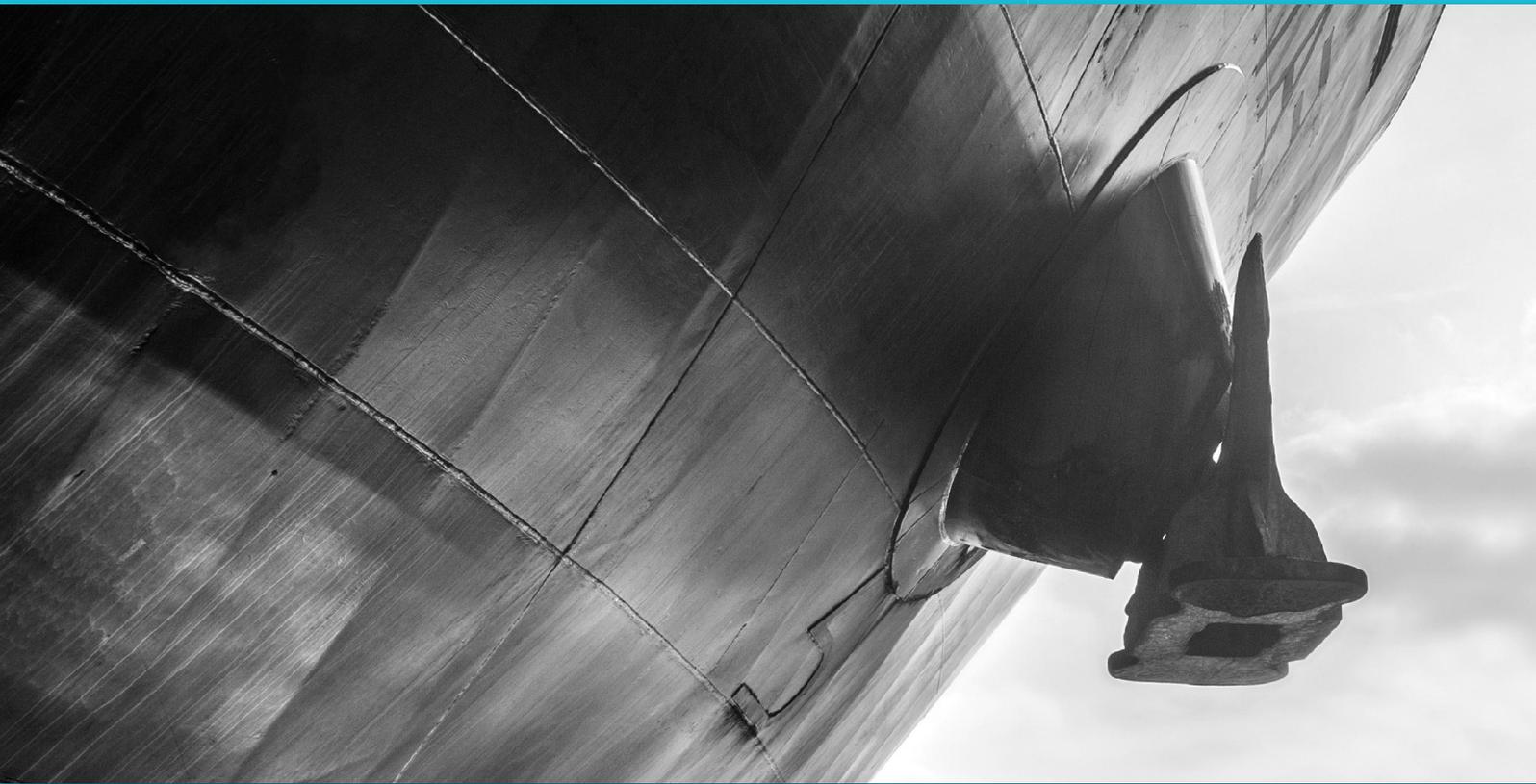


SHIPPING IN CYPRUS
A SOLID
MARITIME
INFRASTRUCTURE



TOTALSERVE



TOTALSERVE SHIPPING DEPARTMENT	4
OUR SERVICES	6
OWNERSHIP	8
REGISTRATION OF SHIPS IN CYPRUS	9
CYPRUS VAT LEASING SCHEME FOR YACHTS	13
THE CYPRUS TONNAGE TAX SYSTEM	10

TOTALSERVE is a renowned award winning global service provider specialized in the fields of international tax planning, corporate, trusts, property, shipping and fiduciary services worldwide. Other services pertaining to legal, accounting and audit are also offered through associated firms.

Headquartered in Limassol, Cyprus, the group maintains jurisdictional presence across four continents.

Our professionals are multidisciplinary and multinational, comprising of experienced accountants, bankers, tax and legal consultants.

The fusion of this expertise, combined with long established international affiliations, yields optimal comprehensive solutions with a global perspective.

