



## Registering a Yacht in Cyprus: A Beneficial Jurisdiction of Registration

### Introduction

When registering a yacht, personal or business related needs must be considered in great depth and as such, a favourable flag state to meet these needs is required.

The Cyprus flag has long been a popular 'flag of convenience' and Cyprus itself has over the years become one of the largest and widely known shipping centres in the world.

This publication focuses on the benefits in registering a yacht in Cyprus analysing the basic aspects of registration and recent VAT reforms that have assisted in increased popularity among yacht owners.

### Choosing jurisdiction

A number of factors

shall need to be taken into account when deciding the appropriate jurisdiction for registering a yacht.

Among other, the following are the most important factors to be considered by a yacht owner:

**Registration:** Yacht owners will seek a jurisdiction where the process of registration involves fast registration procedures and will require interested applicants to deal with less 'red tape'.

**Tax matters:** Any yacht owner will aim to minimise any tax liabilities resulting from the operation and ownership of the yacht. Cyprus has succeeded in implementing targeted tax regimes to make Cyprus jurisdiction more favourable to yacht owners.

### Types of registration

Vessels of any size and type may be registered in the Cyprus Register of Ships ('CRS') or the Special Book of Parallel Registration as long as they comply with the provisions contained in the merchant shipping legislation and circulars of the Department of Merchant Shipping ('DMS') and satisfy certain conditions according to their age and type.

The following are the available types of ship registration in Cyprus:

#### A. Provisional Registration:

Cypriot merchant shipping legislation allows for the provisional registration of a vessel and most owners usually opt to have their ship provisionally registered first. This will allow them time (up to 9 months,

including a 3 month extension) during which they will be able to complete the administrative formalities for permanent registration.

It is important to note that, in practice, the Registrar of Cyprus Ships ('Registrar') will also accept the submission of application for registration of ships on behalf of companies under formation, so that the incorporation of the company and registration of the ship can progress simultaneously. However, the company must be duly incorporated prior to the registration of the vessel. Furthermore, it is important to note that the presence of the vessel at the port or place where the provisional registration will be effected is not necessary.

*The documentation set out in Appendix A is required in Provisional Registration.*

#### **B. Permanent Registration:**

The permanent registration of a provisionally registered vessel must be affected within 6 months (or 9 months if the 3 month extension has been obtained) from the date on which the vessel was provisionally registered.

*Additionally to the documentation set out in Appendix A for Provisional Registration, the documentation in Appendix B is further required for the Permanent Registration.*

#### **C. Parallel Registration:**

Under Cypriot legislation, Parallel (bareboat) Registration of vessels is possible. The legislation provides for the two forms of internationally accepted bareboat registration: 'Parallel-in Registration' and 'Parallel-out' Registration.

The administrative practice of the DMS has confirmed that the parallel (bareboat) registration of vessels under the Cyprus regime may be affected with more than

20 states whose legislation is compatible with Cypriot legislation.

#### **Parallel-in Registration:**

This form of registration offers the possibility to a foreign flag vessel on bareboat charter to a person (legal or physical, qualified to own a Cyprus ship) to be registered in 'parallel' under the Cyprus flag for a period, usually 2 years, which is renewable.

It is important to note here that under this type of registration, the deletion of the registration in the foreign register is not required, but the foreign nationality is suspended and the foreign registry is operative only with respect to the ownership and encumbrances status of the ship.

#### **Parallel-out Registration:**

Under applicable Cyprus law, Cyprus ships may be bareboat chartered to a foreign person or company and registered 'Parallel-out' in a foreign register for the duration of the charter party. This registration allows the financing of a ship and

her mortgaging under the Cyprus flag and her resignation in a foreign registry through a bareboat charter arrangement.

This type of registration is possible for Cyprus vessels which are provisionally or permanently registered in the CRS.

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### Conditions of Registration

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The following conditions must be met for a ship to be registered in the CRS:

- More than 50% of the shares in the company owning the vessel must be owned by Cypriot citizens or by citizens of Member States of the European Union ('EU') or of the European Economic Area ('EEA'), who in case they are not permanent resident in Cyprus, shall need to appoint an authorised representative in Cyprus; or
- The total of 100% of the shares of the company owning the vessel, must be owned by legal entities which have been established in Cyprus under Cyprus law and have their registered office in Cyprus, or legal entities which are operating under the laws of any other EU or EEA Member State and have their registered office, central administration or principal place of business within the EEA or by legal

entities registered outside the the EU or EEA but controlled by Cypriot citizens or citizens of a Member State. In either of the later cases, an authorised representative or a Cypriot vessel management company must be appointed.

