

Cyprus tax system: Catalyst for maritime growth

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Cyprus today: A fully fledged shipping centre

3rd

**Largest fleet in EU and 11th
worldwide**

Largest

**Management centre in the
EU and in top 5 worldwide**

20% of the world 3rd party shipmanagement market

Flexible DMS, cooperative tax office, willing government

Stable environment and consistent shipping policy



Only EU approved TT system that

Has whatever the EU guideline allows – probably the best in the EU

Provides for TT on net tonnage of the vessels, than CIT on actual profits, regulated completely by the Department of Merchant Shipping rather than the Tax Authorities

Applies to owners, charterers and shipmanagers of mixed fleets

Grants *total* tax exemption of profits tax and distribution tax at *all* levels

Allows *mixed* activities (shipping subject to TT and other subject CIT) within a company/group

Allows *split* shipmanagement activities (crewing or technical)

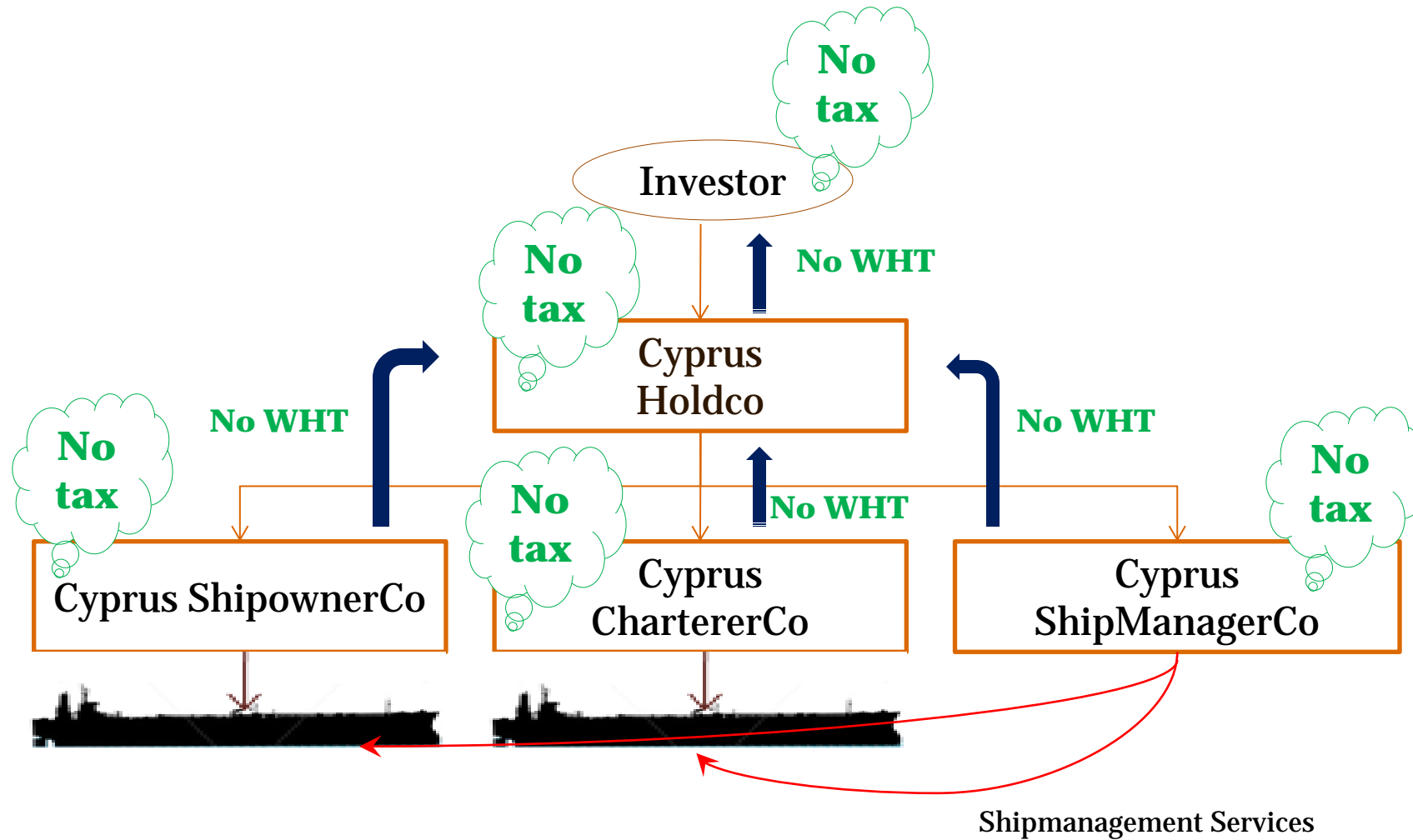
.... and if TT does not apply

- Non shipping profits taxable at 12,5% (lowest corporate tax rate in EU)
- Tax depreciation on vessels available
- Additional exemptions from income tax legislation:
 - ✓ Dividend exemption
 - ✓ Sale of shares exemption
 - ✓ Permanent Establishment exemption
 - ✓ No withholding taxes
 - ✓ Tax free exit route
 - ✓ Forex exempt unless trading
 - ✓ Sale of ship exemption
 - ✓ NID