We remain committed to delivering practical solutions for a broad clientele ranging from large multinationals, banking institutions and professionals to high net worth individuals and entrepreneurs from around the globe.

Our highly qualified team of lawyers are able to attend the needs of ship owners, ship operators, and other professional engaged in shipping related business.

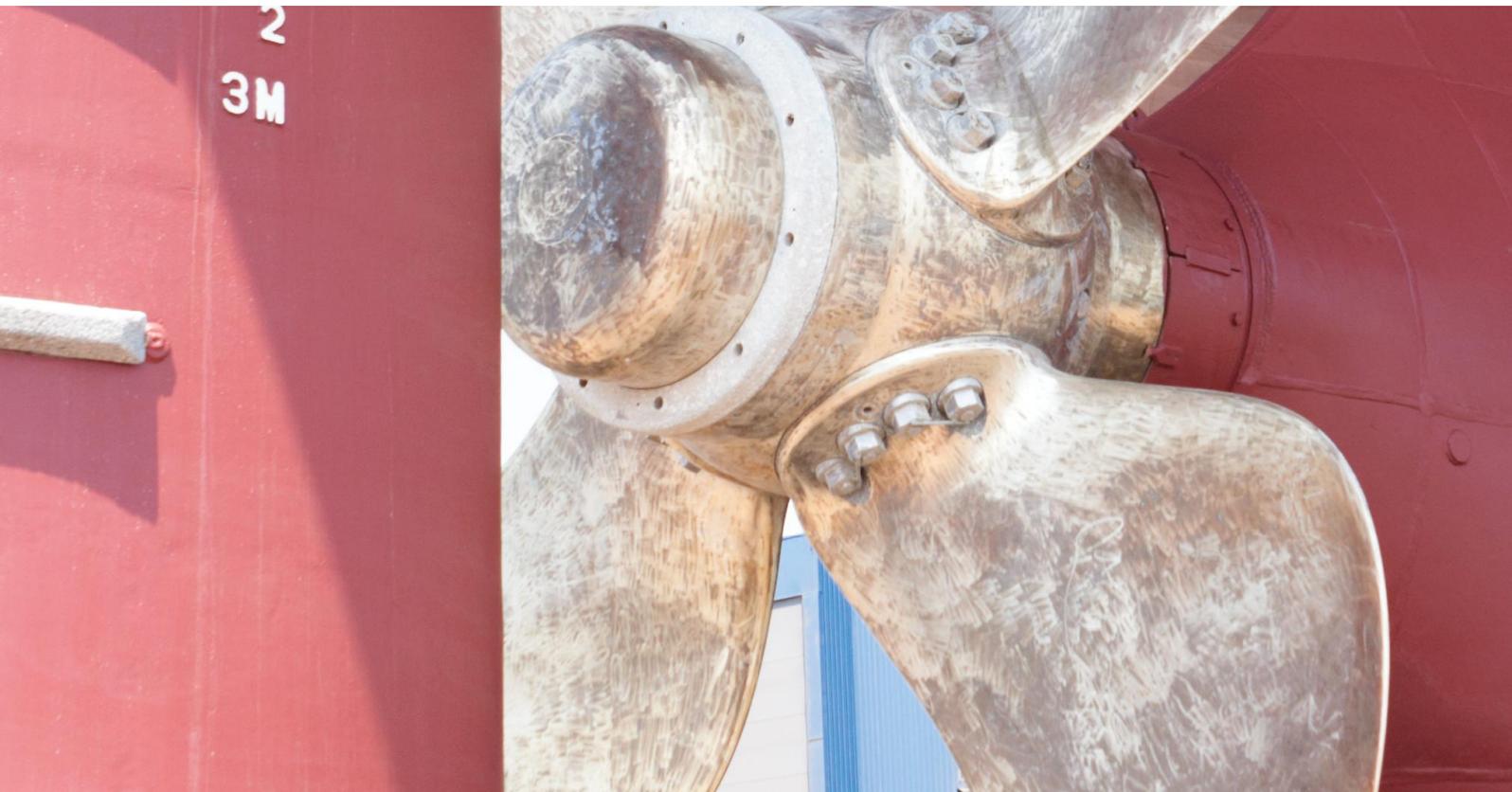
With reference to the Cyprus shipping flag, Cyprus is considered to be a prime choice for international business and shipping. As of the 1st of March 2018, the Shipping Deputy Ministry ("SDM") is responsible for the promotion and development of maritime activities and the Cyprus maritime industry in general, which include registration of ships, administration of merchant shipping laws, control of shipping and enforcement of international conventions, investigation of casualties, resolving labour disputes on board Cyprus ships and training and certification of seafarers. Since its establishment, the Cyprus shipping industry has seen significant development in term of efficiency, productivity and modernization.

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, as of today, has signed Double Tax Treaties with many countries for the avoidance of double taxation.

