

# The UK Tonnage Tax

## The Rationale, Performance and National Benefits

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# What is a (UK) Tonnage Tax?

- Tonnage Tax is an alternative method of calculating corporation tax profits by reference to the net tonnage of the ship operated.
- Introduced in the UK in 2000 following a lengthy consultative process leading to the adoption of a comprehensive shipping policy
- Designed within a wider EU initiative to:
  - Promote the EU- flagged maritime industry
  - Strengthen safety and environment legislation
  - Develop third-country relations and
  - Improve overall competitiveness and general conditions for EU shipping

Source: UK Maritime Coast Guard Agency (MCA);

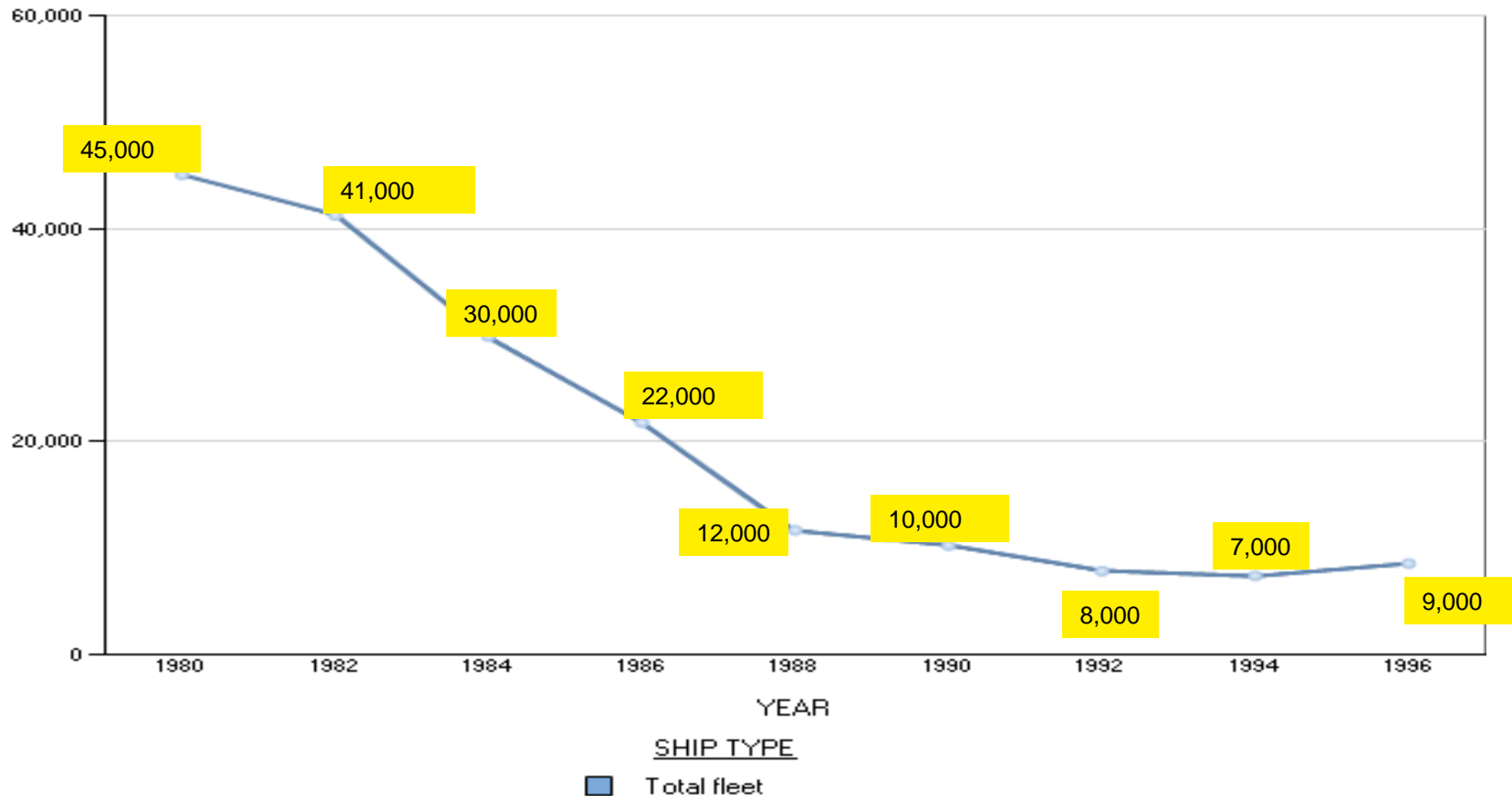
<http://www.mcga.gov.uk/c4mca/ukr-home/merchant/tontax-holding/tontax-1.htm>

