



# European Commission extends the Cypriot tonnage tax system until 31 December 2029

16 April 2020

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## In brief

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On 16 December 2019, the European Commission (EC) approved the extension of the Tonnage Tax (TT) system and Seafarer scheme applicable to the shipping industry in Cyprus for 10 years starting from 1 January 2020. EC concluded that both schemes are in line with the EU state aid rules.

On 15 April 2020, the Cyprus Parliament enacted the relevant legislation, the Merchant Shipping (Fees and Taxing Provisions) (as amended) Law of 2020 (MSL). The MSL applies from 1 January 2020 to 31 December 2029.

### Key amendments

1. Bareboat charter out agreements remain eligible for tonnage tax, with restrictions introduced for bareboat charter agreements to third parties. Grandfathering provisions are applicable for existing contracts that are captured by these restrictions.
2. A non-exhaustive list of qualifying vessels is introduced.
3. A specific description/list of what constitutes “ancillary services” is included. “Ancillary services” fall under the TT regime, provided that their income does not exceed 50% of the total income generated from Maritime Transport Activities.
4. Incentives, such as up to 30% lower TT, are provided for environmentally friendly vessels.
5. The Seafarer Scheme which applies a zero-rate income tax for crew members on board Cyprus flagged vessels is now extended to EU/EEA qualifying ships engaged in qualifying activities.

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## In detail

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### 1. Bareboat agreements

The MSL introduces the following conditions for the eligibility of third party group Bareboat charter agreements for tonnage tax (there are no restrictions for intra group Bareboat charter agreements):

- a) the bareboat charter agreements must not exceed three years;
- b) they must represent temporary excess capacity related to the beneficiary's own shipping services i.e. excess capacity specifically acquires (bought or chartered) for chartering-out purposes is ineligible for tonnage tax and,
- c) at least 50% of the tonnage taxed fleet must still be operated by the tonnage tax beneficiary.

#### Grandfathering provisions

The MSL has grandfathering provisions for companies that were already taxed under the Cyprus TT system as qualifying owners (under a bareboat agreement) as at 31 December 2019.

Eligible owners will continue to benefit from the TT system until the end of their contract or until 31 December 2022 (whichever is the earliest).

### 2. List of qualifying vessels

The MSL introduces a non-exhaustive list of qualifying vessels:

- a) Cable laying ships, pipe laying ships
- b) Ocean going dredgers, ocean going tugboats
- c) Crane vessels, self-propelled barges
- d) Research vessels
- e) Mobile off-shore drilling units
- f) Off-shore support/servicing vessels engaged in petroleum and gas activities
- g) Multi-purpose, break-bulk and other types of supporting/servicing vessels
- h) Cruise ships
- i) Commercial yachts
- j) Rescue and marine assistance vessels
- k) Guard vessels for maritime security and environmental clean-up purposes
- l) Vessels for raising, repairing and dismantling windmills
- m) Ice management vessels
- n) Accommodation vessels for housing offshore workers at sea
- o) Any vessel which is engaged in the transportation of any United Nations (UN) or European Union (EU) humanitarian aid or is involved in any UN or EU humanitarian relief operations.

The above list may be extended by the Permanent Secretary of the Shipping Deputy Ministry, after prior notification to the EC.

### 3. Core activities / Ancillary services

The MSL provides a definition, as well as a specific list, of what is core maritime activities and ancillary activities.

Moreover, the MSL now clarifies that the revenue that is eligible to be taxed under the TT regime is in principle the revenue generated by core maritime transport activities and ancillary activities, provided that the latter does not exceed 50% of the total income generated by maritime transport activities of each eligible ship.

### 4. Additional environmental preservation incentives

The new MSL now provides for lower TT up to 30%, for Cyprus and/or EU/EEA flag vessel that uses mechanisms for the environmental preservation of the maritime environment and the reduction of the effects of climate change. The relevant eligibility criteria as well as the level of reduction will be announced at a later stage.

## 5. Seafarer Scheme

The Seafarer Scheme is now extended and the zero-rate income tax for crew members that was applicable only to crew on board a Cyprus flagged vessel, is now also applicable to crew on board an EU/EEA qualifying ship engaged in qualifying activities.

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### The takeaway

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The approved MSL retains all the benefits and characteristics of the Cyprus TT regime, it further enhances the position of Cyprus as a reputable maritime cluster and continues the history of more than half a century of stability.

With the MSL, probably the best approved TT system in the EU, Cyprus retains its global position as a leading shipping and ship management centre within the EU.

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### Let's talk

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For a deeper discussion of how this issue might affect your business, please contact:

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