The shipping industry is one of the strongest and most significant sectors in the Cyprus economy. The Cyprus Registry which is considered internationally as one of the most qualitative and safest registries globally, was classified as the eleventh largest merchant fleet in the European Union ("EU"). Furthermore, Cyprus maintained its position as the largest Shipmanagement Centre in the EU and among the three largest globally.



OUR SERVICES



Having a long experience on shipping law we offer to our clients any kind of the services related to the legal aspects of maritime affairs such as:

- Registration of shipping companies;
- Ship and yacht registration;
- Drafting and negotiation of charter party and seafarers contracts;
- Drafting or reviewing of agreements on sale and purchase of ships;
- Drafting or reviewing of ship management agreements/contracts;
- Drafting and registration of mortgages and deeds of release;
- Providing services of authorised representative;
- Cyprus Yacht Leasing Scheme;
- Transfer of ownership/name;
- Change of name;
- Tax planning and structuring of ship owners via the Cyprus Tonnage Tax System and various qualifications;
- Tax planning and structuring on sale or purchase of yachts; and
- Payroll management and employment matters.

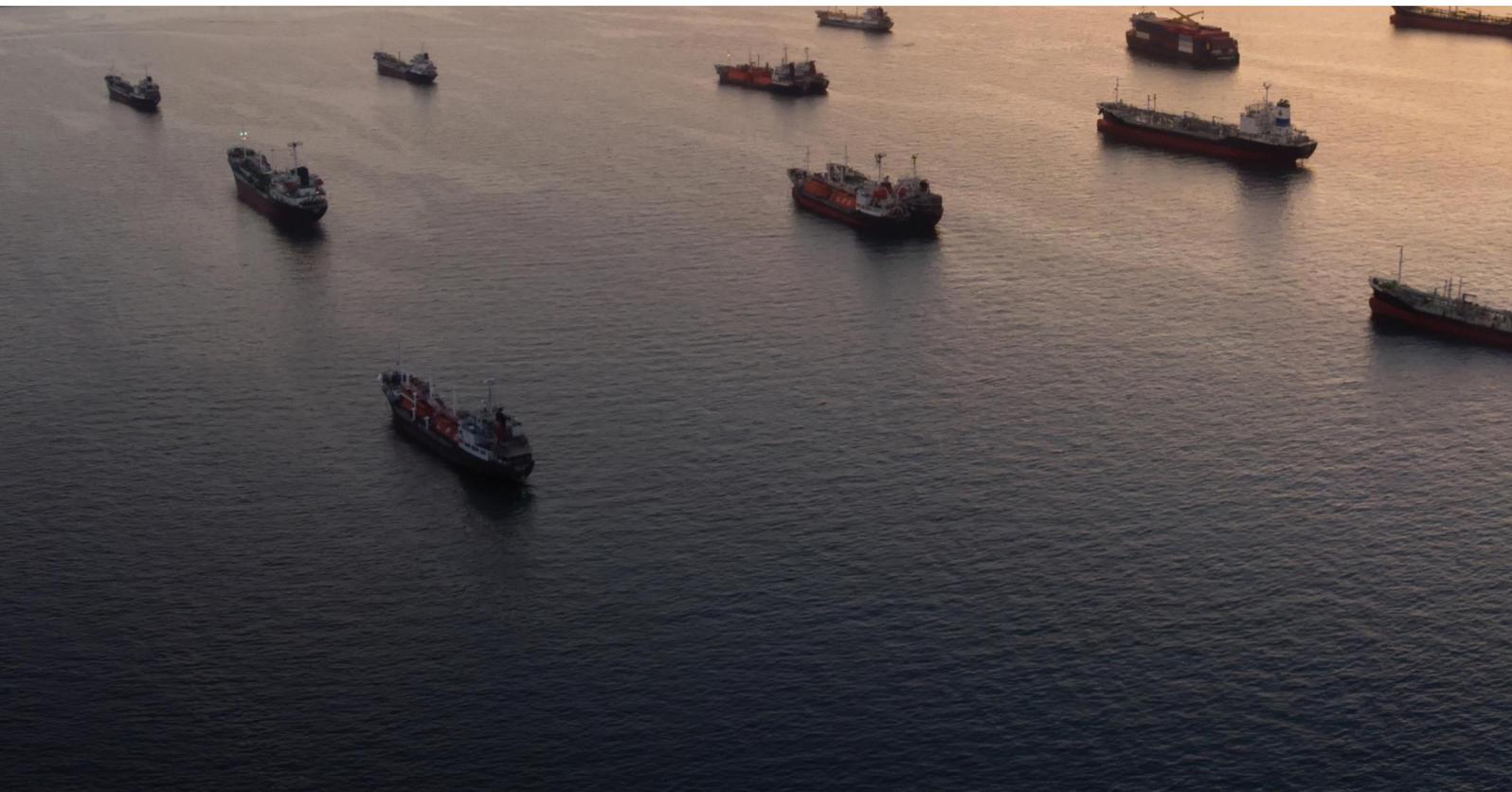
WHY CYPRUS IS CONSIDERED TO BE A PRIME CHOICE FOR INTERNATIONAL BUSINESS AND SHIPPING?

