



SHIP MANAGEMENT COMPANIES UNDER THE CYPRUS TONNAGE TAX SYSTEM

The growth in the Ship Management revenues to €464 million for the first half of 2015 demonstrates the enduring strength of this sector in Cyprus, corresponding to 5,4% of Cyprus' GDP, as well as its global competitiveness.

The simplicity in the procedures of the Cyprus Ship Registry, the strategic geographic location of the island, in combination with the world-class professional services available, and the Tonnage Tax system applicable, make Cyprus an ideal location for ship management companies.

Under the Tonnage Tax System a ship manager who opts to be taxed under the system and is accepted to be taxed as so, is subject to an annual tax calculated based on the net tonnage of the qualifying vessels managed by the said ship manager. The Cyprus TT system is the only one approved in the EU and is rightly considered the biggest advantage for ship management companies on the island. It is hence not without reason that 20% of the world's ship management is taking place in Cyprus. The number of ship management companies registered under the tonnage tax system demonstrates a constant yearly increase, noting 37 ship management companies under the TT system in 2015.

Qualification criteria:

Any Ship manager, who is Cyprus tax resident, who provides crew and/or technical ship management services to a qualifying ship¹ engaged in a qualifying activity², may opt to be taxed under the TT system, provided the following criteria are satisfied:

- Maintenance of a fully fledged office in Cyprus;
- Employment of a sufficient in number and qualification personnel, at least 51% being EU/EEA citizens;
- 2/3 of the management being carried out from EU/EEA territory;
- Compliance with certain international standards (maritime security, safety, training, certification of seafarers, environmental issues, on-board working conditions, full implementation of the Maritime Labour Convention) etc;
- At least 60% of the fleet managed, in terms of tonnage, comprising of Community ships (maintaining the said percentage for a period of three years, subject to further exceptions);

Once opting to use the TT system, one must stay within the system for a period of ten years; if withdrawing prematurely, then the difference between the amount paid during the period the ship owner was under the TT system and the amount that would have been paid had it been subject to corporation tax during that period, will need to be paid.

¹ Meaning a sea going vessel (including vessels that transport humanitarian aid) 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.

² for ship managers, means services provided to a ship owner or bareboat charterer on the basis of a written agreement in relation to crew and/or technical management and/or both

Tonnage Tax calculation:

UNITS OF NET TONNAGE	€TT PER 400 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 covers:

- Profits from the provision of crew and/or technical ship management services to any qualifying ship
- Dividend paid directly or indirectly from the above
- Interest earned on funds used as working capital or for the payment of expenses arising related to the management of the ships, excluding interest on capital used for investments

Christodoulos G. Vassiliades & Co. LLC offers legal and administrative services to ship management companies wishing to bring their business to Cyprus from a – z ; from the searching, finding and setting up of an office, to the finding and hiring of the office personnel, to the application for the TT system; ensuring full compliance with the Cyprus legislation and regulations at all times.