# Rationale for, and the Design of, the Tonnage Tax

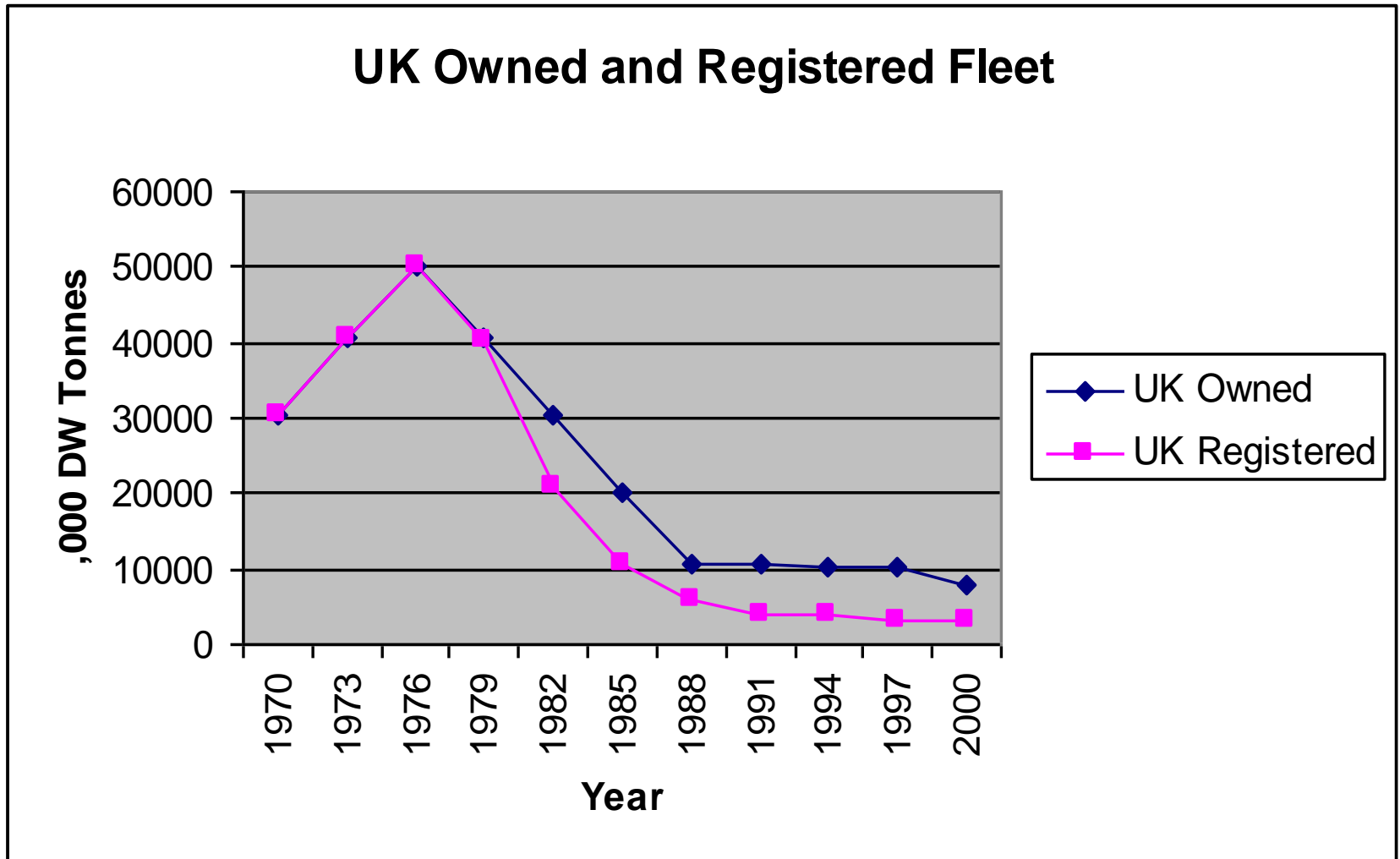
# Why the Tonnage Tax?

