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# Tonnage tax: maintenance of prescribed levels of EU-flagged vessels



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## Shipping & Transport, Cyprus

The Merchant Shipping (Fees and Taxing Provisions) Law<sup>(1)</sup> requires that in order to qualify for the tonnage tax scheme, EU-flagged ships (ships lawfully registered in and flying the flag of an EU member state or any other contracting party to the European Economic Area Agreement) must account for at least a specified minimum percentage of the taxpayer's fleet. This reference share is calculated at the date of entry to the tonnage tax scheme.

The tonnage tax law requires the Department of Merchant Shipping (DMS) to assess the EU-flagged share of each participant in the tonnage tax scheme in the third year from the date of opting to be taxed under the tonnage tax system.

The DMS has recently announced the arrangements for the December 31 2016 review, which will cover companies that entered the tonnage tax system on January 1 2014 or during the preceding 12 months.

Any company or group of companies whose EU-flagged share at the time of assessment is less than its reference share and is no greater than 60% may not introduce any additional non-EU ships into the tonnage tax system until it increases its EU-flagged share back to at least the level of its reference share.

However, the tonnage tax law<sup>(2)</sup> and the Tonnage Tax (Special Provisions for the Calculation of the Community Flagged Share) Notification of 2010<sup>(3)</sup> allow owners, charterers or managers to introduce additional non-EU vessels if the aggregate share of EU-flagged ships in their individual sector has increased compared to the reference date. Taxpayers taking advantage of this provision are subject to a 10% surcharge on the total amount of tonnage tax payable for all qualifying non-EU ships in the fleet.

According to DMS calculations, the global share of EU-flagged ships has decreased in comparison to 2014 for all categories of tonnage tax payer, that is:

- owners (from 28.67% to 27.29%);
- charterers (from 70.51% to 62.39%); and
- ship managers (from 54.23% to 51.97%).

This means that for fiscal year 2016, the option of introducing additional non-EU vessels and paying the surcharge is unavailable to any category of tonnage tax payer.

Owners of foreign ships, charterers and ship managers whose EU-flagged share at December 31 2015 is less than 60% and less than their reference share may not include additional non-EU ships in the tonnage tax scheme until they increase their EU-flagged share to at least their reference share. Any additional ships will be treated as non-qualifying ships, in respect of which the taxpayer will be liable for corporate income tax on their profits and must maintain separate books, records and accounts as provided by Article 44 of the Merchant Shipping (Fees and Taxing Provisions) Law.

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### Endnotes

(1) Law 44(I) of 2010.

(2) Articles 15(3)(a), 25(3)(a) and 35(2)(a).

(3) PI 536/2010.

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