



REPUBLIC OF CYPRUS  
SHIPPING DEPUTY MINISTRY

Circular No.8/2021

SDM 12.3.01.36.02  
SDM 5.13.09

29 January 2021

To all Qualifying Owners of Cyprus Ships,  
To all Qualifying Owners of Community Ships,

To all Members of the Cyprus Shipping Chamber (c/o Cyprus Shipping Chamber)  
To all Members of the Cyprus Union of Shipowners (c/o Cyprus Union of Shipowners)

**Subject: Cyprus Tonnage Tax System (Law 44(I)/2010 as amended): Reduction of tonnage tax as per environmental incentives-The Tonnage Tax (Environmental Incentives) Order of 2021**

1. Sections 9(1) and 13(1) of Law 44(I)/2010, as amended by Law 39(I)/2020, provide for the reduction of tonnage tax up to 30% for the qualifying owners of Cyprus and Community ships that use mechanisms-equipment for the environmental preservation of the marine environment and the reduction of the effects of climate change.

2. The Council of Ministers has recently issued the *Tonnage Tax (Environmental Incentives) Order of 2021* (hereinafter “the Order”) prescribing the relevant eligibility criteria and the level of such reduction. The Order was published in the Official Gazette of the Republic (Gazette No. 5454 Supplement III(I), dated 29 January 2021, pages 229-232, P.I. 42 /2021).

The Order in the Greek language as well as an unofficial translation in the English language can be found on SDM’s website [www.shipping.gov.cy](http://www.shipping.gov.cy) in the section Fees and Taxes/Tonnage Tax System or by following the direct link [here](#).

3. An explanatory Note describing the said Environmental Incentives is attached herewith.

4. Furthermore, with regard to the applicability of the said Environmental Incentives to Cyprus ships under the status of Parallel Registration (bareboat charter registration) the following is noted:

- In the case of ships of a foreign registry under the status of parallel registration in the Cyprus Register, the above mentioned environmental incentives are available to the bareboat charterer of a qualifying ship which is registered in parallel in the Special Book of Parallel Registration, provided that the relevant eligibility criteria prescribed in the Order are satisfied.
- In the case of Cyprus ships under the status of parallel registration in a foreign registry, the above mentioned environmental incentives will only be available to the owner of the ship in the case the foreign registry where the ship is registered is a registry of a Member State of the European Union or any other contracting party to

the European Economic Area Agreement and provided that the relevant eligibility criteria prescribed in the Order are satisfied.

**5.** The relevant Incentives shall apply **as from the fiscal year 2021** i.e. for ships and their qualifying owners taxed with tonnage tax as from the 1<sup>st</sup> of January 2021.

Further details as to the relevant procedure, arrangements and documentation, shall be communicated by a new Circular in the coming weeks.



Dr. Neophytos Papadopoulos  
Acting Permanent Secretary  
Shipping Deputy Ministry

- Cc:-** Permanent Secretary, Ministry of Finance
- Permanent Secretary, Ministry of Foreign Affairs
  - Maritime Offices of the Shipping Deputy Ministry abroad
  - Diplomatic Missions and Honorary Consular Officers of the Republic
  - Commissioner for State Aid Control
  - Commissioner of Taxation, Tax Department
  - Director General, Cyprus Investment Promotion Agency (CIPA)
  - Cyprus Bar Association
  - Institute of Certified Public Accountants of Cyprus

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## **Provision of Environmental incentives – Tonnage Tax System**

### **1. Background**

Sections 9(1) and 13(1) of the Merchant Shipping (Fees and Taxing Provisions) Laws of 2010-2020 (*Law No. 44 (I) of 2010 as amended by Law 39(I)/2020*) provide for a reduction-discount of up to 30% on the Annual Tonnage Tax paid by owners of Cyprus ships and Community ships that use mechanisms-equipment for the environmental preservation of the marine environment and the reduction of the effects of climate change.

