



REPUBLIC OF CYPRUS
SHIPPING DEPUTY MINISTRY

Circular No. 10/2020

24 April 2020

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To all Registered Owners, Registered bareboat charterers,
Managers and Representatives of ships flying the Cyprus flag,
Owners of foreign ships, Charterers and Managers

To all Members of the Cyprus Shipping Chamber

To all Members of the Cyprus Union of Shipowners

**Subject: New Cyprus Tonnage Tax Legislation: The Merchant Shipping
(Fees and Taxing Provisions) (Amendment) Law of 2020 (Law 39(I)2020)**

1. Further to our Circular No. 1/2020 dated 27 January 2020, I wish to inform you of the enactment of the *Merchant Shipping (Fees and Taxing Provisions) (Amendment) Law of 2020* (Law 39(I)/2020) which was published in the Official Gazette of the Republic of Cyprus No 4753, Supplement I(I), dated 16/4/2020) (hereinafter "*the Law of 2020*").

2. By virtue of the Law of 2020, the validity period of the *Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (Law 44(I)/2010)* (hereinafter the "*the basic Law*"), has been prolonged until 31st December 2029, giving effect to the Decision of the European Commission dated 16 December 2019 (hereinafter "*the EU Decision*") to prolong the Cyprus tonnage tax system and to approve it as being in line with the relevant EU policy and Community Guidelines on State aid to maritime transport.

The basic Law together with the amendments introduced by the Law of 2020 are hereinafter together referred to as "*the new Law*". An unofficial consolidated translation of the new Law, is available on the web site of the Shipping Deputy Ministry at the following link: www.shipping.gov.cy (click on Info Center / Legislation / Taxation of Shipping Activities).



3. In addition to the prolongation of the validity period, the Law of 2020 has introduced the following amendments to the basic Law, in order for Cyprus to conform with the European Commission's decisional practice and in particular the EU Decision:

3.1 "Maritime transport"

The definition of maritime transport in section 2 of the basic Law has been amended so as to now include "*ancillary activities to maritime transport, provided that the revenues from such activities shall not exceed fifty per cent (50%) of the total gross revenues from the operation of each qualifying ship under tonnage tax by a qualifying owner or qualifying charterer.*"

3.2 "Ancillary activities"

In order to give effect to the new definition of "maritime transport", a new definition "ancillary activities to maritime transport" has also been introduced by the Law of 2020.

By virtue of this amendment, ancillary activities are defined as "i) the activities related to a qualifying ship under tonnage tax, which have a substantial connection with the core maritime transport activities of a qualifying owner or a qualifying charterer but which exclude commercial activities that form part of an operation of a port carried on for profit, or (ii) where the qualifying owner or the qualifying charterer of a qualifying ship under tonnage tax is a member of a group of companies, the activities related to such qualifying ship's core maritime transport activities provided by another member of that group which is a tax resident of the Republic".

In accordance with the recent Commission decision practice with respect to this matter and as provided in the EU Decision, core maritime activities comprise notably transport of goods and passengers by sea, crew and technical management of eligible vessels, towage and dredging activity (provided at least 50% of annual operations constitute maritime transport) and by analogy cable laying activities.

A relevant implementing Notification determining such ancillary activities will be issued and published in the Official Gazette in the coming weeks.

3.3 "Qualifying ship"

The definition of qualifying ship in section 2 of the basic Law, has been amended and now includes both a list of eligible vessels as well as a list of the vessels which are excluded from this definition.

The vessel types which are included in the definition of "qualifying ship" in line with the Maritime Guidelines and Commission's case practice in this respect, include the following vessels: vessels operating maritime transport activities, such as cargo and passenger ships; cable-laying ships, pipe-laying ships; ocean-going dredgers, ocean-going tug boats; crane vessels, self-propelled barges; research vessels; mobile offshore drilling units (MODUS); off-shore support/servicing vessels engaged in petroleum and gas activities; multi-purpose break-bulk and other types of support/ servicing vessels; cruise ships; commercial yachts; rescue and marine assistance vessels; guard vessels for maritime security and environmental clean-up purposes; vessels for raising, repairing and dismantling windmills; ice management vessels; accommodation vessels for housing

offshore workers at sea; any vessel engaged in the transportation of any UN/EU humanitarian aid or is involved in any UN or EU humanitarian relief operations. According to the new Law, the above-mentioned list of eligible vessels may be extended following the prior notification approval by the European Commission.