## 1. To boost growth in a shrunken national shipping register

- The UK registered fleet declined from 45,000 DWT in 1980 to 9000 in 1986



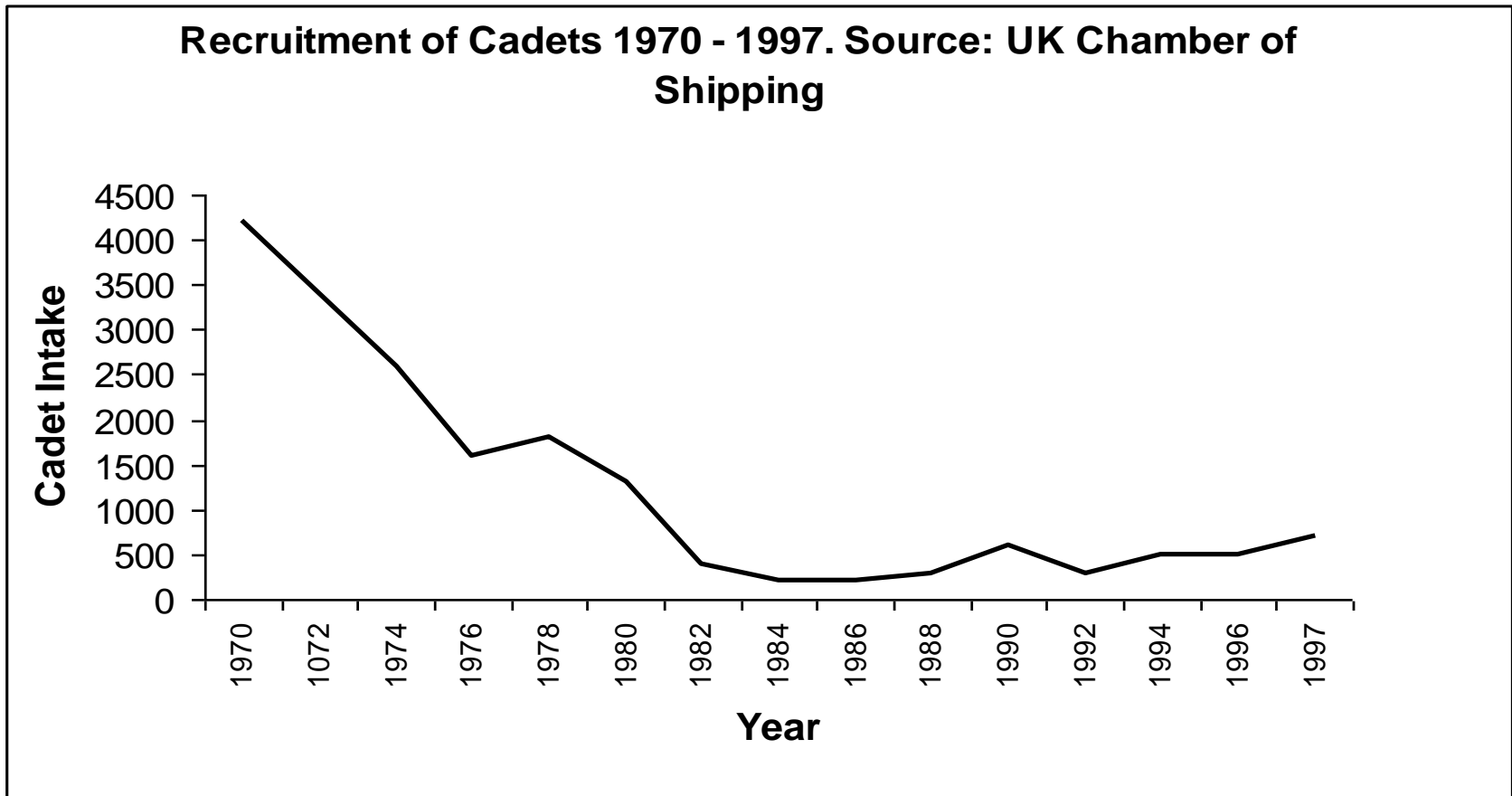
- It is not only registration that was declining but also ownership which meant a net decline in British shipping



# Why the Tonnage Tax?

## 2. A decline in cadet recruitment and training activities

- Cadet recruitment declined from about 4,300 in 1970 to less than 1,000 in 1997.

