 410 7497
Fax: + 49 40 410 7246
e-mail: cyconsulate-hamburg@t-online.de

THE NETHERLANDS

Consulate of the Republic of Cyprus
Weena 248 (Tower C, 11th Floor)
NL - 3012 NJ Rotterdam,
THE NETHERLANDS
Tel.: + 31 10 404 7901
Fax: + 31 10 404 7899
e-mail: dmsrotterdam@dms.gov.cy

BELGIUM

Permanent Representation of the
Republic of Cyprus to the European Union
Avenue de Cortenberg 61
B - 1000 Brussels, BELGIUM
Tel.: + 32 2 739 5111 / 5184
Fax: + 32 2 735 4552
e-mail: mstephanides@dms.gov.cy

UNITED STATES OF AMERICA

Maritime Office,
Consulate General of the Republic of
Cyprus
13 East 40th Street, New York
N.Y. 10016, USA
Tel.: + 1 212 686 6016 (ext. 42)
Fax: + 1 212 447 1988
e-mail: tenusa@aol.com