### **2. Environmental Incentives**

#### **2.1 Incentive 1: Energy Efficiency Design Index**

Applies to ships that are subject to the provisions of Regulations 19, 20 and 21 of the amended MARPOL Convention/ ANNEX VI.

**2.1.A.** Ships that achieve a further reduction of the Attained Energy Efficiency Design Index (**Attained EEDI**) in relation to the Required Energy Efficiency Design Index (**Required EEDI**) as per the below **Table 1**, will secure for their owner the corresponding Annual Tonnage Tax reduction.

<b>Table 1: Attained EEDI, percentage of reduction</b>	
<b>Percentage of Reduction of Attained EEDI in relation to the Required EEDI</b>	<b>Percentage of Annual Tonnage Tax reduction (%)</b>
>10	05
>15	10
>20	20
>30	25

To be eligible for this incentive, an owner must submit the following documents as attachments to the relevant application:

- A copy of the ship's International Energy Efficiency (IEE) Certificate with its Supplement; **or**
- A copy of the ship's EEDI Technical File; **or**



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- A verification report as proof of the Attained EEDI.
- **For Phase 2:** an additional 10% reduction will be applied to the corresponding percentage of Table 1
- **For Phase 3:** an additional 30% reduction will be applied to the corresponding percentage of Table 1.

Provided that the maximum reduction that a ship and its owner can receive is 30% of the Annual Tonnage Tax.

**Example for easy reference:** Ship (Phase 2 or Phase 3) that has achieved a 23% further reduction of its Attained EEDI compared to the Required EEDI shall obtain an Annual Tonnage Tax reduction as shown below:

**PHASE 2:** 20% as per Table 1, plus 10% of the 20%. Total 22%

**PHASE 3:** 20% as per Table 1, plus 30% of the 20%. Total 26%

**2.1.B.** Ships which are not subject to Regulations 19, 20 and 21 of the amended MARPOL Convention/ ANNEX VI, but which nevertheless demonstrate voluntary implementation and compliance with Phase 1 or Phase 2 or Phase 3, thus voluntarily exceeding the relevant environmental standards, will secure for their owner the corresponding Annual Tonnage Tax reduction as per **Table 2**.

<b>Table 2:</b> Compliance with Phase 1/ Phase 2/ Phase 3 for ships which are not subject to Regulations 19, 20, 21	
<b>Compliance with Phase 1/ Phase 2/ Phase 3</b>	<b>Percentage of Annual Tonnage Tax reduction (%)</b>
<b>Phase 1</b>	5
<b>Phase 2</b>	15
<b>Phase 3</b>	30

To be eligible for this incentive, as per **Table 2**, an owner must submit the following documents as attachments to the relevant application:

- Calculations which demonstrate compliance, approved by a Recognised Organisation (RO); **or**



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- A copy of the ship's International Energy Efficiency (IEE) Certificate with its Supplement; **or**
- A copy of the ship's EEDI Technical File.

**2.2 Incentive 2: IMO Data Collection System (DCS)**

The Environmental Incentive related to the IMO Data Collection System (DCS) applies to ships of 5.000 GT and above with at least 4.380 reported hours at sea per annum which are subject to the provisions of Regulation 22A of the amended MARPOL Convention/ ANNEX VI.

Ships that achieve a reduction of the total fuel consumption in relation to the distance travelled between two consecutive reporting periods (year x vs year x-1), will secure for their owner an Annual Tonnage Tax reduction (for year x) as per **Table 3**.

<b>Table 3:</b> Percentage of reduction of fuel consumption / distance travelled between two consecutive reporting periods	
<b>Percentage of reduction between two consecutive reporting periods</b>	<b>Percentage of Annual Tonnage Tax reduction (%)</b>
From 2 Up to 4 %	10
Up to 6 %	15
Greater than 6 %	20

To be eligible for this incentive, an owner must submit the following documents as attachments to the relevant application:

- A copy of the *Statement of Compliance – Fuel Oil Consumption Reporting*, for two consecutive reporting periods; **and**
- A copy of the Collected Data Summaries Report (MEPC.292(71) / APPENDIX 2) for two consecutive reporting periods.



