



# Cyprus Shipping:

casting a long shadow over the  
International Maritime Industry



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## Cyprus as a maritime hub

Since the early 1960s when Cyprus opened its shipping registry and introduced an advantageous shipping tax regime, the island's maritime industry has come a long way and has been established as one of the three largest merchant fleets in Europe and one of the largest in the world, renowned for its high quality services and standards of safety.

Today, it stands as one of the strongest and most significant pillars of the Cyprus economy with Limassol being the heart of the shipping activities taking place in the island. It offers a significant number of fiscal advantages, such as the efficient and safe ship registration allowing for both a sovereign flag and a resident shipping industry, the favourable tax regime and competitive tonnage tax scheme, as well as the availability of highly skilled professionals in the legal and accounting sector, a legal system based on the English model and competent local workforce.

The annual survey conducted by the Central Bank of Cyprus for the year 2017, which was published in April 2018<sup>1</sup>, documents an increase of ship management revenues to €476 million during the second half of 2017 and lists Germany, Russia and Singapore as the main export destinations for the ship management services. Meanwhile, there has been a decline in the administrative, engineering and other expenses abroad which could be attributed to the ever-growing local market.

## Economic benefits associated with the Cyprus flag

Cyprus-based ship management companies benefit from a highly competitive and attractive tax regime which, in conjunction with the very low corporate tax rate, provides a plethora of economic advantages to organisations that wish to conduct business activities in the maritime field.

One of the major advantages of the Cyprus shipping sector is the **EU-approved tonnage tax system (TTS)** which came in place in 2010. Under the TTS, qualifying owners of Cyprus and foreign ships, charterers and ship managers 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, thus incorporating all three types of maritime activities and providing certainty to companies on their annual tax obligations. The TTS regime allows ship owners, charterers and ship managers to be fully exempted from all profit taxes.

Further to the highly beneficial TTS regime, according to the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law of 2010<sup>2</sup>, **no tax shall be charged** upon the following:

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<sup>1</sup> Central Bank of Cyprus, Ship Management Survey July–December 2017 available at: <https://www.centralbank.cy/images/media/pdf/SMS%202017H2%20-%20AA6.pdf>.

<sup>2</sup> See mainly Articles 8, 32 of the Law 44(I)/2010. Also note the deletion of the provisions of Article 19 of the Cyprus Income Tax Law of 2001 (118(I)/2002), as amended

- (a) Upon the income of a qualifying ship owner<sup>3</sup> and/or charter from the operation of a qualifying Cyprus, EU and/or, subject to conditions, foreign ship, in a qualifying shipping activity;
- (b) upon the dividend paid to the shareholders or the members of a qualifying owner, out of profits made from the operation of a qualifying ship in any relevant qualifying shipping activity or made from the sale of any qualifying ship and/or any share, right and/or interest therein, and/ or upon the dividend paid to the shareholders and/or the members of a qualifying owner, out of its share in profits made from a relevant qualifying shipping activity, and/or made from the sale of any qualifying ship or share, right or interest therein; or
- (c) upon the dividend paid to the shareholder or member of any other corporation recipient of such dividend, and which originates directly or indirectly out of profits made by a qualifying owner from the operation of a qualifying ship in a relevant qualifying shipping activity, or made from the sale of any qualifying ship or share, right and/or interest therein; or
- (d) other than interest on moneys kept for investment, upon any interest earned on working capital and/or revenue earned by a qualifying owner from a relevant qualifying shipping activity on bank accounts, if such working capital or revenue is used to pay expenses for the financing and/ or the operation and/ or the maintenance of the ship; or
- (e) upon any income, dividend and/or profit made by a qualifying owner from the sale of any qualifying ship, and/or any share, right and/or interest therein, and/or made from the sale of any shares in a qualifying owner entity that is the owner of a qualifying ship;
- (f) upon the income of a qualifying ship manager, derived from the rendering of crew and/or technical ship management services to any qualifying ship; or
- (g) upon the dividend paid to the shareholders or the members of a qualifying ship manager, out of profits made from the rendering of crew and/or technical ship management services to any qualifying ship, or upon the dividend paid to the shareholders or the members of a qualifying ship manager, out of its share in profits made from the rendering of the relevant ship management services; or
- (h) upon the dividend paid to the shareholder or member of any other corporation recipient of such dividend, and which originates directly or indirectly out of profits made by a qualifying ship manager from the rendering of crew and/or technical ship management services to any qualifying ship; or

