

Cyprus sets course to retain favorable tonnage tax system*June 2009***European Commission Guidance on State Aid**

The European Commission released last week its much-anticipated new and detailed guidance on state aid granted to shipmanagement companies, which brought Cyprus and Malta one step closer to retaining their favorable tonnage tax systems.

The Commission's newly released guidelines did not alter its previous instructions which allowed shipmanagement companies to enter into tonnage tax regimes by giving member states the choice to decide whether they provide for this in their own legislation.

While some countries with significant shipmanagement industries, such as Cyprus, do so, others, including the UK, do not. Cyprus offers a corporate tax rate discounted from the standard 10% to just 4.25% for shipmanagement.

The development may mean that Cyprus-registered shipmanagement companies generating profits from shipping activities of both Cyprus flag and non-Cyprus flag ships will continue to be taxed at 4,25% on their individual ships' total tonnage. The whole issue should be finalized by September.

Tonnage Tax

Meanwhile, the new commission guidance did dictate that shipmanagers can benefit from tonnage tax even if crewing and technical management are provided separately. Until now, only shipmanagers that provided technical and crewing management jointly for the same ship were eligible to join a tonnage tax scheme, on the basis that these were services that would otherwise be provided directly by the shipowner, which could benefit from entry into tonnage tax regimes.

The new guidance emerged from a review of the 2004 guidelines on state aid to maritime transport and the associated rules applying to shipmanagement companies. They included a commitment to re-examine after three years the eligibility of shipmanagers for tonnage tax. The review concluded that outsourcing part of a ship's operation should not be fiscally penalised, and therefore 'that crew and technical management would be eligible if they were supplied individually.'

The Commission however requires that the ships managed are fully compliant with international safety rules, and, as for crew managers, 'they apply substantial provisions of the 2006 Maritime Labour Convention,' ahead of its entry into force, which is expected in 2011.

It is noted that Cyprus and Malta maintain 35-40% of EU's fleet.

NOTES:

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