



Shipping - The Cyprus Way

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Cyprus is a well-established shipping centre in a strategic geographical location at the crossroads of three continents close to the Suez Canal.

The shipping industry has developed in line with the island's growth as an international business and financial centre, and Cyprus is now the world's third largest shipmanagement centre and home to the ninth largest merchant fleet in the world in tonnage terms.

One of the factors underpinning Cyprus's success in attracting shipping business is the island's excellent infrastructure. Cyprus has one of the most advanced telecommunications systems in the world and its two airports provide frequent direct connections with all major European countries, the Arab world and beyond. All the businesses and services which the shipping industry requires are available at a high quality in Cyprus, including ship owners, ship managers, marine insurance brokers, ship-brokers, professional and financial services.

Just as importantly, Cyprus is nowadays considered as one of the most favourable jurisdictions in the European Union, indeed the whole world, in which to do business, with a modern, business-friendly tax regime.

The island is a low tax jurisdiction, not a tax haven, and its fiscal and regulatory regimes and legislation are fully aligned with the EU's *acquis communautaire*. Cyprus is a signatory to a large number of international conventions and treaties, including an extensive network of bilateral tax treaties, while the island's legal system is based on the English common law system and its merchant shipping laws are closely modelled on their English counterparts.

The accession of Cyprus to the European Union on 1st May 2004 and the harmonization of the island's legislation with the EU's *acquis communautaire* have helped to reinforce the quality of the Cyprus-registered fleet. Cyprus-registered vessels and their

owners enjoy the benefits of flying the flag of an EU member state which remains highly competitive and at the same time the Cyprus government safeguards the interests of its merchant shipping fleet through active membership in such organizations as the IMO, the European Maritime Safety Agency, the ILO and the UN. For several years the Department of Merchant Shipping has actively pursued a quality improvement strategy focusing on maritime safety, maritime security and the protection of the environment. This has enabled Cyprus to achieve coveted "White List" status in the flag assessment system maintained by the Paris and the Tokyo Memorandums of Understanding on port state control.

Taxation of Shipping Activities

Cyprus offers non-discriminatory and favourable tax treatment of shipping activities which can offer significant benefits and planning opportunities, particularly through the use of its extensive network of tax treaties and bilateral merchant shipping co-operation agreements. Virtually all the treaties provide, directly or indirectly, that shipping profits are taxable only in the place of residence or effective management, irrespective of whether or not a permanent establishment exists in the other treaty country.

Key features of the tax environment include the following:

- No tax is payable either on profits from the operation of Cyprus-registered vessels, or on dividends received from a ship owning company.
- No capital gains tax is payable on the disposal of a Cyprus-registered vessel or on the disposal of shares in a ship owning company.
- No stamp duty is payable on ship mortgage deeds or other security documents.
- Emoluments of seamen employed on board Cyprus-registered vessels are

exempt from tax and Social Insurance contributions.

- No estate duty or inheritance tax is levied following the death of a shareholder.

Cyprus has adopted a tonnage tax system which is very favourable to ship operators and owners. To encourage modernisation of the fleet the tonnage tax system takes into consideration the age of the vessel. Tonnage tax rates are very competitive by international standards, and further reductions are available in certain circumstances. For example, where technical and crew management is undertaken by a ship management company operating in Cyprus and registered in the EU or EEA, the tonnage tax is reduced by 30%. If a vessel is laid up for three consecutive months, the tonnage tax for the idle period is reduced by 75%.

Shipmanagement companies with a qualified and sufficiently staffed office in Cyprus enjoy an even more favourable tax regime under the Merchant Shipping (Fees & Taxation Provisions) Laws 1992-2004. They are normally liable to shipmanagement tax at one-quarter of the tonnage tax for vessels under their management, but may elect to be taxed under the Income Tax Law instead, at a rate of 4¼% instead of the standard rate of 10%.

Registration of Cyprus Ships - Eligibility

A vessel is deemed to be Cypriot where a majority of the shares in it are owned by a Cyprus citizen or a citizen of another EU member state, or where it is wholly owned by:

- A company registered in Cyprus, no matter who owns the shares in the company;
- A company registered elsewhere in the EU, provided either that the company has appointed a representative in Cyprus or that the safety of the ship (ISM Code

compliance) is fully entrusted to a shipmanagement company registered in Cyprus or elsewhere in the EU, and having its place of business in Cyprus; or

- A company registered outside the EU where a controlling interest is held by Cyprus citizens or citizens of an EU member state, provided either that the company has appointed a representative in Cyprus or that the safety of the ship (ISM Code compliance) is fully entrusted to a shipmanagement company registered in Cyprus or elsewhere in the EU, and having its place of business in Cyprus.

For these purposes, "EU" includes the other members of the EEA, namely Norway, Iceland and Liechtenstein.

Incorporation of a Cyprus shipping company is simple and inexpensive and single-ship companies have become the norm for ship owners electing to register a vessel under the Cyprus flag.

