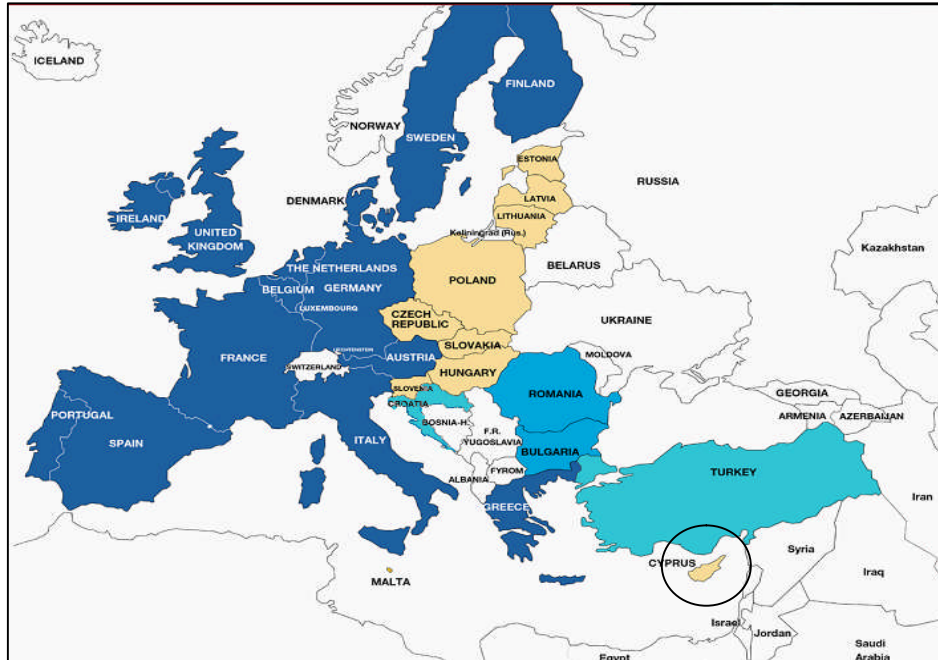


# Maritime Cyprus: Advantages for shipping companies

Cleo Papadopoulou  
Tax partner

PRICEWATERHOUSECOOPERS 

# Cyprus as a maritime centre



- Since 1963
- Implementation of correct policy by all governments
- Double tax treaties & EU accession
- Strategic location
- English legal system
- Competitive ship registration costs and annual tonnage taxes
- Favourable shipping & shipmanagement tax regime

Maritime Cyprus:  
Advantages for shipping companies

# Cyprus today: Fully fledged shipping centre



- 3<sup>rd</sup> largest fleet in EU and 10<sup>th</sup> in the world (1857 vessels with gross tonnage in excess of 21m)
- Largest EU shipmanagement centre and in top 5 internationally
- 20% of the world 3<sup>rd</sup> party shipmanagement market
- Member of the International Maritime Organisation (IMO) since 1978 and of IMO's Council since 1987. Participates in all its Committees, supports and contributes to the development of its new strategy.
- Merchant Shipping agreements with 16 countries in force, 7 signed but not yet in force and 9 initiated and not yet signed.

# The Cyprus Flag – Registration of vessels

## Vessels

- Any type and any size not older than 15 years
- Special rules for older vessels including special inspections

## Registration

- Provisional registration (up to 9 months)
- Permanent registration
- Parallel registration ('in' and 'out')



## Safety and security

- Particular importance and thus stricter registration procedure
- Extensive ship surveys undertaken
- Worldwide network of inspectors
- Attention to environment and marine pollution
- Ratified all major international conventions on maritime safety and security

# Types of vessels

The Merchant Shipping department will register the following vessels:

- ✓ Cargo vessels
- ✓ Passenger vessels
- ✓ Fishing vessels
- ✓ Auxiliary vessels
- ✓ Pleasure crafts
- ✓ Research ships
- ✓ Mobile drilling units
- ✓ Coastal passenger vessels
- ✓ Small passenger vessels



