

## Shipping & Transport - Cyprus

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### Notifications under the Tonnage Tax Law

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The Department of Merchant Shipping has issued two new notifications under the Tonnage Tax Law (44 (I)/2010).

The Taxation of Owners of Cyprus Ships Notification, published in the *Official Gazette* on April 6 2012, repeals and replaces an earlier notification issued in 2010. The new notification:

- reiterates the requirement for qualifying owners of Cyprus ships to participate in the tonnage tax system and pay relevant tonnage tax unless all of their ships are sold, lost or broken up; and
- stipulates that the tonnage tax and the annual registry maintenance fee in respect of Cyprus ships should be paid annually in advance, by March 31 each year.

In the event of deletion of a ship before March 31, tonnage tax is payable on the date of deletion. The registry maintenance fee is non-refundable in the event of deletion of the ship.

The notification also stipulates the documentation required to support an application for a suspension of liability for tonnage tax under Section 12 of the Tonnage Tax Law on vessels that are inoperable due to judicial arrest, piracy, robbery or *force majeure*.

The Tonnage Tax (Arm's-Length Principles) Notification, also published in the *Official Gazette* on April 6 2012, requires transactions between connected persons to be undertaken on an arm's-length basis where one party is subject to tonnage tax and the other is not. It also requires persons or entities subject to tonnage tax to segregate qualifying shipping activities and non-qualifying activities and apply arm's-length principles to them. The objective of these provisions is to prevent abuse of the tonnage tax regime by illicitly diverting profits from non-qualifying entities or activities to qualifying entities.

The Department of Merchant Shipping and the Inland Revenue Department may request taxpayers to provide detailed information in order to allow the authorities to determine whether transactions have been undertaken at arm's length. On the basis of their review of this information they may adjust profits and issue additional tax assessments if appropriate. Failure to provide the information within the prescribed period of 60 days is a criminal offence punishable by a daily default fine and imprisonment for up to six months. Provision of false information is a criminal offence punishable by a fine of up to €2,562, imprisonment for up to three years and a further penalty of up to twice the under-declared tax.

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