- A significant centre for shipping operations;
- Strategic location and time zone;
- The largest third party ship management centre in Europe and among the top five (5) in the world;
- Member of the EU and the European Monetary Union ensuring safety and stability for investors;
- Member of the IMO Council since 1987;
- Politically stability and well developed ties with Europe;
- Robust legal and regulatory framework;
- Top quality accounting, auditing, tax, business and legal services;
- High skilled and multilingual shipping workforce;
- Provision of quality and professional services to the shipping industry;
- Leading maritime cluster encompassing the full range of shipping and shipping related activities;
- Comprehensive and favourable Tonnage Tax System approved by the EU, applicable to ship owners, charterers and ship managers.

WHY CYPRUS FLAG?

- Among the top ship registries in the world;
- Third ship registry in Europe;
- Classification of Cyprus flag in the White List of the Paris and Tokyo MoU and removal from the "List of Targeted Flag States" of the United States ("U.S.") Coast Guard resulting in fewer inspections of the ships and delays at the ports of both MoUs and the U.S.;
- A network of local inspectors of Cyprus ships, covering important ports worldwide in order to ensure efficient and effective control of Cypriot vessels and to avoid detentions by port state control;
- Signatory to international maritime conventions on safety, security and pollution prevention;
- Bilateral agreements with more than twenty-seven (27) countries, through which Cypriot ships receive either national or favoured nation treatment in the ports of other countries;
- Simplified registration procedures;
- Low registration costs;
- Comparative cost advantage in setting up and operating Cyprus companies;
- Strong representation in important shipping centres;
- No exchange control and freedom of movement of foreign currency;
- No income tax on the earnings of officers and crew members and master of a qualifying Cyprus ship;
- No tax on profits from the operation or management of a Cyprus-registered vessel or on dividends received from a vessel owning company;
- No capital gains tax on the sale or transfer of a Cyprus-registered vessel or the shares of a vessel owning company;
- No stamp duty on ship mortgage deeds or other security documents; and
- Access to a wide network of Double Tax Treaties and to applicable EU Directives.