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<sup>3</sup> As defined in Article 6 of the Law 44(I)/2010

- (i) other than interest on moneys kept for investment, upon any interest earned on working capital and/or revenue earned by a qualifying ship manager from the provision of crew management services and/or technical management services to any qualifying ship on bank accounts, if such working capital and/or revenue is used to pay expenses relevant to the management of those ships.

It is noted that “qualifying shipping activity” means any commercial business or activity which constitutes maritime transport, or crew or technical management of qualifying ships. In addition, for the purposes of the above, in the case of a Cyprus ship, the term “ship owner” includes also the bareboat charterer.

In addition, pursuant to the provisions of Article 25 and Schedule 6 of the Value Added Tax Law of 2000 (95(I)/200), **a zero rate of value added tax** is applicable to:

- (a) the supply, modification, repair, maintenance, chartering and hiring of sea-going vessels which are used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or other activities;
- (b) Supply of services to meet the direct needs of sea-going vessels;
- (c) Transportation of passengers from the Republic of Cyprus to a place outside the Republic and vice versa using a sea-going vessel.

### **Conditions of Ownership**

Cyprus is one of the only two EU Member States which maintains an open registry for registration of vessels. The procedure governing the registration of vessels under the Cyprus flag and the registration of mortgages thereon, is governed by The Merchant Shipping (Registration of Ships, Sales and Mortgages) Law of 1963 (Law 45/63) as amended.

A vessel may only be registered in the Register of Cyprus Ships if one of the following requirements are satisfied:

- i) More than fifty percent (50%) of the shares of the ship are owned by Cypriot citizens or by citizens of other Member States who in the instance of not being permanent residents of the Republic of Cyprus will have appointed an authorised representative in the Republic; or
- ii) The total (100%) of the shares of the ship are owned by one or more companies, which have been established and operate:

- in accordance with the laws of the Republic of Cyprus and have their registered office in the Republic, or
- in accordance with the laws of any other Member State and have their registered office, central administration or principal place of business within the European Economic Area and which will have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community ship management company having its place of business in Cyprus, or
- outside Cyprus or outside any other Member State but controlled by Cypriot citizens or citizens of Member States and have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community ship management company having its place of business in Cyprus. The corporation is deemed to be controlled by Cypriots or citizens of any other Member States when more than fifty percent of its shares are owned by Cypriots or citizens of any other Member States or when the majority of the Directors of the corporation are Cypriot citizens or citizens of any other Member State.

In view of the above requirements, all non-European owners who wish to register their ships under the Cyprus flag may incorporate a company in Cyprus under the provisions of the Cyprus Companies Law (Cap.113 as amended), which will either acquire the ship in its name, or bareboat charter the ship.

There are three types of vessel registration in Cyprus:

- **Provisional registration:** this allows ship owners up to 9 months' time (including extension) during which they will be able to complete the administrative formalities for permanent registration;
- **Permanent registration:** This needs to be effected within 9 months (if the 3 months extension has been obtained) from the date on which she was provisionally registered;
- **Parallel Registration:** this may be effected with more than 20 states whose legislation is compatible with Cypriot legislation. Two types of parallel registration are available: the "parallel in" registration and the "parallel out" registration. With "parallel in" registration, a foreign flag vessel may be registered under the Cypriot flag for a period of usually 2 years (renewable) whereas the "parallel out" registration, allows the financing of a ship and her mortgaging under the Cyprus flag and her registration in a foreign registry through a bareboat charter arrangement.