As to the vessels themselves, the following vessel types may be registered in the Cyprus Register of Ships:

- **Cargo vessels of any type exceeding 1 000 gross tonnes** may be registered without any further requirement up to 15 years of age. Vessels between 15 and 20 years of age require a satisfactory entry inspection. Vessels over 20 years old (but not exceeding 23 years) may be registered subject to a satisfactory entry inspection and provided they are operated by a Cypriot or EU (or EEA) shipmanagement company having its place of business in Cyprus, and which is adequately staffed with qualified personnel and certified as compliant with the ISM Code. Cargo vessels over 23 years of age are not normally accepted for registration.
- **Mobile offshore drilling units** may be registered without any additional conditions if they do not exceed 25 years of age. If they are over 25 years old, they may be registered subject to the conditions set out above for cargo vessels between 20 and 23 years old. Self-propelled mobile offshore drilling units must also comply and be certified in accordance with the International Maritime Organisation Code for the Construction and Equipment of Mobile Offshore Drilling Units.
- **Passenger vessels** of any age must successfully undergo an entry inspection and subsequent annual inspections. Passenger vessels over 30 years old but not exceeding 40 years of age may be registered provided they undergo an inspection of the hull, machinery and general condition of the vessel in addition to the standard entry inspection and standard annual inspections thereafter. They must also be operated by a Cypriot or EU (or EEA)

shipmanagement company having its place of business in Cyprus, and which is adequately staffed with qualified personnel and certified as compliant with the ISM Code. Passenger vessels over 40 years of age are not normally accepted for registration.

- **Smaller vessels**, including yachts, fishing vessels, auxiliary vessels, ocean going tug boats over 500 tonnes and cargo vessels below 1000 gross tonnes, may also be registered subject to certain conditions.

The age of a vessel is calculated by deducting the year in which its keel was laid from the year in which the application for registration was filed with the Registrar of Cyprus Ships. If a vessel has undergone a major conversion or refit, that may be taken into consideration.

Registration of Cyprus ships - procedure

The registration of a ship is a relatively straightforward process, but understandably requires comprehensive documentation and certificates to be presented to the Registrar of Cyprus Ships. In order to allow the owner time to gather the necessary documentation, a vessel may be provisionally registered for a period of six months (with the possibility of a three month extension) before completing the formalities associated with permanent registration.

Several internationally-recognised classification societies are authorised to conduct audits and issue certificates on behalf of the Cyprus government.

The Cyprus Merchant Shipping Laws further allow the parallel-in or parallel-out registration of a vessel.

Seafarers

Ships flying the Cyprus flag may employ crew of any nationality as long as all crew members hold appropriate certificates of competency issued by the Cyprus authorities or the authorities of the many countries whose certificates are recognised for this purpose.

Advantages of Cyprus mortgages

The key benefits of Cyprus mortgages are as follows:

- Mortgagees' rights are well protected. In the event of default the mortgagee may institute an action for its enforcement in the Cyprus courts or he may exercise the absolute right to dispose of the vessel or any part of it which is subject to his mortgage.
- Once default has been established, actions for the sale of vessels have always been successful in all foreign courts.
- For convenience and security, details of all registered mortgages are kept by the Registrar of Cyprus Ships in Limassol, the Ministry of Communications and

Works in Nicosia, the Cyprus High Commission in London and the Cyprus Embassy in Athens.

- The Registrar and all other Cyprus authorities have demonstrated that they are prepared to go to great lengths to ensure that the rights and interests of mortgagees are protected and enforced.
- All procedural and administrative measures connected with the registration, transfer and discharge of mortgages have been defined so as to be as effective as possible.
- Registration of mortgages can be effected abroad without any delay since the date of delivery of the mortgage to the Cyprus consul becomes the date of registration.
- The status of a mortgage on a provisionally registered vessel is not affected by its permanent registration.
- Mortgage documents are exempt from stamp duty.

Mortgages on Cyprus vessels are widely recognised by international banking institutions which are usually willing to grant loans on the strength of such mortgages and their ranking as afforded by Cyprus law. Furthermore, mortgages may be transferred to another entity by executing the relevant instrument of transfer and submitting it to the Registrar of Cyprus Ships.

Utilization of Cyprus' shipping regime for trade with the People's Republic of China

The bilateral agreements on co-operation in the maritime sphere that Cyprus has concluded with a number of countries provide further business benefits to Cyprus shipping, over and above the existing tax benefits. One of the most important of these agreements at present is the bilateral agreement with China, which complements the existing double tax agreement and provides significant economic advantages to their respective shipping enterprises.

Conclusion

Cyprus' accession to the EU marked the beginning of a new economic era characterised by dynamism and flexibility; and offering significant economic advantages to investors and entrepreneurs doing business worldwide using Cyprus as their base. The shipping industry has been no exception, and the current shipping regime makes Cyprus an ideal base for shipping enterprises wishing to benefit from the booming trade with China as well as the perfect gateway for trade with the EU and the rest of the world.