



REPUBLIC OF CYPRUS

**MINISTRY OF
COMMUNICATIONS AND WORKS**

Circular No. 11/2011

TEN 12.3.01.36

TEN 5.13.09



**DEPARTMENT
OF MERCHANT SHIPPING
LEMESOS**

24 March 2011

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):
Application for Approval of the Option to be taxed under the Tonnage Tax System/
Special Arrangements for Fiscal Year 2011**

I refer to the above subject and further to my Circulars No. 14/2010, No. 28/2010, No. 31/2010, No. 32/2010, No. 39/2010, No. 42/2010, No. 1/2011 and No. 8/2011 respectively, I wish to inform you of the following:

A/ Option for Tonnage Tax

Qualifying owners of foreign ships, qualifying charterers, and qualifying ship managers, who are tax residents in the Republic of Cyprus, have the right to opt to be taxed in respect of any particular fiscal year, with Tonnage Tax under the provisions of section 7, section 19 and section 29, respectively, of the *Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (Law 44(I)/2010)*.

The option, **valid for ten years**, may be exercised by a written Application for Approval of the Option to be taxed under the Cyprus Tonnage Tax System (the «Application») addressed to the Director of the Department of Merchant Shipping, with a copy to the Commissioner of Income Tax, Inland Revenue Department, at least thirty days prior to the 1st January of the relevant year.

Upon submission, the Director will assess the Application and its supporting documentation and will decide, within thirty (30) days, whether the applicant qualifies and will communicate his decision to the applicant and to the Commissioner of Income Tax. In case it is approved, the option shall be effective as from the date of receipt of the Application and shall continue to remain in force until it expires, or it is subsequently withdrawn by the owner/ charterer/ ship manager in the same manner. A notice of withdrawal given during the term of any year shall have effect on the 31st December of that year.



In case a qualifying owner of foreign ships/ charterer/ ship manager, who has opted to be taxed under the tonnage tax system elects to withdraw, otherwise than as a result of the disposal of ships / termination of the charter / termination of the ship management of all ships under its operation/management, from the tonnage tax system prior to the expiration of the ten year period, the said owner/ charterer /ship manager will be liable to pay the difference between the tax which the owner/ charterer /ship manager would have been liable to pay had the provisions of *the Income Tax Law of 2002 as amended (Law 118(I)/2002 as amended)* applied and the amount of relevant tax which should have been paid during the period the owner /charterer / ship manager remained in the tonnage tax system.

B/ Special Arrangements – Timeframes for the Fiscal Year 2011

As per aforementioned current provisions of Law 44(I)/2010, the latest date of exercising the option to enter the new tonnage tax system as from the fiscal year 2011, should have been the 30th November 2010, i.e. at least thirty days prior to the 1st January of the relevant year.

Unfortunately, at that date, the necessary subsidiary legislation for the implementation of Law 44(I)/2010 was not yet fully in place (eg. *Notification P.I. 511/2010 on Special Provisions and Requirements for Ship Managers* or *Notification P.I. 536 /2010 for the Calculation of the Community Flagged Share*, both adopted in December 2010), and consequently the exercise of the option was *de facto* rendered inoperative.

Under these circumstances, exceptionally, owners of foreign ships/ charterers/ ship managers wishing to opt to be taxed under the tonnage tax system for the fiscal year 2011, should submit their «Application for Approval of the Option to be taxed under the Cyprus Tonnage Tax System» the latest by 31st May 2011.

In case the Application is approved, the option will be effective as from 1st January 2011.

The «Application for Approval of the Option to be taxed under the Cyprus Tonnage Tax System» (Form MS TT 1) and other supporting documents, are available on the Department's website.



Serghios S. Serghiou
Director
Department of Merchant Shipping

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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