

## Shipping & Transport - Cyprus

### Tonnage tax – maintenance of prescribed levels of EU-flagged vessels

Contributed by **Andreas Neocleous & Co LLC**

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The Merchant Shipping (Fees and Taxing Provisions) Law<sup>(1)</sup> provides that, in order to qualify for the tonnage tax scheme, EU-flagged ships (ships lawfully registered in and flying the flag of an EU member state or any other contracting party to the European Economic Area Agreement) must account for a specified minimum percentage of the taxpayer's fleet. This reference share is calculated at the date of entry to the tonnage tax scheme.

The tonnage tax law requires the Department of Merchant Shipping (DMS) to assess the EU-flagged share of each participant in the tonnage tax scheme in the third year from the date of opting to be taxed under the tonnage tax system.

The DMS recently announced the arrangements for the review as at December 31 2014, which will cover companies that entered the tonnage tax system on January 1 2012 or in the 12 months previously.

No company or group of companies whose EU-flagged share at the time of assessment is less than its reference share and is no greater than 60%, may introduce any additional non-EU ships into the tonnage tax system until it increases its EU-flagged share to at least the level of its reference share.

However, the tonnage tax law<sup>(2)</sup> and the Tonnage Tax (Special Provisions for the Calculation of the Community Flagged Share) Notification of 2010<sup>(3)</sup> also allow owners, charterers or managers to introduce additional non-EU vessels if the aggregate share of EU-flagged ships in their individual sector has increased compared to the reference date. Taxpayers taking advantage of this provision are subject to a surcharge of 10% on the total amount of tonnage tax payable for all qualifying non-EU ships in the fleet.

According to the DMS's calculations, the global share of EU-flagged ships has decreased in the case of owners and ship managers, but has increased for charterers. This means that for the fiscal year 2015, the option of introducing additional non-EU vessels and paying the surcharge is available only to charterers.

Any additional non-EU ships introduced added to their fleets by owners or managers will be treated as non-qualifying ships. The taxpayer must maintain separate books, records and accounts for those ships as provided by Section 44 of the Tonnage Tax Law and will be liable to corporate income tax on their profits.

*For further information on this topic please contact Vassilis Psyrras at Andreas Neocleous & Co LLC by telephone (+357 25 110 000), fax (+357 25 110 001) or email (vassilis.psyrras@neocleous.com). The Andreas Neocleous & Co LLC website can be accessed at [www.neocleous.com](http://www.neocleous.com).*

<sup>(1)</sup> Law 44(I)/2010.

<sup>(2)</sup> Sections 15(3)(a), 25(3)(a) and 35(2)(a).

<sup>(3)</sup> PI 536/2010.

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### Author

**Vasileios Psyrras**

