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Exemption from tax of interest derived from qualifying international shipping activities



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Shipping & Transport, Cyprus

The Tax Department recently issued a circular⁽¹⁾ clarifying the exemption from tax on interest received that is available to owners, charterers or managers of ships that opt to be taxed under the Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (the tonnage tax law).⁽²⁾

Article 8(d) of the tonnage tax law, which regulates the taxation of shipowners, provides that:

"No tax shall be imposed or collected, except as provided in this Law... except from interest on funds used for investment, on any interest on working capital and/or income derived by an eligible shipowner from a relevant eligible shipping activity in bank accounts, if such working capital or income is used for funding purposes or/and the use and/or maintenance of the ship."

Articles 20(d) and 30(d) include the same provision for ship charterers and managers, respectively.

According to the circular, Articles 8(d), 20(d) and 30(d) of the tonnage tax law are to be interpreted as exempting from all taxes, including income tax and special contribution for defence, on interest received or credited to eligible owners, charterers and managers of ships regarding bank accounts:

- which are used as working capital; or
- in which all of the deposited funds are derived exclusively from eligible shipping activity and used exclusively to finance eligible shipping activity carried out by their beneficiaries.

Qualifying bank accounts include existing and deposit accounts owned by participants in the tonnage tax scheme or by a special purpose entity established to manage the eligible shipping income whose beneficiaries are the eligible owners, charterers and managers of ships.

No exemption is available regarding interest on funds used for investment purposes or funds used for any reason other than the funding of an eligible shipping activity, even if these funds are derived from eligible shipping income. Further, there is no exemption for interest on bank accounts of which the beneficiary is not an eligible owner, charterer or manager of a ship.

To avoid special contribution for defence tax being deducted at source from Cyprus-resident accounts and subsequently having to be reclaimed, the requisite declaration should be submitted to the bank holding the account.⁽³⁾

For further information on this topic please contact Philippos Aristotelous at Andreas Neocleous & Co LLC by telephone (+357 25 110 000) or email (aristotelous@neocleous.com). The Andreas Neocleous & Co LLC website can be accessed at www.neocleous.com.

Endnotes

(1) Circular 2016/12 dated September 16 2016.

(2) Law 44(I)2010.

(3) Declaration for exemption from special defence contribution of legal persons (Form TD 624/LP) or Declaration for exemption from deduction of special defence contribution of a physical person (Form TD 624/PP).

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