Summary of the taxation benefits

Activity	CIT	SDC	Tonnage tax
Shipowners: <ul style="list-style-type: none"> • CY flag • EU/ EEA flag • Other flag 	Exempt Exempt Exempt (fleet)	Exempt Exempt Exempt	Compulsory Optional Optional
Shipmanagers & charterers: <ul style="list-style-type: none"> • CY flag • EU/ EEA flag • Other flag 	Exempt Exempt Exempt (fleet)	Exempt Exempt Exempt	Optional Optional Optional
Interest income : Relating to shipping activities Not relating to shipping activities but part of financing activity Passive interest income not relating to shipping activities	Exempt 12,5% Exempt	Exempt Exempt 30%	No additional No No
Non shipping income: Non qualifying shipping activities Profits from foreign PE Sale of titles (shares, bonds, debentures etc) Non shipping dividends	12,5% Exempt* Exempt Exempt	Exempt Exempt Exempt Exempt*	No No No No
Payment of dividends, interest and royalties	No WHT		

Total tax exemption



Financing shipping activities

- Intra group financing needs attention as it is not covered by TT
- Sale & leaseback can be a very tax efficient option if structured properly
- Cash pooling arrangements may be part of TT
- No withholding taxes on payments of interest from Cyprus to non Cyprus lenders
- Cyprus financing company can be a very attractive option
- FinCo can be funded with either debt or equity
- Interest deduction available for debt, under transfer pricing approved arrangements
- Interest deduction also available for equity, using Notional Interest Deduction (NID)

Notional interest deduction

$$\text{NID deduction} = \text{New equity} \times \text{NID interest rate}$$

Share capital and share premium introduced as from 1 January 2015

- Paid-up
- Cash or assets-in-kind

For assets-in-kind the market value of asset must be substantiated

Yield on 10 year government bonds **of the country where the funds are employed** in the business + **3%**

- Minimum rate is yield on 10 year Cyprus government bonds + 3%
- Reference date: 31 December of prior tax year

- Tax deductible when financing “business assets” which produce taxable income
- NID cannot exceed 80% of the taxable profit
- NID is optional
- If fully claimed, effective tax rate is 2,5%

International tax developments

At global level - BEPS

OECD action plan: 15 actions with 3 key themes: Coherence – Substance – Transparency

At EU level - ATAD

Member States to enact law that implement BEPS outcomes on:

- interest limitation rules
- hybrid mismatches, and
- controlled foreign companies (CFCs)

as well as additional measures on:

- exit taxation, and
- a general anti-abuse rule (GAAR)

by 31 December 2018 with application no later than 1 January 2019.