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### Advantages of Yacht registration in Cyprus

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There are a number of advantages of registering a yacht in Cyprus, as listed herein below:

Economic benefits;

- 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 income tax on the wages of officers and crew;
- Low registration costs;
- Favourable tonnage tax scheme based on ship gross tonnage;
- No stamp duty on ship mortgage deeds or other security documents;
- Double tax treaties with more than 43 countries;
- No exchange control and freedom of movement of foreign currency;

- Full protection for financiers and mortgages;
- Low set up and operating costs for companies;
- EU flag;
- Classification of Cyprus flag in the White List of the Paris and Tokyo MOUs and removal from the 'List of Targeted Flag States' of the US Coast Guard resulting in fewer inspections of the ships and less delays at the ports of both MOUs;
- Maritime offices in New York, London, Rotterdam, Piraeus, Brussels and Hamburg offering services to Cyprus ships;
- 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 all international maritime conventions on safety and pollution prevention;
- Bilateral agreements with more than 23 countries, through which Cypriot ships receive either national or favoured nation treatment in the ports of other countries. Specific terms of employment are provided in the aforementioned agreements which are beneficial for both shipowners and seafarers;
- Efficient and qualitative provision of services by the

- No income tax on the profits derived by a Cyprus ship-owning company (including chartering of any vessel);
- No estate duty on the inheritance of shares in a vessel or company holding a vessel;
- No restriction on nationality of crew members;
- Documents in English language are accepted by the DMS;
- Professional infrastructure while high quality professional services are provided by lawyers, accountants, consultants etc.

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#### Other advantages

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**Yacht leasing scheme:** Cyprus has now implemented a leasing scheme for yachts, whereby a yacht may be leased by a Cyprus legal entity (the lessor), to a third party (the lessee) who may be any physical or legal entity regardless of country of residence or incorporation.

Under this leasing scheme, a written agreement is brought to existence between the lessor (the yacht owner) and the lessee, whereby the lessee agrees with the lessor that for a period of time no more than 48 months to use the yacht in consideration of payment of monthly lease payments. Upon expiry of the leasing period, the lessee may be provided with the option to

purchase the yacht at a discount of the initial price. The applicable VAT of 17% applies only to the period the yacht is used by the lessee in the European Union's territorial seas and since the leasing of a yacht is considered as a supply of services, the lessor has the right of deduction of the input VAT.

**Applicable VAT in respect of the leasing agreement:** The Cyprus VAT scheme is considered one of the most attractive regimes within the EU enabling yacht owners to benefit from yacht leasing. The Cypriot scheme allows for VAT as low as 3.4% and for softer lease repayments over a maximum of four years. Furthermore, through the new Cypriot regime, non-resident companies are afforded tax exempt status enabling the lessor to enjoy significant tax savings through a yacht leasing agreement.

Further to the above, a partial relief from VAT is provided to yachts not sailing within the territorial waters of Cyprus or the EU (for motor yachts from 3.4% to 17%, and for sailing yachts from 3.4% to 10.2%), subject to satisfaction of certain conditions.

*Appendix C, sets out the extent of the relief on VAT that is available according to the*

*length of the yacht and the percentage of use within Cypriot/EU territorial waters.*

**APPENDIX A**

The following documentation is required for provisional registration:

- Name of the vessel and her flag at the time of the application;
- Name of the person (legal or natural) applying for the registration of the vessel;
- Name under which the vessel will be registered;
- Particulars of the vessel (type, year of build, date keel of the vessel was laid, gross and net tonnage);
- Name of the classification society with which the vessel is entered;
- If the owners of the vessel contemplate a change of the classification society on acquiring the vessel this should also be stated;
- Declaration of Particulars of the company for ISM Code (Form ISM 01/Revision 03);
- Intended trading area of the vessel;
- Place where the vessel will be at the time of her provisional registration, if known. This must be communicated to the CRS prior to the provisional registration;
- The consular office where the owner wishes to effect the provisional registration of the vessel;
- Name and address of the shareholders and directors of the company in whose ownership the vessel will be registered;