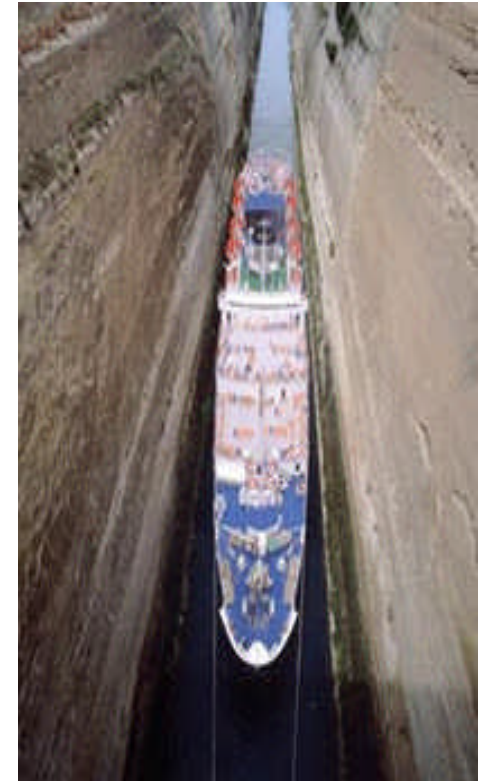
# Maritime administration

- Ministry of Communication and Works
- Department of Merchant Shipping
- Cyprus Shipping Chamber
- Mission: growth and enhancement of fleet
- Legislation: Merchant Shipping Laws



# Merchant Shipping Law

- Applicable until 2020
- Independent of Income Tax Law
- Compatible with EU requirements
- Revised legislation to be enacted in 2009



# Tax benefits of Shipping companies

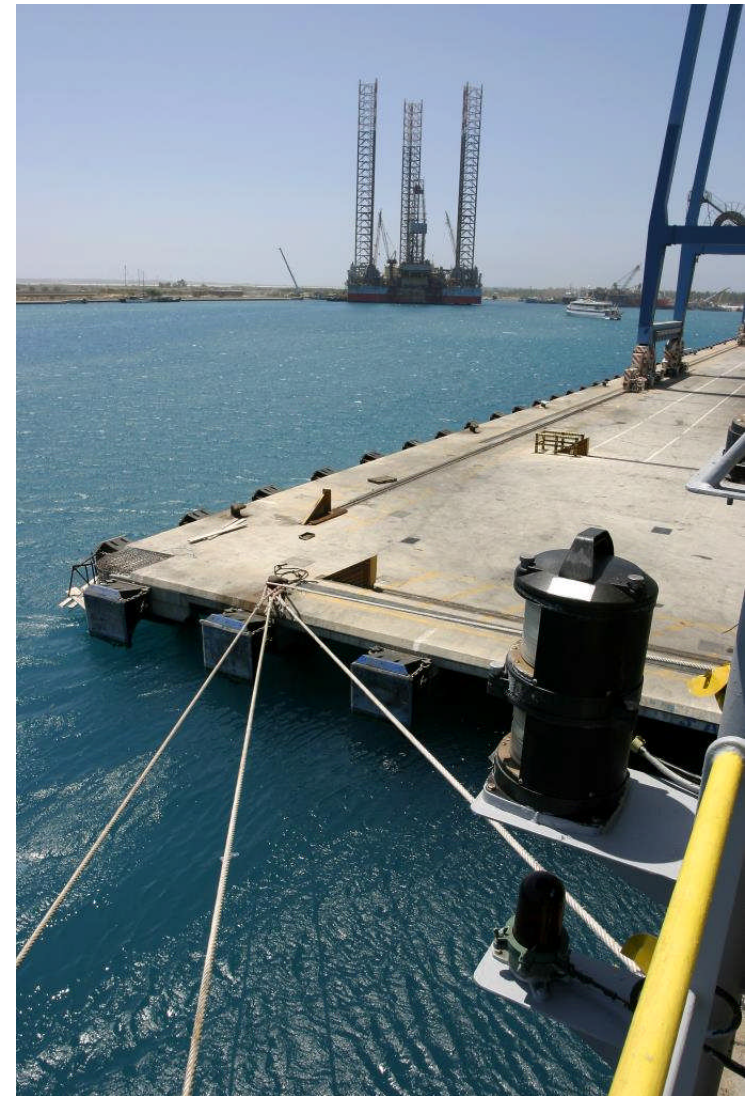


Maritime Cyprus:  
Advantages for shipping companies

# Full tax exemption

The exemption (with no option to tax) apply to the income:

of a **ship-owner**  
of a **Cyprus ship**  
from the use of the ship in any **maritime enterprise** between Cyprus and ports abroad or between ports abroad (with the exception of any fishing enterprise using Cyprus as its base)