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**Example for easy reference:** Ship during 2019 covered 85000nm and consumed HFO: 8000mts and LSMGO:400mts. Same ship during 2020 covered 85000nm and consumed HFO:7800mts and LSMGO:300mts.

$$2019: \frac{\text{Total Fuel oil Consumption}}{\text{Distance travelled}} = \frac{8000+400}{85000} = \frac{8400}{85000} = \mathbf{0.099 \text{ mts/nm}}$$

$$2020: \frac{\text{Total Fuel oil Consumption}}{\text{Distance travelled}} = \frac{7800+300}{85000} = \frac{8100}{85000} = \mathbf{0.095 \text{ mts/nm}}$$

$$\text{Reduction Percentage of } \frac{\text{total fuel oil consumption}}{\text{distance travelled}} \text{ ratio: } \left( \frac{0.095-0.099}{0.099} \right) * 100 = \mathbf{-4.04\%}$$

**Conclusion:** Based on the above calculation, subject vessel shall obtain 15% reduction on the Annual Tonnage Tax, as per **Table 3**.

**2.3 Incentive 3: Consumption of Alternative fuels**

The environmental incentive related to Alternative fuels applies to eligible ships of 5.000GT and above.

A ship that consumes Alternative fuels shall obtain an Annual Tonnage Tax reduction as per **Table 4**, on a case-by-case basis, after successful review of the submitted documents.

<b>Table 4: Type of Alternative fuels, percentage of reduction</b>	
<b>Type of Alternative fuel</b>	<b>Percentage of Annual Tonnage Tax reduction (%)</b>
Biofuels, Methanol, Electric, Other Types, achieving reductions of CO <sub>2</sub> emissions of at least 20% compared with similar ships which consume fossil fuels	15
Biofuels, Methanol, Electric, Other Types, achieving reductions of CO <sub>2</sub> emissions of at least 30% compared with similar ships which consume fossil fuels	30



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Ships will maintain the same Annual Tonnage Tax reduction for as long as they continue to consume the alternative fuel. The reduction of CO<sub>2</sub> emissions, as per **Table 4**, should be achieved solely by the consumption of alternative fuels. A statement by the ship's Recognised Organisation (RO) or other objective study / document shall be submitted every year.

To be eligible for this incentive, an owner must submit the following documents as attachments to the relevant application:

- A statement by the ship's Recognised Organisation (RO) or any other objective study / document that proves that said ship consumes Alternative Fuels and complies with the relevant EU / International Regulations and achieves reductions as described above compared with fossil fuels.

### 3. Final Stipulations

The reduction for the aforementioned environmental incentives will be calculated cumulatively, and according to the relevant provisions of the Law the maximum percentage reduction-discount on the Tonnage Tax that a ship and its owner can receive is 30%.

An eligible ship for any of the above environmental incentives is a Cyprus ship or a Community ship that is within the tonnage tax system and is engaged in maritime transport.

#### 3.1 Additional provisions

- i. A ship that was detained for any environmental deficiency (ies) (violation of any International regulation / National regulation / European Union Legislation) during a Port State Control inspection during the calendar year for which its owner applies for an environmental incentive, is not eligible for any environmental incentive for the said year.
- ii. A ship that violates any European Union legislation in force related to the environmental protection (e.g. Directive (EU) 2016/802, Regulation (EU) 2015/757, Regulation (EU) No 1257/2013) during the calendar year for which its owner applies for an environmental incentive, is not eligible for any environmental incentive for the said year.
- iii. A ship is eligible for any of the above mentioned environmental incentives, provided that during the calendar year for which its owner applies for an environmental incentive, the ship is not laid-up (warm or cold).



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Final 29 January 2021