Further, the following supporting documents/information (duly executed, where applicable) must be forwarded to the Registrar of Cyprus Ships together with the application for the provisional registration of the vessel:

- Memorandum and Articles of Association of the Cypriot company (or, for non-Cypriot companies, a notary's certificate);
- Certificates of Incorporation, directors and secretary, shareholders and registered office of the Cypriot company (or, if owned by an individual, a passport or identity card);
- Resolutions of the directors of the company for the purchase of the vessel and its registration in the Register of Cyprus Ships;
- Power of attorney authorising the person who will sign all the necessary documents on behalf and on account of the company;
- Bill of sale / builder's certificate;
- Certificate of deletion of the vessel / certificate of ownership and freedom of encumbrances from the previous registry;
- Confirmation of Radio Traffic Accounting Authority;
- Confirmation of vessel's Classification Society (where applicable);
- Continuous Synopsis Record (CSR);
- Declaration of ownership;

- Appointment of Authorised Representative (M.S. 57)
- Registration of a Mobile Maritime Radio Station (M.S.34) and copy of Shore Based Maintenance Agreement;
- Registration of SAR Particulars (M.S.45)
- ISM forms where this is required
- In the case of Parallel Registration in a foreign register, a Certificate of Parallel Registration from the foreign registry;
- In the case of pleasure craft under 24 metres:
  - (a) Declaration of Conformity
  - (b) EC Type Examination Certificate from a Notifying Body
  - (c) Owner's Manual

**APPENDIX B**

The following documentation is required in addition to the documents required for provisional registration:

- Certificate of Survey and Tonnage Certificate from a recognized Classification Society;
- Ship's Carving and Marking note;
- International certificates from a recognised Classification Society in accordance with the relevant international maritime conventions in force;
- Safety Management Certificate (where required);
- Confirmation of the Cypriot Customs and Excise;
- Department and VAT Service on the payment of VAT for pleasure craft (where applicable);

APPENDIX C**Table A: Motor Yachts**

<b>Length of motor yacht</b>	<b>% of use within EU</b>	<b>Effective rate of VAT (Cyprus)</b>
Over 24 metres	20%	20% of consideration x 17% = 3.4%
Between 14.01 to 24 metres	30%	30% of consideration x 17% = 5.1%
Between 8.01 to 14 metres	50%	50% of consideration x 17% = 8.5%
Up to 8 metres	60%	60% of consideration x 17% = 10.2%
Craft permitted to sail in Cypriot waters only	100%	100% of consideration x 17% = 17%

**Table B: Sailing Yachts**

<b>Length of sailing yacht</b>	<b>% of use within EU</b>	<b>Effective rate of VAT (Cyprus)</b>
Over 24 metres	20%	20% of consideration x 17% = 3.4%
Between 20.01 to 24 metres	30%	30% of consideration x 17% = 5.1%
Between 10.01 to 20 metres	50%	50% of consideration x 17% = 8.5%
Up to 10 metres	60%	60% of consideration x 17% = 10.2%





**PETROS YIANNAKAS  
& ASSOCIATES LLC**  
ADVOCATES - LEGAL CONSULTANTS

**Primary Business Address**

167 Leontiou A, Hawaii Kamelia Court  
1st floor, Office 12  
PC3022 Limassol, Cyprus.

**Phone:** +357 2525 5678

**Fax:** +357 2525 5679

**E-mail:** [info@yiannakas.com.cy](mailto:info@yiannakas.com.cy)

**URL:** [www.yiannakas.com.cy](http://www.yiannakas.com.cy)

## Cyprus: An International Business Center

Cyprus is ideally suited for international business due to the many benefits it has to offer. Its geographic location and excellent commercial infrastructure coupled with numerous tax incentives are among the factors, that have assisted Cyprus towards becoming an important International Business Center.

The island's 42 double tax treaties offer ample opportunities for international tax planning to legitimately reduce the overall tax burden for businesses and their shareholders. Cyprus has double tax treaties in force with the following countries:

Armenia, Austria, Belarus, Belgium, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Kyrgystan, Lebanon, Malta, Mauritius, Moldova, Montenegro, Norway, Poland, Romania, Russia, San Marino, Serbia, Seychelles, Singapore, Slovakia, Slovenia, South Africa, Sweden, Syria, Tadjhikistan, Thailand, Ukraine, United Kingdom and United States of America.

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