

## Shipping & Transport - Cyprus

### Tonnage tax: maintenance of prescribed levels of EU-flagged vessels

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November 13 2013

The Merchant Shipping (Fees and Taxing Provisions) Law (44(I)/2010) requires that in order to qualify for the tonnage tax scheme, EU-flagged ships (ie, ships lawfully registered in and flying the flag of an EU member state or any other contracting party to the European Economic Area Agreement) must account for at least a specified minimum percentage of the taxpayer's fleet. This so-called 'reference share' is calculated at the date of entry to the tonnage tax scheme.

The law requires the Department of Merchant Shipping to assess the EU-flagged share of each participant in the tonnage tax scheme at the third year as from the date of opting to be taxed under the system. For taxpayers that entered the system in its first year, the relevant date is December 31 2013. If the EU-flagged share at the time of assessment is less than the reference share (unless the former is more than 60%), then no additional non-EU ships can enter the tonnage tax scheme until the EU-flagged share has been brought back to the reference share.

The law and the Tonnage Tax (Special Provisions for the Calculation of the Community Flagged Share) Notification 2010 also allow taxpayers to introduce additional non-EU vessels if the share of EU-flagged ships in the sector as a whole (ie, owners, charterers or managers) has increased compared with the reference date. Taxpayers taking advantage of this provision are subject to a 10% surcharge on the total amount of tonnage tax payable for all the qualifying non-EU ships in the fleet.

According to the calculations carried out by the department, the global share of EU-flagged ships has decreased in relation to owners and ship managers, but has increased for charterers.

Consequently, owners of foreign ships and ship managers whose EU-flagged share at December 31 2013 is below their reference share and is less than 60% may not introduce additional non-EU ships into the tonnage tax scheme until they raise their EU-flagged share to at least the level of their reference share. Any non-EU-flagged ships that are introduced will not be considered as qualifying ships and will be subject to corporate income tax. The taxpayer must maintain separate books, records and accounts for those ships, as provided by Section 44 of the law. Charterers whose EU-flagged share at December 31 2013 is below their reference share and below 60% may introduce additional non-EU ships into the tonnage tax scheme, subject to a surcharge of 10% on the tonnage tax paid on all non-EU ships.

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