# Definitions

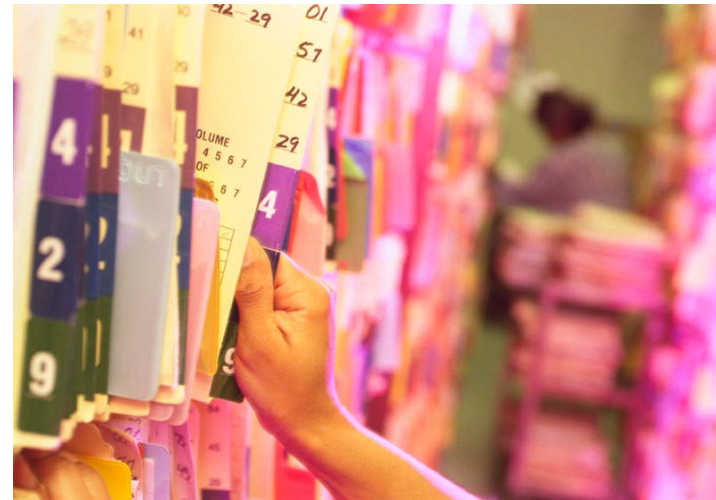
- Ship-owner :
  - ✓ owner of a share in a Cyprus ship
  - ✓ bareboat charterer of a foreign ship under parallel registration in Cyprus
- Cyprus ship:
  - ✓ A ship registered in the Cyprus register of ships under the provisions of the Merchant Shipping Laws
- Maritime enterprise:
  - ✓ Not defined under the current legislation

# Full exemption under Income Tax Law

- ✓ No tax on profits of the ship-owner
- ✓ No tax on dividends from such profits at all levels
- ✓ No capital gains tax on sale or transfer of such vessels or the shares of the ship-owning company
- ✓ No income tax on the emoluments of officers or crew on board such vessels

## Tonnage tax is payable

Other non shipping income subject to normal tax rules



# Tonnage tax

Tonnage tax is calculated as a fixed amount per unit of sea water displaced by the ship. The tax depends on the **tonnage** of the ship and its **age** (not on income generated or profits).

Tonnage Tax of a ship = (Basic Charge + Gross Tonnage Increment) x Age Multiplier

**Basic Charge** = €170,86

**Gross tonnage increment**

For each unit up to 1.600 units

For each unit between 1.601-10.000 units

For each unit between 10.001-50.000 units

For each unit over 50.000 units

**Fees (€)**

0,444236

0,273376

0,102516

0,068344

**Age Multiplier**

Up to 10 years 0,75

11-20 years 1,00

Over 20 years 1,30



❖ **The older the vessel and the higher the tonnage, the higher the tax**

Maritime Cyprus:  
Advantages for shipping companies

# Tonnage tax (continued)

The tonnage tax as calculated above is reduced by 30% under certain conditions, the most important of which is that the ship's manning and maintenance is granted to a Cypriot or EU ship management company with a fully fledged office in Cyprus



# Tax benefits of Shipmanagement companies



Maritime Cyprus:  
Advantages for shipping companies

# Ship management operations

## Activities covered by the special regime:

- ✓ Crewing, technical, commercial or full management of ships

## By companies that:

- ✓ have an office in Cyprus
- ✓ provide the ship management services for more than a month
- ✓ are staffed with sufficient staff of sufficient qualifications and
- ✓ provide set documents one-off or annually to the Department of Merchant Shipping to verify the above

# Special tax regime for shipmanagement income

- ✓ CY flag ships - fully exempt, no tonnage tax and no income tax
- ✓ Foreign flag ships - 25% of rates used to calculate tonnage tax of vessel under management (default mode of tax).
- ✓ Option to pay 4,25% income tax on profits, instead of tonnage tax
- ✓ No tax on dividends from such profits at all levels

Other non shipmanagement income subject to normal tax rules.