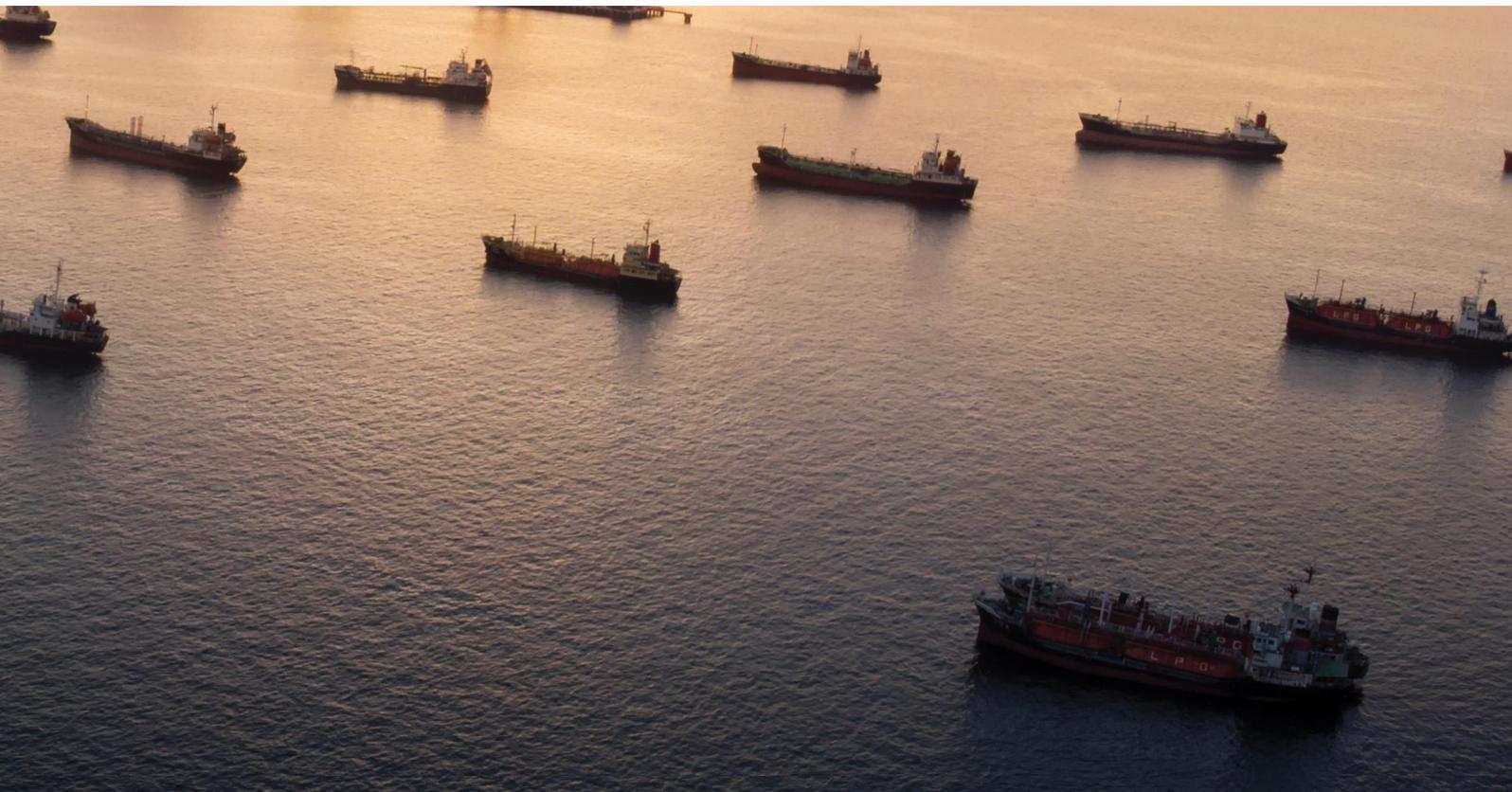
OWNERSHIP



The Merchant Shipping (Registration of Ships, Sales and Mortgages) Law of 1963 (45/1963), as amended, sets out the conditions to be satisfied in order to register a vessel in Cyprus, which requirements are:

1. more than fifty percent (50%) of the shares of the ship are owned by:
 - i. Cypriot citizens; or
 - ii. Citizens of any other EU/European Economic Area ("EEA"), who if they are not permanent residents of the Republic of Cyprus will have appointed an authorised representative in the Republic of Cyprus;or
2. 100% of the shares of the vessel are owned by one or more corporations, which have been established and operate:
 - i. in accordance with the laws of the Republic and have their registered office in the Republic;
 - ii. in accordance with the laws of any Member State of the EU/EEA and have their registered office, central administration or principal place of business within the EU/EEA and which will have either appointed an authorised representative in Cyprus or have entrusted the management of the ship to an EU/EEA ship management company having its place of business in Cyprus; or