Conversely, the definition of “qualifying ship” expressly excludes the following vessels: fishing and fish factory vessels; private yachts; vessels constructed and used exclusively for inland waterway navigation; fixed off-shore installations and floating storage units which are not used for maritime transport; non-ocean going tug boats and non-ocean going dredgers; floating hotels or restaurants; floating or cruising casinos; non-propelled barges and any other vessels which may be determined as non-qualifying ships, following the prior notification approval by the European Commission.

3.4 Bareboat Charter

In order to give effect to the recent decision practice of the European Commission, section 6 of the basic Law has been amended so that an owner of a ship which is bareboat chartered out shall be deemed to be a qualifying owner, if the ship is bareboat chartered to a charterer forming part of the same group as the owner (**intra-group transaction**). In other words, with the introduction of this amendment, intra-group transactions are eligible for tonnage tax without restrictions.

As of 1st January 2020, **non-intra group** bareboat charter agreements will be eligible for tonnage tax provided that they meet the following conditions included in section 6 of the new Law:

- (1) the owner demonstrates that the ship was bareboat chartered out due to short-term over-capacity and the term of the charter does not exceed three years,
- (2) the temporary excess capacity must be related to the beneficiary’s own shipping services, i.e. excess capacity specifically acquired (bought or chartered) for chartering-out purposes is ineligible for tonnage taxation, and
- (3) at least 50% of the tonnage tax fleet must still be operated by the tonnage tax beneficiary.

The above conditions will not apply to existing bareboat charter agreements until **their date of expiration** or until **31 December 2022**, whichever takes place earlier.

3.5 Reduction of Tonnage Tax

Under the Law of 2020, a reduction of up to 30% of the tonnage tax is possible in the case of a Cyprus ship (section 9 of the new Law) or EU/EEA ship (section 13 of the new Law) using mechanisms for the environmental preservation of the marine environment and the reduction of the effects of climate change.

The eligibility criteria for such reduction as well as the level of reduction may be set by a relevant Order of the Council of Ministers published in the Official Gazette of the Republic.

3.6 Tax Exemptions for Seafarers

In accordance with the EU decision, the tax benefits existing for seafarers have been extended to seafarers of Community ships.

More specifically, under section 55 of the new Law the tax exemptions apply to seafarers who are liable to income tax in Cyprus and are employed on board a Community ship which is a qualifying ship engaged in a qualifying shipping activity.

Where the vessels provide scheduled passenger services between ports of the Community, only seafarers who are citizens of the EU/EEA are eligible to benefit from the scheme. In all other cases, the exemptions apply to all seafarers (citizens of a Member State or a non-Member State).

4. Following the set-up of the Shipping Deputy Ministry on 1st March 2018, in addition to the amendments included in paragraph 3 above, certain other minor amendments were deemed necessary to the basic Law in order for the new Law to be in line with the *Establishment of a Shipping Deputy Ministry and Appointment of a Shipping Deputy Minister to the President and for Matters Connected Therewith Law of 2017 (Law 123(I)/2017)*.

More specifically there have been introduced the following new terms and their definitions: “Shipping Deputy Minister”, “Shipping Deputy Ministry”, “Permanent Secretary” and other necessary minor amendments throughout the text of the new Law.



Stavros Michael
Acting Permanent Secretary
Shipping Deputy Ministry

- cc:- Permanent Secretary, Ministry of Finance
- Commissioner of Taxation, Tax Department
 - Maritime Offices of the Shipping Deputy Ministry to the President abroad
 - Diplomatic Missions and Honorary Consular Officers of the Republic
 - Cyprus Shipping Chamber
 - Cyprus Union of Shipowners
 - Cyprus Bar Association
 - Institute of Certified Public Accountants of Cyprus

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