# Summary

	Corporation Tax	Tonnage Tax
<b>Shipping profits:</b> <b>CY Flag</b> <b>Foreign Flag</b>	<b>exempt</b> <b>10%</b>	<b>yes</b> <b>no</b>
<b>Ship management profits:</b> <b>CY Flag</b> <b>Foreign Flag</b>	<b>exempt</b> <b>exempt with</b> <b>option to tax at</b> <b>4.25%</b>	<b>exempt</b> <b>25% of rates of</b> <b>vessel</b>

# Merchant Shipping Law – proposed changes

## The proposed draft legislation:

- Extends exemption to:
  - EU Flags
  - Foreign flags under conditions
  - Non 'vanilla' vessels
  - Time charterers
- Exempts gains on disposal of vessels (CY and foreign flag), including vessels under construction.
- Tonnage tax calculation on net rather than gross tonnage. Amounts remain negligible.
- Shipmanagement remains unchanged.



# VAT issues relating to shipping and shipmanagement

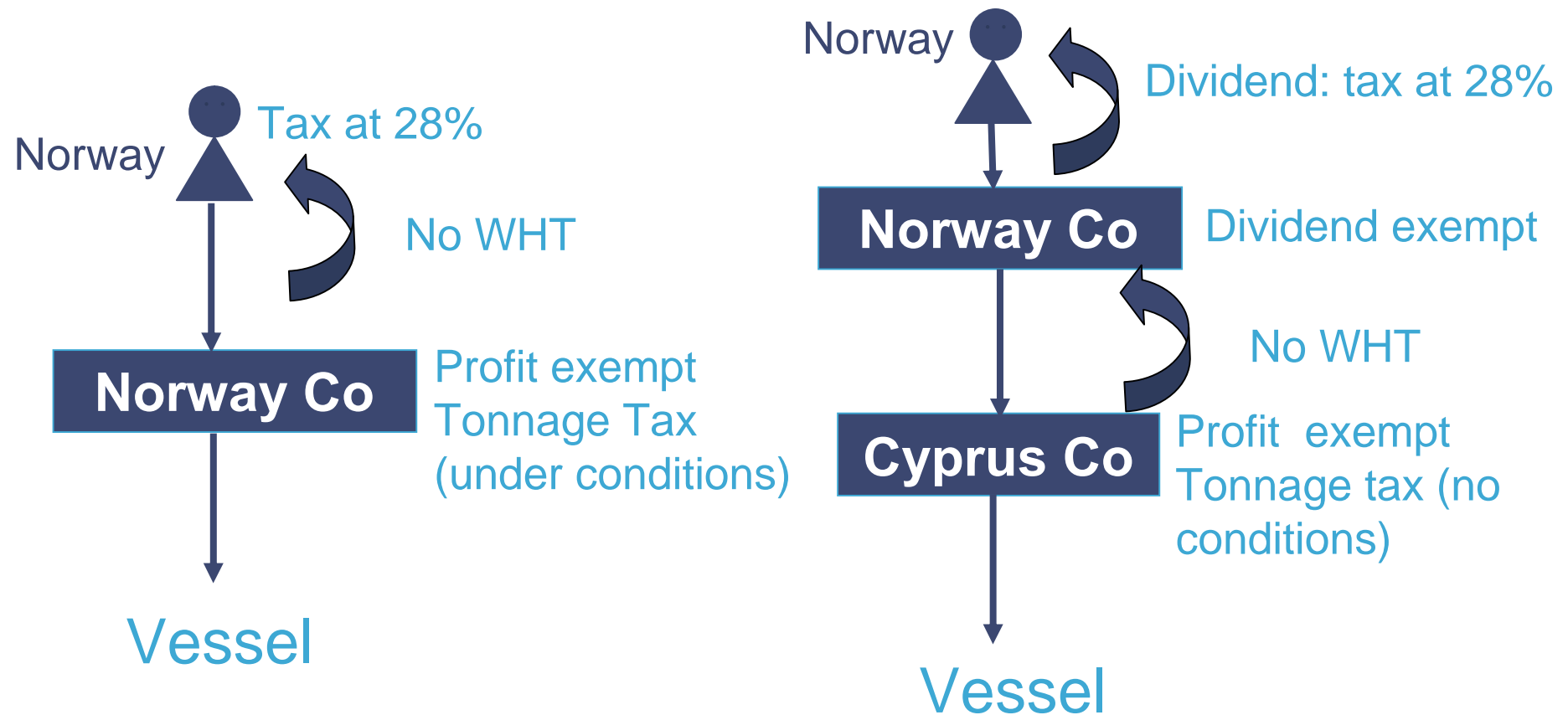
- Chartering income: Outside the scope
  - Oil extraction: Outside the scope
  - Transportation: Outside the scope
- } Voluntary registration
- Shipmanagement: Zero rated      Compulsory registration
- In both cases of registration, no VAT on income with right to reclaim input VAT

