



The Chartering Business in Cyprus

Taxes can be a major burden in the chartering business.

With the introduction of the Tonnage Tax System¹ in 2010, the Cyprus Ship Registry noted an increase of 300% in the number of Chartering companies registered under the Tonnage Tax system in a span of 4 years.

The reasons for such tremendous increase are obvious:

- Great Financial Incentives: as the Companies are solely taxed on the tonnage of their fleet and not on their profits;
- The clarity and simplicity of the law as well as the efficiency of the Department of Merchant Shipping ensure that almost all applications are examined within one month and the overall application and examination procedure is very clear without any element of surprise or unpredictability;
- The system applies to mixed fleet situations (not solely to Cypriot fleet or EU fleet);

With the recent tendencies of moving away from “tax haven” jurisdictions and with other EU tonnage tax systems being currently under investigation and under the close scrutiny of the EU, Cyprus is not only maintaining its existing position in the sector but it is also rising further up the ladder of preferred jurisdictions for the chartering, and more generally, the shipping business.

A reminder as to the qualification criteria:

Any Charterer, who is Cyprus tax resident, who charters a qualifying ship² under bareboat, demise, time or voyage charter, engaged in a qualifying activity may opt to be taxed under the TT system, provided that:

- The tonnage of the ships under time and/or voyage charters does not exceed 75% of the total tonnage of ships chartered and owned for more than three consecutive years, subject to further exceptions;
- If mixed fleet (consisting of both Community and non Community ships), at least 60% of the fleet should be Community ships; If less, a share of the fleet should be Community ships and that share should remain unchanged or increase within a period of three years from election date, subject to further exceptions.
- Once opting to use the TT system, one must stay within the system for a period of ten years; in case of premature withdrawal, one will be required to pay the difference between the amount paid during the period one was under the TT system and the amount that would have been paid had it been subject to corporation tax during that period;

¹ Which system received full approval by the EU being fully compliant with the EU regime

² Which means a sea going vessel that has been certified in accordance with international principles and legislation of the flag country and that is registered in the register of a member country of the International Maritime Organization / the International Labour Organization.

Tax Exemption:

Tonnage tax rates applicable:

| UNITS OF NET TONNAGE | €TT PER 100 UNITS |
|----------------------|-------------------|
| 0-1.000 | 36,50 |
| 1.001-10.000 | 31,03 |
| 10.001-25.000 | 20,08 |
| 25.001-40.000 | 12,78 |
| >40.000 | 7,30 |

Exemption includes:

- Profits from shipping operations
- Dividends paid directly or indirectly out of shipping profits
- Interest earned on funds used as working capital or for the payment of expenses arising out of the charter party, excluding interest on capital used for investments