



REPUBLIC OF CYPRUS  
**MINISTRY OF  
COMMUNICATIONS AND WORKS**



**DEPARTMENT  
OF MERCHANT SHIPPING  
LEMESOS**

Circular No. 13/2011

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Owners of Ships under Foreign Flag,  
Charterers and Ship Managers  
operating in the Republic of Cyprus

Members of the Cyprus Shipping Chamber c/o CSC

Members of the Cyprus Union of Shipowners c/o CUS

**Subject: Cyprus Tonnage Tax System (Law 44(I)/2010):  
Calculation of the Community - flagged Share ( sections 15, 25 and 35 of the Law)  
«The 2/3 Rule» ( section 33 of the Law)  
Minimal Share of Fleet in Ownership (section 47 of the Law)**

I refer to the above subject and further to my Circulars No. 14/2010, No. 32/2010, No. 39/2010, No. 42/2010, No. 1/2011 and No. 6/2011 respectively, I wish to inform you of the following:

**A. Community- flagged share (sections 15(2), 25(2) and 35(1)(a) of Law 44(I)/2010)  
Applies to Owners of foreign ships, Charterers and Ship Managers**

It is recalled that a practical example of the method of calculation of the Community- flagged share is contained in Schedule I of P.I. 536 /2010.

For the purposes of calculating the above mentioned share in a given fiscal year please be advised that only the net tonnage of the ships owned / managed / chartered as at 31st December of that year will be taken into account.

For the purpose of assessment of the Community - flagged share of each company or group of companies, the Director shall carry out an assessment upon expiry of the third year (on the 31st December) as from the aforementioned date of opting to be taxed under the tonnage tax system and thereafter a further assessment every three years during the validity of the tonnage tax regime under the Law (Paragraph 5(3) of Notification P.I. 536/2010).

Example on assessment:

- *A company which opted to enter the tonnage tax system on 1 January 2010 will be first assessed on 31/12/2012.*
- *A newly established company which opted to enter the tonnage tax system on 13 May 2011 (upon establishment) will be assessed for the first time on 31/12/14.*



**B. Economic link of managed ships with the Community - «The 2/3 Rule»  
(section 33 of the Law)  
Applies only to Ship Managers**

It is recalled that a practical example of the method of calculation of the economic link with the Community of managed ships is contained in Schedule II of the relevant Declaration for the Taxation of Ship Management Services (Form MS TT 2c).

For the purpose of calculating the above mentioned share in a given fiscal year please be advised that only the net tonnage of the qualifying ships managed as at 31st December of that year will be taken into account.

The Director shall carry out an assessment every fiscal year.

**C. Minimal Share of the Fleet in Ownership (section 47 of the Law)  
Applies only to Charterers**

A charterer can be eligible to enter the Tonnage Tax System only when at the time of opting, the total net tonnage of ships chartered - in and included in the Tonnage Tax System does not exceed 75% of the total net tonnage of all ships chartered-in or operated by a qualifying charterer and included in the tonnage tax system.

This percentage can reach 90% provided that every chartered- in ship flies an EU/EEA flag or it is entirely managed (crewing and technical) from EU/EEA territory.

Following the entry into the system, the charterer may increase the percentage of net tonnage chartered-in from the absolute max., 75% or 90% (as the case maybe), provided that this «excess» does not occur for more than three consecutive tax periods.

In case the percentage of net tonnage chartered-in exceeds the 75% or 90% threshold (as the case maybe) for more than three consecutive tax periods, then the relevant ships representing the tonnage in excess, cease to be qualifying ships and the charterer's income from those ships is no longer eligible to be included in the tonnage tax system and thus will be taxed in accordance with the provisions of the Income Tax Laws (see section 50(3) of the Law). For such purpose separate accounts must be kept for qualifying and non-qualifying ships.

A practical example is given below:

Case A	1st Fiscal Year	2nd Fiscal Year	3rd Fiscal Year	4th Fiscal Year	5th Fiscal Year
Percentage of ships chartered-in and included in TTS	<b>Entry precondition 75% or 90% as the case maybe</b>	Exceeds 75% or 90%	Exceeds 75% or 90%	Exceeds 75% or 90%	<b>As from 1st January % is ≤ 75 or ≤ 90 ► compliance with section 47 of Law</b>
Case B	1st Fiscal Year	2nd Fiscal Year	3rd Fiscal Year	4th Fiscal Year	5th Fiscal Year
Percentage of ships chartered-in and included in TTS	<b>Entry precondition 75% or 90% as the case maybe</b>	Exceeds 75% or 90%	Exceeds 75% or 90%	Exceeds 75% or 90%	<b>As from 1st January % exceeds 75 or 90 ► Excess tonnage not eligible for TTS</b>

In case the percentage of net tonnage chartered-in is 100% (i.e. no vessels owned or bareboat chartered) then the provisions of section 18 of the Law are not satisfied and the charterer is deemed to be a non-qualifying charterer and will be taxed in accordance with the provisions of the Income Tax Laws (see also section 51(3) of the Law).

The share of the fleet in ownership in a given fiscal year (as at 31<sup>st</sup> December) is calculated on the basis of the net tonnage of each ship chartered-in or operated which is included in the tonnage tax system, on a pro rata basis. (i.e. (NT of a vessel) X (no. of days chartered- in or operated)).

Practical example:

Qualifying Ship	Type of operation	No. of days	Net tonnage	Ton - Days (NT X No. of days)	Ton - Days Owned	Ton - Days Chartered-in
Container I	Owned	365	12,000	4,380,000	4,380,000	
Bulk I	Bareboat chartered in	365	11,000	4,015,000	4,015,000	
Container II	Time charter	365	18,000	6,570,000		6,570,000
Bulk II	Voyage charter	40	17,500	700,000		700,000
Bulk III	Voyage charter	120	13,000	1,560,000		1,560,000
Bulk IV	Voyage charter	35	10,200	357,000		357,000
<b>TOTAL</b>			<b>81,700</b>	<b>17,582,000</b>	<b>8,395,000</b>	<b>9,187,000</b>

**So the percentage of ships chartered-in is  $9,187,000/17,582,000 \times 100 = 52.25\%$  (<75%).**

It should be noted that Cyprus and foreign ships which are included in the tonnage tax system and are owned by different member(s) of the group, will be taken into account when calculating the share of the fleet in the ownership of the qualifying charterer which is a member of the group. However in such cases, where the owned ships are bareboat chartered **between tonnage tax companies** of the same group then each such ship should only be counted once, when applying the *minimal share of the fleet in ownership rule of section 33*.

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

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