# Structuring ideas using Cyprus



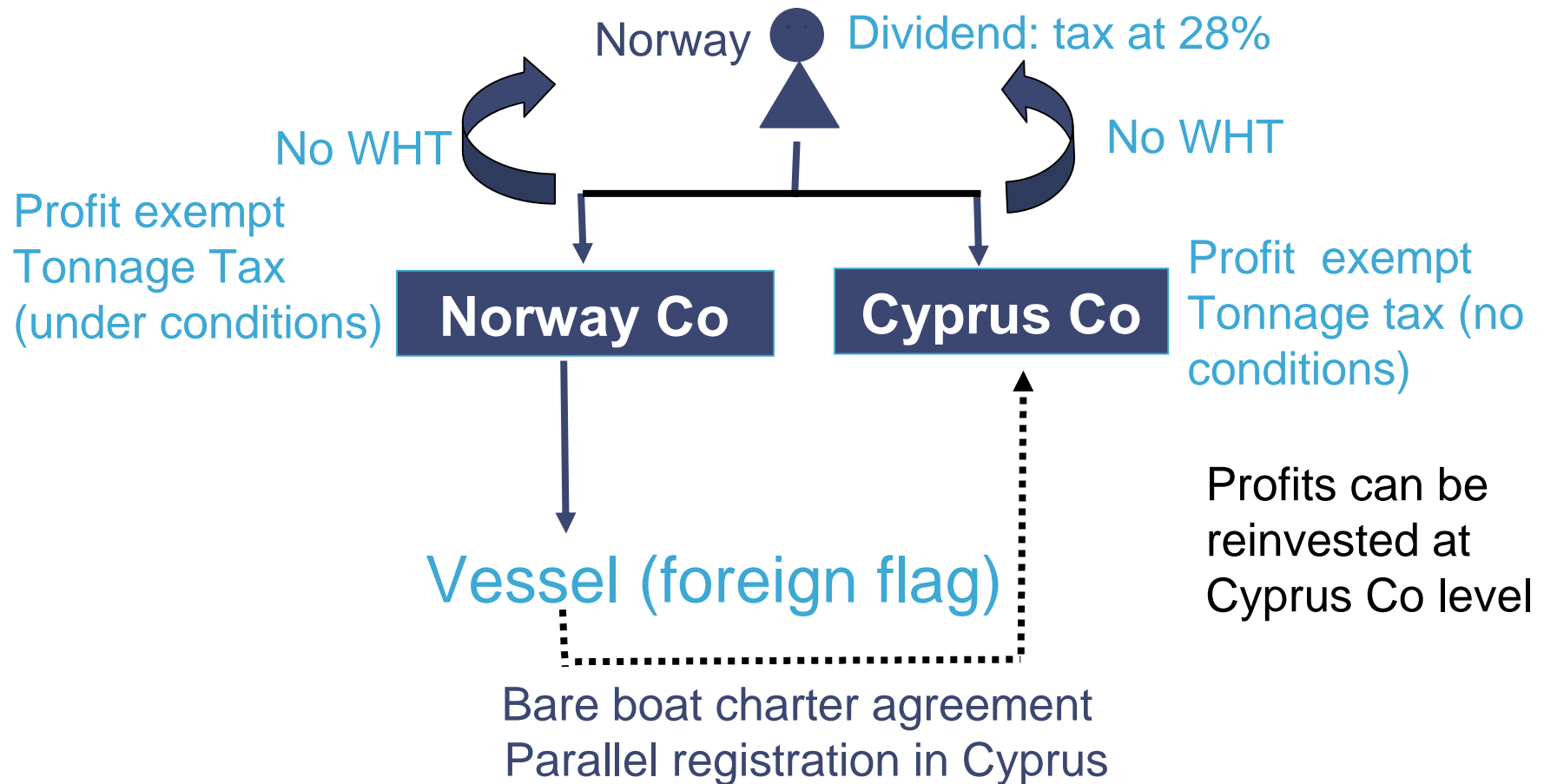
Maritime Cyprus:  
Advantages for shipping companies