 - iii. outside Cyprus or outside any other Member State of the EU/EEA but controlled by Cypriot citizens or citizens of Member States of the EU/EEA and have either appointed an authorised representative in Cyprus or entrusted the management of the ship is entrusted to an EU/EEA ship management company having its place of business in Cyprus.

REGISTRATION OF SHIPS IN CYPRUS



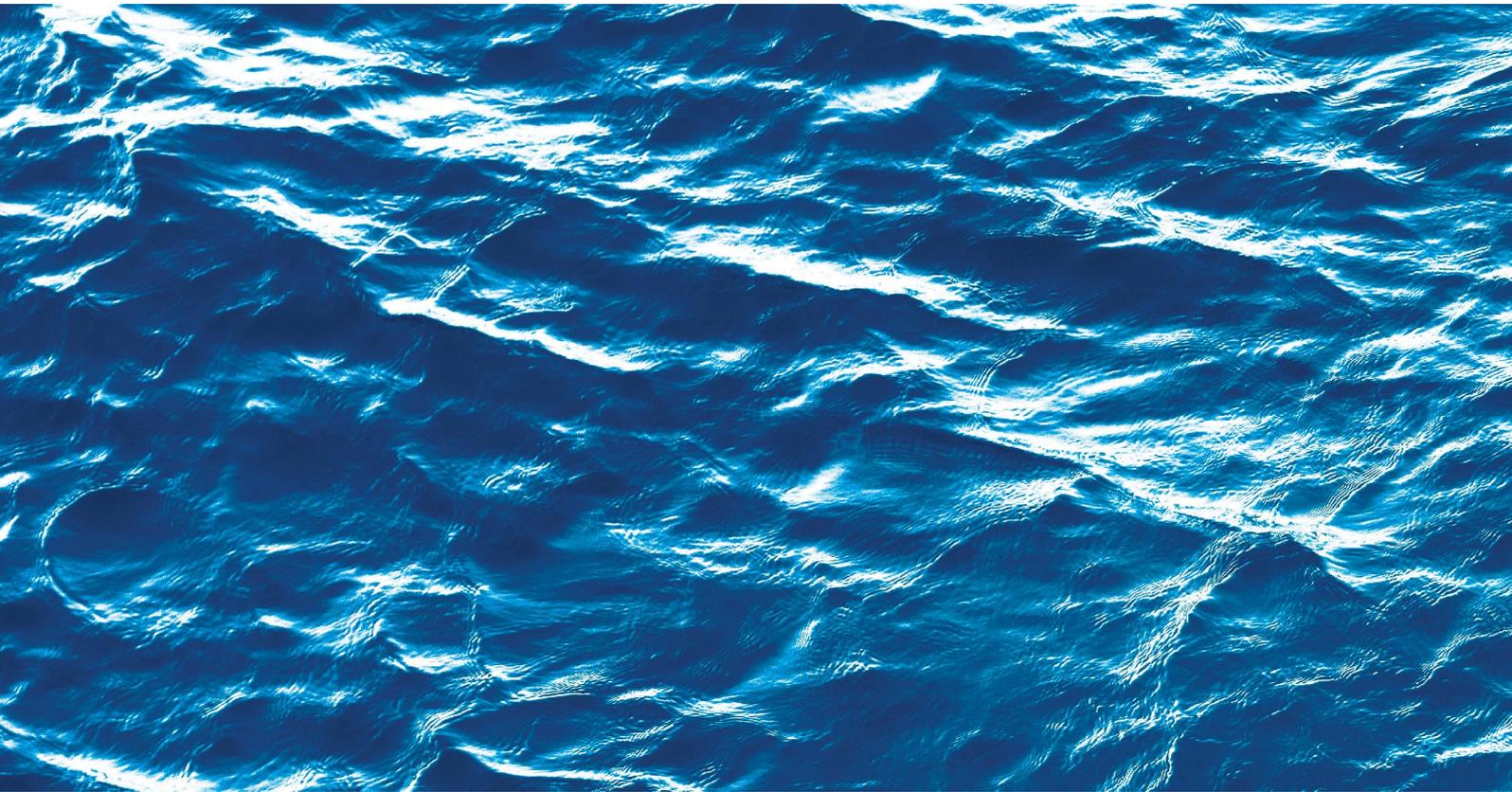
Provisional registration: At the time of her provisional registration under the Cyprus flag a ship must be at a port so that she can be surveyed and certified on behalf of the Cyprus government. The presence of the ship at the port or place where the provisional registration will take place is not necessary. The duration of the provisional registration lasts for six (6) months from the date of the issuance of the Provisional Certificate of Registry, with the option to be extended for three months.