### Opportunities for the future

The beneficial tax regime along with the highly skilled workforce and service providers available in Cyprus, are set to propel the Cyprus flag in further expansion and growth with the registration of more vessels and the transfer/establishment of additional ship owning and management organisations in the year of 2019 and onwards. The country's shipping industry has proven resistant to the effects of the financial crisis, which especially affected the island's economy during the years of 2013-2016, and, to the contrary, further opportunities have arisen due to the discovery of large natural gas reserves in Cypriot waters as well as those of neighbouring countries.

Reflecting this growth, this year has seen the introduction of a new and independent Shipping Deputy Ministry with the aim of providing a more focused and business-oriented development of this sector and attracting of even further investments in this field.

In addition, the recent developments in the UK resulting from the Brexit referendum and subsequent negotiations for exit of the UK from the EU, have resulted in an increased interest from UK based maritime organisations, which see Cyprus as an attractive jurisdiction for an outpost or base due to fears of losing access to the bloc's financial market. For instance, it has been recently widely reported that British ship insurer London P&I Club is currently setting up a new subsidiary in Cyprus to ensure continued access to trade in the European Union<sup>4</sup>.

Similarly, due to the increasing financial uncertainty in the Greek economy and talks of a potential introduction of a stricter tax regime upon ship-owners, many Greek ship-owners and ship managers turn to the Cyprus flag as a safer and financially more attractive maritime hub to carry their business operations. Greek ship owners relocating to Cyprus can also avail themselves of the benefits deriving from the non- domiciled tax residence regime introduced into the Cyprus legislation.

All the above indicate that in the coming years, Cyprus will continue to hold its strong ground in the industry as one of the largest merchant fleets in the world and, given the rising opportunities for development, it is likely to grow even further and, despite the island's small size, cast a longer shadow over the international shipping sector.

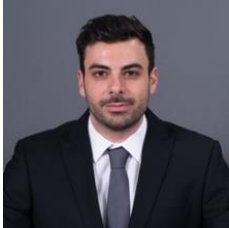
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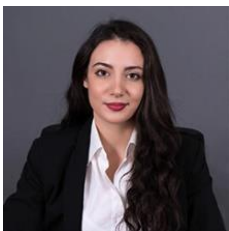
<sup>4</sup> <https://www.reuters.com/article/uk-britain-eu-londonclub/uk-ship-insurer-london-club-setting-up-cyprus-office-over-brexit-idUSKBN1KA2C2>

## Contributors



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Theodoros holds an LLB degree from the University of Sheffield (2010) and an LLM in “Law and Economics” with Distinction (2011). He completed the Legal Practice Course in Nottingham Law School with Distinction and in 2013 he was admitted to the Cyprus Bar Association when he was awarded the top mark in the nationwide Bar Association Exams. Theodoros has experience in corporate and commercial law and frequently advises and represents both local and international high profile clients before the Cyprus Courts. He focuses in asset freezing and recovery proceedings, cross-border shareholder disputes, restructuring and insolvency and international arbitration proceedings and also has an interest in maritime law. Theodoros has authored various articles and press releases and acts as a member of the Committee of the Limassol Bar Association. He is fluent in Greek and English and has advanced knowledge of French. You can view his full profile here <http://www.pavlaw.com/en/people/theodoros-symeonides/ppp-501/17/>



### **Georgia Siopacha**, Associate

Georgia holds an LLB in Law from the University of Surrey and an LLM in Corporate and Commercial Law from Queen Mary University London with Distinction and she was awarded the top mark of the Class 2012-2013. She was admitted to the Cyprus Bar in 2014 and she is since practicing law with Patrikios Pavlou & Associates LLC. Georgia specializes in shareholder disputes, banking and finance transactions, asset freezing and recovery proceedings, joint ventures and also has an interest in maritime law.

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