# Shipping companies: Comparison with Norwegian tax system



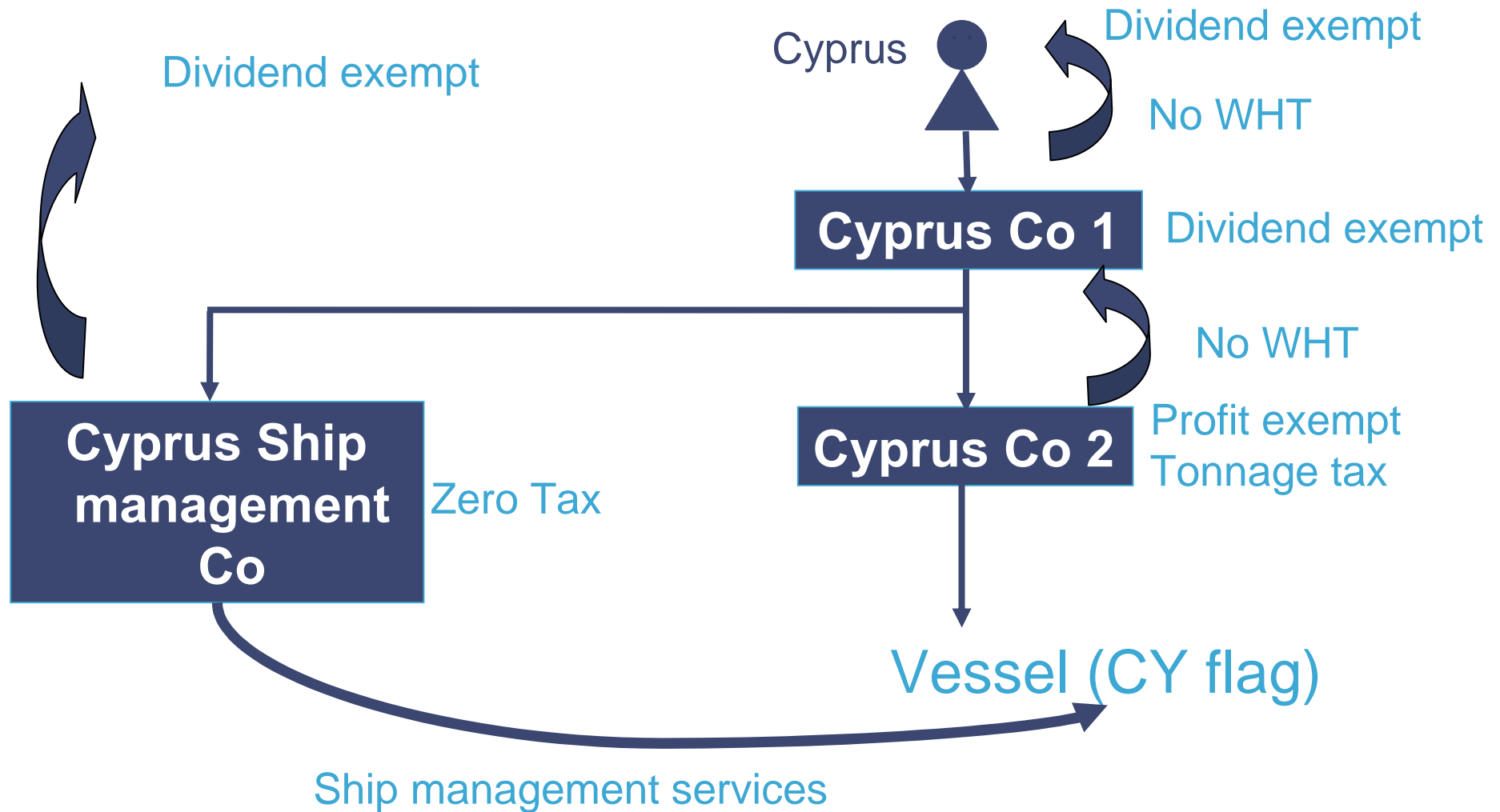
# Shipping companies: Bare boat chartering

