

Information Sheet No. 42

Cyprus: A European Shipping Centre

General

The Republic of Cyprus is the third largest island in the Mediterranean and acts as a stepping stone to three continents: Europe, Africa and Asia through the Middle East.

Cyprus has been a full member of the European Union (EU) since 2004 and a member of the Eurozone since 2008. It is widely considered to be a natural choice for international business and shipping.

The island is serviced by two ports, two international airports, modern marinas, has excellent telecommunications, a relatively low cost of living, bonded and warehouse facilities and a service-oriented economy that is highly skilled and internationally reputable. Cyprus enjoys an extensive Double Tax Treaty network with capital exporting countries and emerging markets.

Cyprus Shipping

The administration of the Register of Cyprus Ships is governed by the Merchant Shipping (Registration of Ships, Sales and Mortgages) Laws, 1963 to 2005, which are based on the British Merchant Shipping Acts, 1894 to 1954. The Merchant Shipping (Masters and Seamen) Laws, 1963 to 2002 and the Merchant Shipping (Fees and Taxing Provisions) Laws, 1992 to 2007, are the other principal merchant shipping laws.

The Department of Merchant Shipping is responsible for the development of maritime activities, which include: Registration of ships, administration of merchant shipping laws, control of shipping and enforcement of international conventions, investigation of casualties, resolving labour disputes onboard Cyprus ships and training and certification of seafarers.

Cyprus has concluded a number of bilateral agreements through which Cyprus ships receive either national or favoured nation treatment in the ports of other countries. It is signatory to numerous international maritime conventions and has signed Double Tax Treaties with more than 40 countries for the avoidance of double taxation.

Key Facts

The Cyprus Registry has shown phenomenal growth in recent years. The island is now ranked as the 10th. largest merchant fleet globally and the 3rd. largest fleet within the EU with a merchant fleet exceeding 22 million gross tons and more than 1,830 registered ships.

Furthermore, Cyprus is considered to be the largest third-party shipmanagement centre in the EU and one of the largest worldwide.

The Cyprus Shipping Industry's contribution to the Cyprus economy exceeds 5% of the Gross Domestic Product (GDP).

It is noted that Cyprus and Malta currently maintain close to 40% of the EU's fleet.



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Memberships and Conventions

Cyprus has been a member of the International Maritime Organisation (IMO) since 1978 and a member of the International Labour Organisation (ILO). It has ratified all major international conventions on maritime safety, prevention of pollution of the sea, training, certification and watchkeeping of seafarers and limitation of ship owners' civil liability in case of the damage caused by oil pollution, and conventions on maritime labour law. Cyprus is also party to the Convention on the High Seas of 1958 and the United Nations Convention on the Law of the Sea of 1982.

Cyprus has ratified or adopted the following maritime conventions:

- SOLAS Conventions 1974, 1978 and 1988 Protocols as amended
- Load Lines Convention 1966, 1988 Protocol
- Tonnage Convention 1969
- ColRegs Convention 1972 as amended
- Safe Containers (CSC) Convention 1972
- STCW Convention 1978 and 1995 amendments
- Search and Rescue Convention (SAR) 1979
- Special Trade Passenger Ships Agreement 1971, 1973 Protocol
- INMARSAT Convention 1976, 1994 and 1998 amendments
- MARPOL1973/78, Annex I/II, Annex V
- London Dumping Convention 1972
- Civil Liability Convention (CLC) 1969 (denounced), 1976, 1992 Protocols
- FUND Convention 1971 (denounced), 1976, 1992 Protocols
- Suppression of Unlawful Acts (SUA) Convention, 1988 and Protocol
- Space Requirements for Special Trade Passenger Ships, 1973 (SPACE STP 1973)
- Convention Concerning the Repatriation of Seamen, 1926 (Convention No.23)
- Convention Concerning Crew Accommodation onboard Ships, Revised 1949 (Convention No.92)
- Convention Concerning Minimum Standards in Merchant Ships, 1976 (Convention No.147)

Recent Developments

The Cyprus flag has been upgraded to the Paris and Tokyo's Memoranda of Understanding (MOU's) "whitelist" and was also accepted as a full member of the Paris and Tokyo MOU on Port State Control, thereby significantly enhancing its reputation as an internationally recognized quality flag. The Cyprus flag has also been removed from the US Coast Guard's annual targeted flag list.

In March 2010, the European Commission officially approved the new, fully revised and upgraded Cyprus Shipping Taxation System, which will set more favourable guidelines for the calculation of taxable gross tons.



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The new Taxation System will provide for further aid granted to shipmanagement companies and Cyprus will be able to cover in their most modern form, the three basic shipping activities that are offered today in International Shipping, namely Shipowning, Shipmanagement and Chartering of Vessels. Ship managers have the option to use either Tonnage Tax or Corporation Tax for their commercial management needs. If Corporation Tax is chosen, commercial management is taxable at a flat rate of 12.5%. If Tonnage Tax is chosen, commercial management is taxable at predefined Tonnage Tax rates.

The upgraded taxation system is described as the only approved system in the EU for open registry and is designed to attract shipping companies that have set up their operations both within and outside the EU.

The Cypriot VAT Department has recently implemented yacht leasing schemes applicable to pleasure yachts, thereby allowing yacht owners to benefit from the most attractive VAT regime within the EU. Under the VAT on Yacht Leasing Regulations of March 13 2012, only a percentage of the lease value should be subject to Cyprus's standard VAT rate of 19%. Depending on the size of the yacht concerned, the effective rate of VAT will vary between 3.8% to 11.4% of the lease value. The variation is by reference to length, type of yacht (motor or sailing) and the yacht percentage of use within EU territorial waters. Specifically at the end of the leasing scheme, the lessee furnishes the VAT Department with documentation and a VAT paid certificate is issued confirming that all VAT due has been paid on the yacht.

Legal Entities in Cyprus

Cyprus has shown itself to be an ideal centre for the establishment of legal entities for the conduct of shipping activities and for the rendering of shipping services worldwide for both Cyprus and non-Cyprus registered ships.

- No income tax is payable on the profits earned or dividends paid by a Cyprus Shipping Company which owns ships under the Cyprus flag and operates in international waters, or on the salaries of officers and crews of such ships.

Cyprus Shipping: Competitive Advantages

- Cyprus is a Member of the EU and a democratic country with a free market economy
- Modern and efficient legal, accounting and banking services based on English practices
- Excellent telecommunications and easy access by air and sea
- Highly qualified managerial, clerical and technical staff available
- Availability of parallel registration
- No exchange control and freedom of movement of foreign currency
- No estate duty on the inheritance of shares in a ship-owning company
- No stamp duty on ship mortgage deeds or other security documents
- No capital gains tax on the sale or transfer of a Cyprus-registered vessel or the shares of a ship-owning company
- Liberal Foreign Direct Investment regime allowing up to 100% foreign participation in most sectors of the economy



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- Full protection for financiers and mortgagees
- Favourable tax regime for shipmanagement and other international enterprises
- Bilateral agreements with some 30 countries, signatory to international maritime conventions and Double Tax Treaties with more than 40 countries

Conclusion

The Cyprus Flag's course through the waters of the EU is turbulent-free and the Cyprus Registry now stands worthily against the International Shipping Community with safety levels and tax regimes the same and in many cases better than those implemented by the EU. Cyprus is sending out the message that it has embarked on a new era and that as an international business and shipping centre, it will keep improving and expanding.

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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