



Essential design considerations for a tonnage tax regime

David Burns – Taxation Partner

The Shipping Industry Policy Seminar, Canberra

9 April 2010

Global shipping tax profile

- ▶ Tax havens
 - ▶ e.g. Bermuda, Liberia, Marshall Islands
- ▶ International shipping concessions/exemptions
 - ▶ e.g. Singapore, Hong Kong, Philippines
- ▶ Tonnage tax regimes
 - ▶ e.g. most EU members, Norway, US, Japan, India, Korea
- ▶ Favourable tax depreciation regimes
 - ▶ e.g. UK, South Africa, Sri Lanka
- ▶ Tax efficient financing
 - ▶ e.g. France, Spain, UK (?)

- ▶ None of the above apply to Australia

Australian shipping tax profile

Types of tax

- ▶ Tax on net assessment basis: taxable profits x 30%
- ▶ Freight tax: 5% of gross freight income x 30% = 1.5%

Typical types of corporate taxpayers

- ▶ Australian residents
 - ▶ Taxed on worldwide income – net assessment basis
- ▶ Non-residents in treaty jurisdictions
 - ▶ Freight tax on coastal trade
 - ▶ International exempt
- ▶ Non-residents in non-treaty jurisdictions
 - ▶ Freight tax on coastal trade and shipments out of Australia
 - ▶ Exemption for shipments into Australia

Australian shipping tax profile – summary

Coastal trade

Australian resident	30% x net taxable profit
Non-resident	1.5% x gross freight income

International trade

Australian resident	30% x net taxable profit
Non-resident – Treaty	0%
Non-resident – Non-treaty	
- shipping into Australia	0%
- shipping out of Australia	1.5% x gross freight income

Tonnage tax – introduction

- ▶ Usually not mandatory, normally must elect in
- ▶ Only applies to “qualifying shipping activities”
- ▶ Tax based on registered tonnage of vessel
- ▶ Flat tax: tonnage tax only changes with use; it does not change regardless of amount of actual profits or losses
- ▶ Deemed tonnage tax profits may not be sheltered by losses incurred in relation to non-tonnage tax activities

Tonnage tax – computation

- ▶ Actual profits from “qualifying activities” are replaced by deemed “tonnage tax profits”
- ▶ Deemed tonnage tax profits then taxed at ordinary tax rate
- ▶ No deductions for connected expenses
 - ▶ e.g. depreciation and finance costs
- ▶ Expenses may need to be allocated between tonnage tax and non-tonnage tax activities
- ▶ Entry and exit from the regime
 - ▶ Balancing charges/capital gains on disposals – reduced (time apportioned) or eliminated
 - ▶ Potential penalties if exit early, e.g. locked out of regime for 10 years

Computation illustration - UK tonnage tax

- ▶ Computation based on a sliding scale according to a vessel's registered tonnage and days operated in relevant period

Net registered tonnage	Deemed daily profit rate per 100 tons
0-1,000	£0.60
1,001 to 10,000	£0.45
10,001 to 25,000	£0.30
Over 25,000	£0.15
Vessel of 35,453 tons	
First 1,000	£6.00
Next 9,000	£40.50
Next 15,000	£45.00
Over 25,000	<u>£15.60</u>
	<u>£107.10</u> x 365 days = <u>£39,092</u>
Taxed @ 28%	£10,946

Relative uptake of overseas tonnage tax

Country	Regime introduced	No. of vessels in system
Netherlands	1996	1996: 541 2008: 888
Germany	1999	1995:825 2009: 645
UK	2000	1999: 421 2006: 814
Denmark	2001	2001: 590 2009: 547
France	2003	2009: 213
South Korea	2005	2005: 526 2009:787
Norway	2007	1996: 941 2008: 888
Japan	2008	2008: 92 2009:107

Tonnage tax – design considerations

1. Typical conditions

- ▶ Elect in for a specified period (e.g. 10 years)
- ▶ “Qualifying entities” – generally domestic corporations
- ▶ “Qualifying ships” - size and ownership requirements
- ▶ “Qualifying activities”
 - ▶ Shipping businesses that are involved in:
 - ▶ carriage of goods or passengers at sea
 - ▶ exploration and construction
 - ▶ support services, e.g. towage, dredging
 - ▶ provision of crew
 - ▶ Requirement that those business have ship management in relevant jurisdiction (e.g. strategic, commercial and/or technical)
- ▶ Minimum training obligation

Tonnage tax – design considerations

2. Financing considerations

- ▶ Ownership requirements – choices include:
 - ▶ Bareboat charters with non-resident ship owner
 - ▶ Royalty withholding tax potentially on entire charter fee
 - ▶ Rates between 0-15% (treaty) and 30% (non-treaty)
 - ▶ Purchase from non-resident ship owner
 - ▶ Interest withholding tax but only on financing element
 - ▶ Rates between 0-10%
- ▶ Tax effective finance leases – e.g. France, Spain, UK (?)

3. Other considerations

- ▶ e.g. flagging, fleet size, crewing

Tonnage tax – design considerations

- ▶ Banks: tax depreciation > lease income in initial years
- ▶ Ship owner: tonnage tax benefit + shares NPV benefit of bank's tax benefit through reduced lease rentals

