

Shipping & Transport - Cyprus

New opportunities for shipping under new tax measures

Contributed by [Andreas Neocleous & Co LLC](#)

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Cyprus is a well-established commercial and maritime business centre, located at the crossroads of three continents and close to the Suez Canal. Earlier this year, Cyprus implemented a new tonnage tax system under the Merchant Shipping Law (Fees and Taxing Provisions) of 2010.

Cyprus-China bilateral agreements

Cyprus has an extensive network of agreements for the avoidance of double taxation. The Cyprus-China agreement was concluded in October 1990 and took effect in October 1991. In addition, the Cyprus-China Agreement on Maritime Transport, signed in Beijing on August 29 1990 and amended by a protocol signed in Nicosia on December 2 2003, contains further benefits.

Internal market

As an EU member state, Cyprus is part of the EU common market where, in general, goods can circulate free from customs duties on imports and exports, quantitative restrictions or discriminatory taxation. Its corporate tax rate is the lowest in the European Union.

Tonnage tax system

The new tonnage tax system is available to shipowners, charterers and ship managers which own, charter or manage a qualifying ship engaged in a qualifying shipping activity. It covers:

- profits from shipping operations;
- dividends paid directly or indirectly out of such profits; and
- interest earned on funds used as working capital or for the payment of expenses.⁽¹⁾

The tonnage tax system is mandatory for Cyprus-flag ships and is available for vessels of all flags, including China and Hong Kong.

Investors of any nationality may incorporate a Cyprus company for the purpose of owning a vessel. If the vessel is registered under the Cyprus flag, the tonnage tax system applies automatically.

Shipowners of third-country flagged ships, such as vessels registered in China and Hong Kong, must comply with certain requirements to qualify under the new Cyprus tonnage tax system. These include the requirements that:

- a share of their fleet be comprised of Cyprus or European Economic Area (EEA) flagged ships - such 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 be carried out from Cyprus or another EEA country.

Charterers are also eligible for the tonnage tax system, provided that the tonnage of ships under time or voyage charters does not exceed 75% of the total tonnage of ships chartered and owned for more than three consecutive years. This percentage increases to 90% if the chartered vessels are registered in an EEA country or if the crew and

technical management is carried out from the EEA. The charterers of third-country flagged ships, such as vessels under the Chinese or Hong Kong flags, must also comply with the additional requirements that apply to third-country flag shipowners.

Ship managers are also eligible to enter into the tonnage tax system, subject to satisfying certain criteria. The tax rates applying to ship management activities are 25% of those applying to owners and charterers.

Parallel registration

The merchant shipping legislation permits the parallel-in registration and parallel-out registration of ships. Parallel-in registration is allowed if the ship is bareboat chartered by a Cypriot party or by a corporation qualified to own a Cyprus ship. A Cyprus-registered ship may be registered parallel-out into a foreign registry, provided that it is bareboat chartered to a foreign individual or corporation and the law of the country of the foreign registry allows the parallel-out registration of ships of another registry.

The China Classification Society is among the recognised classification societies authorised to perform assessments and certifications on behalf of the Republic of Cyprus. Similarly, certificates of competence issued by the relevant Chinese authority are recognised by Cyprus.

Comment

The pre-approval by the European Commission of the Cyprus Tonnage Tax Law as being EU-law compatible and the double taxation agreement between Cyprus and China have introduced a unique degree of certainty for shipping investors, in addition to the low taxation available on the island.

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Endnotes

(1) For further details of the tonnage tax scheme please see "[Cyprus's new shipping tax regime](#)".

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