Permanent registration: The permanent registration of a provisionally registered vessel must be effected within six (6) months (or nine (9) months if the three (3) months extension has been granted) from the date on which the vessel was provisionally registered. The port of registry marked on the stern of the ship must be the port of the foreign country.

Parallel-in registration (Bareboat Charter): Assuming the law of the country where the vessel is registered allows for the parallel-in registration, the vessel can be registered in parallel under the Cyprus flag. This registration is for two years and renewable.

Parallel-out registration (Bareboat Charter): Cyprus ship can be bareboat chartered to a foreign individual or corporation and register parallel in a foreign register for the duration of the charter party.

CYPRUS VAT LEASING SCHEME FOR YACHTS



The Cyprus Tax Department released in December 2019 the Interpretative Circular 240 (VAT Tax), referring to the registration, in the VAT Registry, of Cypriot companies which operate in the business sector of leasing pleasure yachts (recreational boats) in Cyprus.

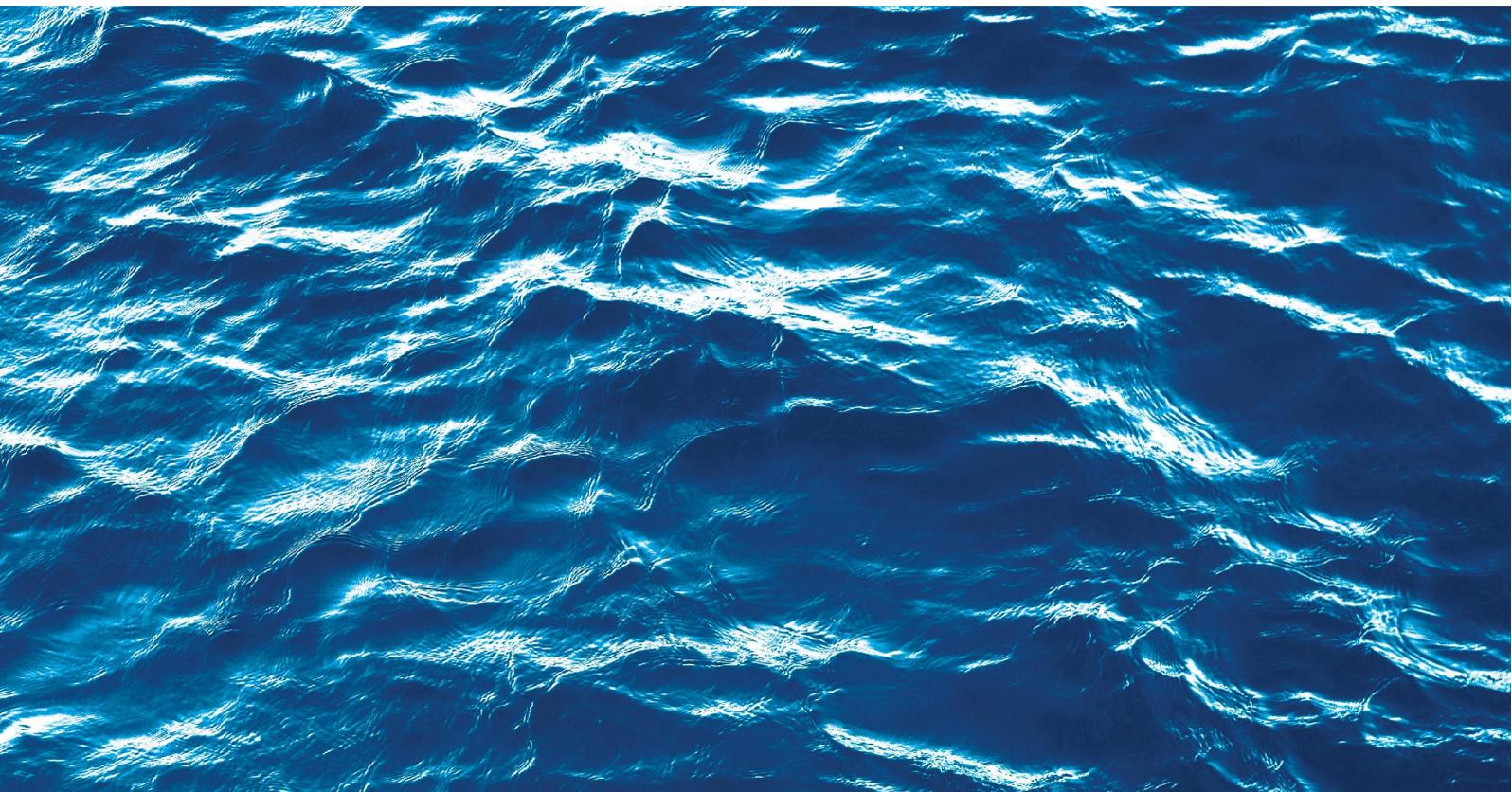
This Circular applies to leases commencing from the 23th day of December 2019 and after, introducing new procedures, which are in compliance with the European and Cypriot Law and have been approved by the European Commission.

Pursuant to the Circular, the legal entities which operate in the business sector of leasing pleasure yachts in Cyprus shall be registered in the Cyprus Tax Department, only when there are relevant documentation evidencing such business activity.

As per the decision of the Court of Justice of the European Court in Mercedes-Benz Financial Services UK Ltd (Case C-164/16), the lease agreement must relate to the supply of services and not to the supply of goods. Agreements on purchase/lease of goods, which provide to the lessee the option to purchase the good, and under the financial terms of the agreement, the exercise of the right to purchase seems to be the only economically rational choice, concern delivery of goods for taxation purposes and not the supply of services.

Effective VAT rates

Based on the VAT on yacht Leasing Regulations of March 2012, only a percentage of the lease value should be subject to Cyprus standard VAT rate of 19%. The effective rate of VAT will vary between 1.9% to 11.4% of the lease value depending on the size of the yacht concerned.



Lease terms

The Cyprus scheme requires an initial lease payment of 40% and allows a lease period of 4 years. Although compared to Malta, Cyprus requires a higher profit to be earned by the lessor over the term of the lease (5% compared to 1%) and sets a higher minimum price for the lessor to purchase the vessel at the end of the lease (2.5% of the original cost compared to 1%).

Cyprus is a well-established maritime centre with many other advantages, in terms of its location, communications and environment, and the new leasing scheme makes it a formidable competitor in the pleasure craft sector.

Conditions where VAT rates are applicable

- The agreement is made between a Cyprus established company registered for VAT in Cyprus and any physical or legal person irrespective of origin.

- The vessel sails to Cyprus within one month of signing of the lease agreement.
- Initial lump sum payment is at least 40% of the value of the vessel
- The lease payments is payable on a monthly basis and the term of the lease agreement cannot be shorter than 3 months (91days) and cannot exceed 48 months.
- The lessor is expected to attain a profit margin from the lease agreement of at least 5% of the value of the vessel.
- The final payment is not less than 2.5% of the value of the vessel
- Written approval of the VAT Commissioner is obtained in advance.

THE CYPRUS TONNAGE TAX SYSTEM

Qualifying owners of Cyprus and foreign ships, charterers and ship managers who are approved to be taxed under the Tonnage Tax System (the "TTS") are subject to an annual tax referred to as tonnage tax, which is calculated on the basis of the net tonnage of the qualifying ships they own, charter or manage.

The TTS is available to any owner, charterer or ship manager who owns, charters or manages a qualifying ship engaged in a qualifying shipping activity.

1. Owners of Cyprus Ships

Eligible for the TTS is an owner of a Cyprus ship, who owns a qualifying ship, which is engaged in a qualifying shipping activity.