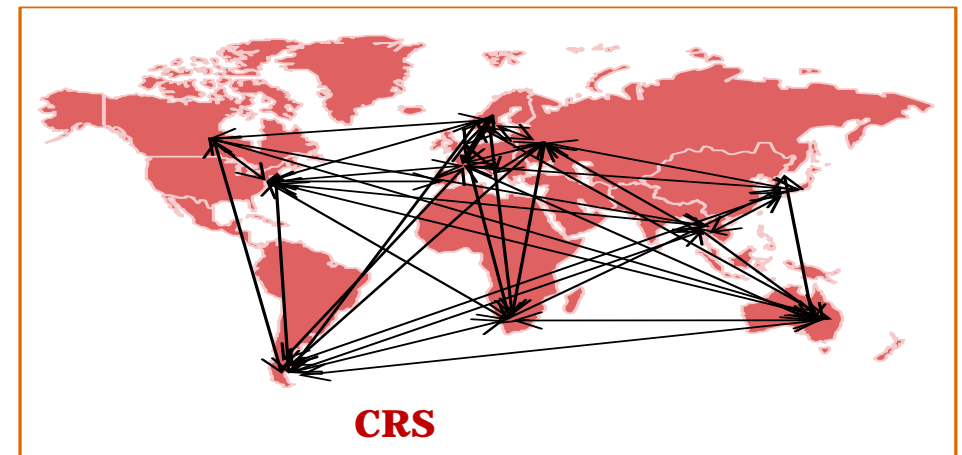
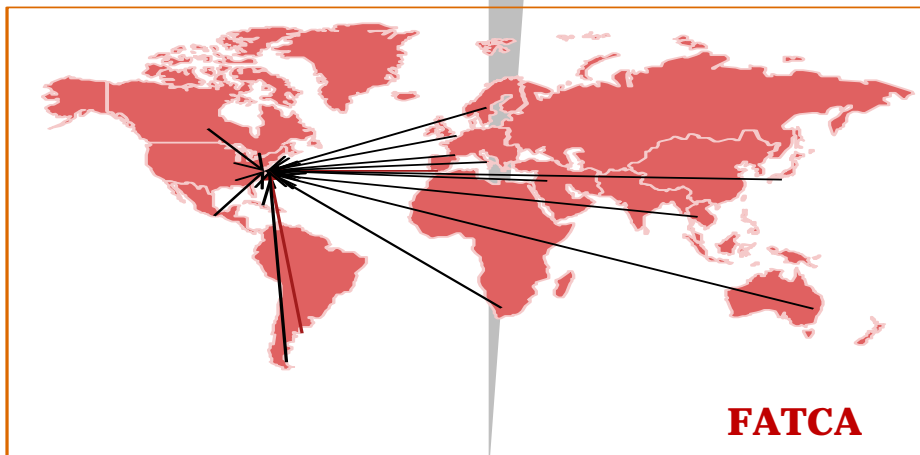
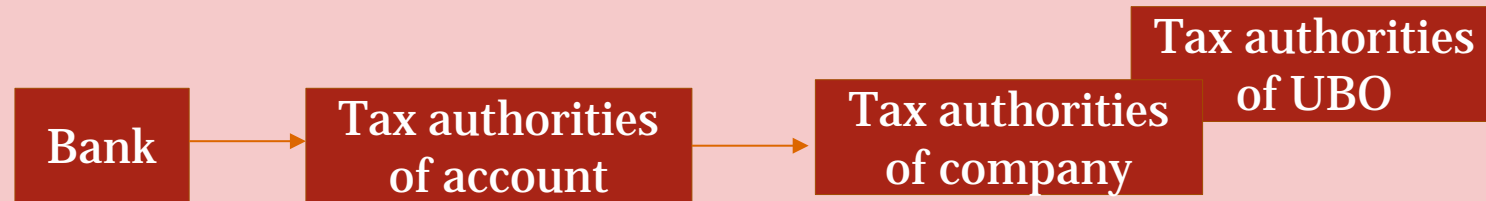
At Cyprus level

Local legislative changes taking place

OECD Common Reporting Standard - “A game changer”



- CRS puts an end to bank secrecy and general non transparency
- All EU and frequently used offshore jurisdictions, so transparency is unavoidable
- Reporting: 1st wave countries in 2017 and 2nd wave 2018



Impact on shipping

The shipping industry is likely to be affected both directly and indirectly by the BEPS initiative:

Directly

By the new laws and policies that are likely to be introduced in various countries to tackle “aggressive tax planning”.

- The ‘Flag of convenience’ might get more attention as the preferential regimes will be more exposed to regulations and rulings from other countries if the preferential regime is found to be harmful based on the 3 key factors.
- The CbC reporting will have an effect on the shipping industry, as taxes paid compared to profit in each country will be illustrated and might be questioned.
- Transfer pricing issues
- Revision of Article 8.

Indirectly

By the negative change in public opinion towards businesses that do not pay their “fair share” of taxes.

Substance

Can easily create substance:

- Not an expensive jurisdiction
- Easy to structure business
- 320 days of sunshine!
- International schools
- Crime free environment
- Incentives for expatriates – top tax rate is 17,5%
- Resident non dom exemption (no tax on investment income of expats)
- 5% flat tax on pensions
- Pension lump sums exempt



Crisis time is perfect time to make changes and take action!

- Many reasons why Cyprus has a major role to play in East Med
- Many reasons why shipping companies should use Cyprus
- Minimisation of tax cost much easier than reduction of expenses
- Review of legal structure
- Review of operational structure
- Change of tax residency of existing shipping companies
- Ship re-flag / parallel registration
- Transfer of vessels, charter agreements within a group
- Exit charges low if values are low
- Take advantage of PE exemption

BEPS related action

Ideas to consider

- Companies should proactively seek to understand their current position against the action points under BEPS
- Assess the current position against the areas of international taxation attracting attention
- Prepare a globally consistent tax planning strategy

Value creation

- Reduce the risk and future exposure to double taxation
- Maintain operational competitiveness at a time where tax positions are to be challenged
- Gain protection in an environment of heightened tax audits and disputes
- Prepared with the story behind the international tax strategy and the right facts in place, before tax positions are made available to tax authorities and wider stakeholders across the globe

Thank you!

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