For cases where change of ownership/flag of vessel is difficult

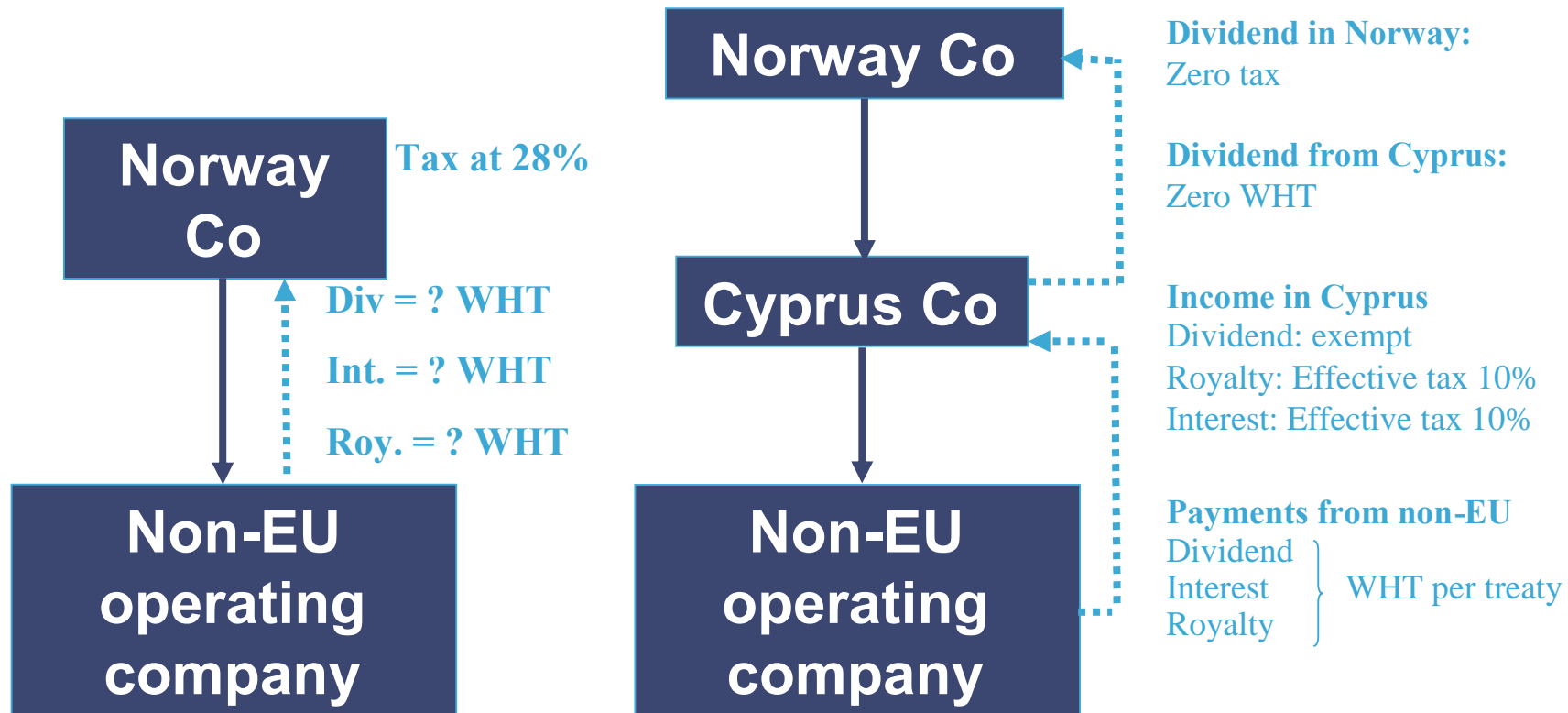


# Shipping / Ship management companies

## Full exemption from tax

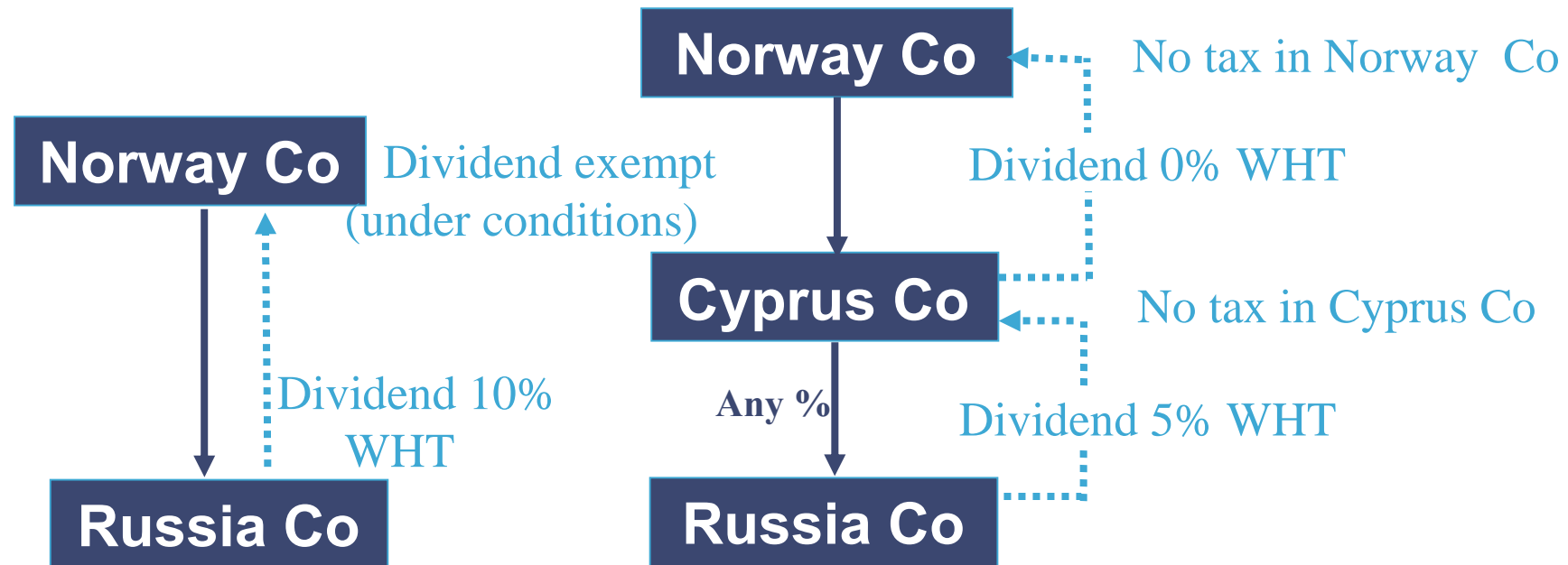


# Outbound investments into non-EU or non-treaty countries



- Conversion of interest/royalties/dividends taxable at 28% in Norway to exempt dividends
- Exempt exit route: Sale of Non-EU Co or Cy Co exempt from tax
- No taxation on dividends received in Cyprus
- Interest & royalties received in Cyprus taxed at a low effective tax rate of 10%
- Profits of the Cyprus company can be reinvested

# Outbound investments into non-EU or non-treaty countries: EXAMPLE (Russia)



- Cyprus reduces WHT from 10% to 5%
- No taxation on dividends received in Cyprus and Norway
- Exempt exit route: Sale of Russia Co or Cy Co tax exempt (without conditions)
- China & India: Savings upon sale of overseas subsidiary (savings for other treaty countries that have conditions)



# Thank you

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