2. Owners of Foreign Ships

Eligible for the TTS is an owner of a foreign ship, who is a tax resident of the Republic of Cyprus, has opted to be taxed under the TTS and owns a qualifying ship, which is engaged in a qualifying shipping activity.

Owners of foreign ships must comply with the "community-flagged share" requirement.

3. Charterers

Eligible for the TTS is a charterer who charters ships under bareboat, demise, time or voyage charter and is a tax resident of the Republic of Cyprus, has opted to be taxed under the TTS and charters a qualifying ship, which is engaged in a qualifying shipping activity. The charterer must comply with the below requirements:

- minimal share of the fleet in ownership; and
- "community-flagged share" requirement.

4. Ship Manager

Eligible for the TTS is a ship manager who is a tax resident of the Republic of Cyprus, has opted to be taxed under the TTS, provides ship management services (crew and/or technical) to qualifying ships and meets at any time the below requirements:

- i. maintain a fully fledged office in Cyprus;
- ii. employ a sufficient in number and qualifications personnel;
- iii. at least 51% of its employees are EU/EEA citizens;
- iv. "community - flagged share" Requirement;
- v. economic link of managed ships with the Community;
- vi. provision of crew management services in accordance with the Maritime Labour Convention requirements for crew managers; and
- vii. ship managers must be certified under the ISM Code.



The legislation applies to three types of operations:

(1) Ship owners

Ship owners of Cyprus flag ships automatically fall within the scope of the TT system. EU vessels, including vessels registered in the European Economic Area (EEA), qualify without conditions and have an option to enter the TT system, provided they have a minimum share of the fleet in ownership.

Ship owners of EU/EEA flag ships and/or third country flag ships may now also opt to be taxed under the system, provided they comply with certain requirements. These include the requirement that a share of their fleet be comprised of EU flag ships. The share must not be reduced in the three year period (flag share requirement) following the exercise of the option and that the commercial and strategic management of the fleet be carried out from the EU/EEA.

Any ship owner opting for the TT system must remain in the system for 10 years. Early withdrawal will result in penalties, calculated as the difference between the amount paid during the period the ship owner was under the TT system and the amount that would have paid had it been subject to Corporation Tax (CT) in the same period. In addition, the ship owner will lose the right to opt for Tonnage Taxation until expiration of the 10-year period from the date the option was first exercised.

The TT system covers profits from shipping operations, dividends paid directly or indirectly out of such profits, profits on the sale of the ship and interest earned on funds used as working capital or for the financing, operation and/or maintenance of the Ship.

(2) Charterers

Any Charterer who charters a Ship under bareboat, demise, time or voyage charter is eligible for the TT system provided the tonnage of the ships under time and/or voyage charters does not exceed 75% of the total tonnage of ships chartered and owned for more than three consecutive years. This eligibility percentage increases to 90% if the chartered vessels are EU/EEA ships or their crew and technical management is carried out from the EU/EEA. The charterers of third-country flag ships must comply with the additional requirements that apply for third-country flag ship owners (i.e. Flag share requirement).

An eligible charterer may opt to be taxed under the TT system, but once the option is made, it must remain in the system for 10 years. Early withdrawal

will result in the penalties outlined above for ship owners.

The TT system covers profits from shipping operations, dividends paid directly or indirectly out of such profits and interest earned on funds used as working capital or for the payment of expenses arising out of the Charter party.

(3) Ship Managers

A ship manager who provides crew and/or technical ship management services is eligible for the TT system provided it satisfies certain criteria. These include the maintenance of a fully-fledged office, the employment of a sufficient number of qualified personnel (51% of whom should be EU/EEA citizens) and at least two-thirds of the management is carried out from the territory of the EU/EEA. Further, at least 60% of the fleet under management should be carrying an EU/EEA flag, while all Ships and Crew under management must comply with international standards and EU law requirements relating to maritime security, safety, training and certification of seafarers, the environment, on-board working conditions, and so on.

Other specific criteria must also be complied with, depending on the ship management service provided (i.e. full implementation of the 2006 Maritime Labour Convention for crew managers and the ISM Code certification for technical managers).

The TT system covers profits from the provision of crew or technical ship management services, dividends paid directly or indirectly out of such profits and interest earned on funds used as working capital or for the payment of expenses relating to the management of the ships. The 10-year option rule also applies to eligible ship managers and the same penalties apply for early withdrawal.

For ship managers, the major success is the continuation of the existing split services (crewing or technical). Furthermore, they have the option to choose between using TT or Corporation Tax (CT) for their commercial management needs. The most important updates are:

- If CT is chosen, commercial management is taxable at a flat corporate tax rate of 12.5%.
- If TT is chosen, commercial management is taxable at predefined Tonnage Tax Rates.
- New conditions are introduced for minimum EU/EEA onshore personnel, flag registration of vessels under management and minimum management within the EU/EEA.

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