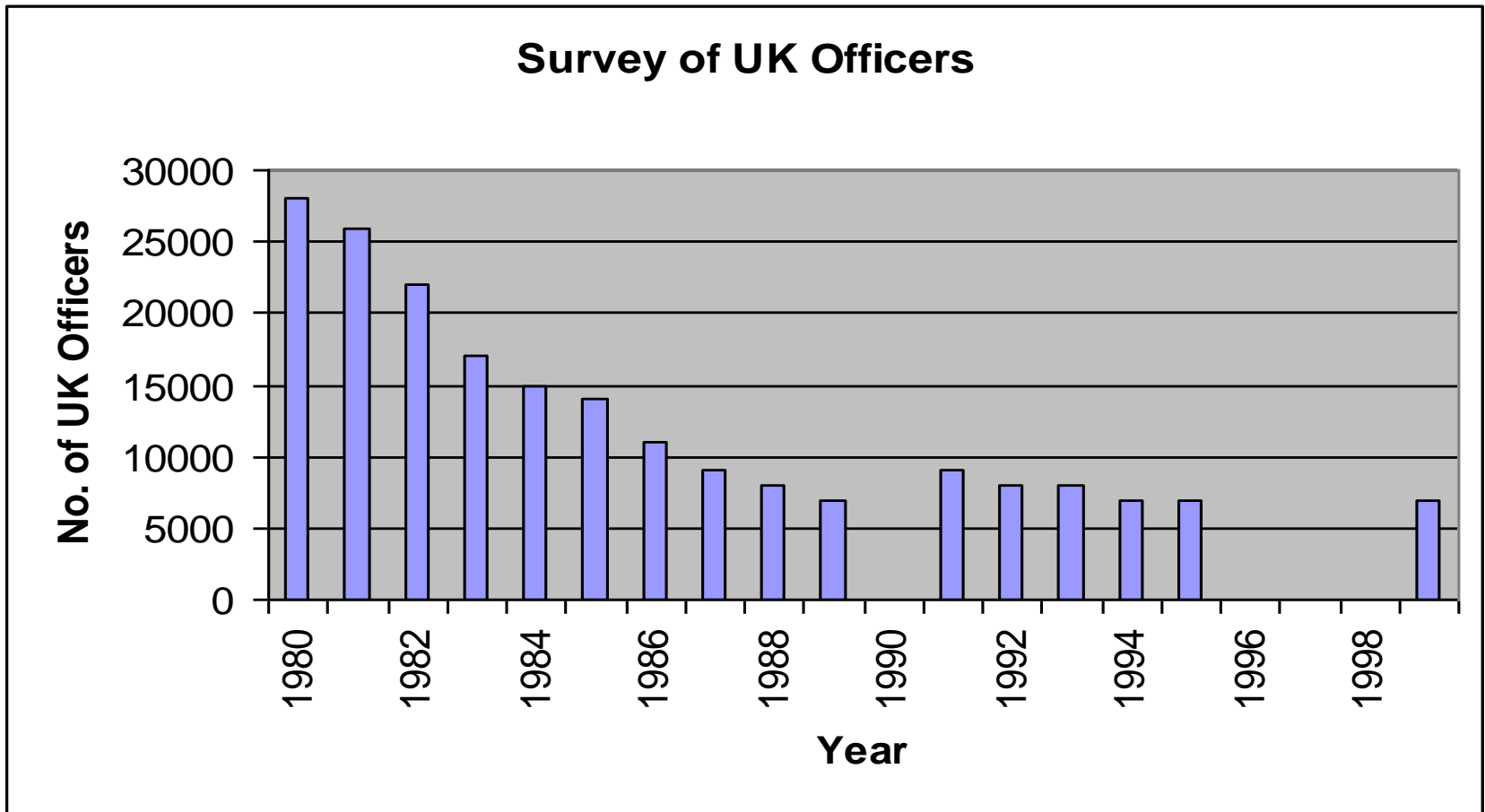


# Why the Tonnage Tax?

## 3. To encourage growth in the maritime skills base

- The total number of British officers declined from about 99,000 to about 19,000 between mid-1970s and mid-1990s (DfT Data)
- The number of British officers serving on-board British ships declined from about 28,000 to about 7,000 between 1980 and 1999
- Shore-side maritime clusters were experiencing difficulties in recruiting technical marine skills (Gardner and Pettit, 1996)

# Number of British Officers Serving UK Fleet 1980 - 1999



Source: UK Chamber of Shipping

# Why the Tonnage Tax?

## 4. To boost growth in the shore-side maritime cluster

- Increasing migration of shore-side ship management operations overseas
- Increased vulnerability of London as the world maritime services centre
- A depletion of maritime expertise

## 5. To stimulate a regeneration of the overall economic benefits accruing from shipping and maritime related businesses

# The Design of the UK Tonnage Tax

- The UK tonnage tax consists of three main implementation components:
  - The tonnage-based alternative taxation
  - The minimum training obligation
  - “Strategic and management” location requirement

# Flagging Conditions Under the UK Tonnage Tax

Qualifying vessels must be registered (flagged) in one of the EU member States if the following conditions are satisfied:

1. The company or group is operating the ship for the first time
2. The average proportion of the company's total tonnage flagged within the EU is less than 60% in the financial year that the company begins to operate the new ship
3. In the financial year that the company begins to operate the new ship, the company's average tonnage registered in the EU has reduced to less than it was when it joined the tonnage tax

If all these conditions are met then the ship is not a qualifying ship and can only qualify for the tonnage tax if registered in an EU member state.

# How Does a Company Qualify for the Tonnage Tax?

Companies which can benefit from the tonnage tax are those:

- Which operate qualifying ships
- Those whose qualifying ships are “strategically and commercially” managed in the UK.
- Those that are formed by qualifying members of a group coming together.

A qualifying ship must be seagoing, at least 100 gross tons, and used for:

- Carriage of passengers by sea, or
- Carriage of cargo by sea, or
- Towage, salvage or other marine assistance carried out at sea, or
- Transport by sea in connection with other services of a kind necessarily provided at sea

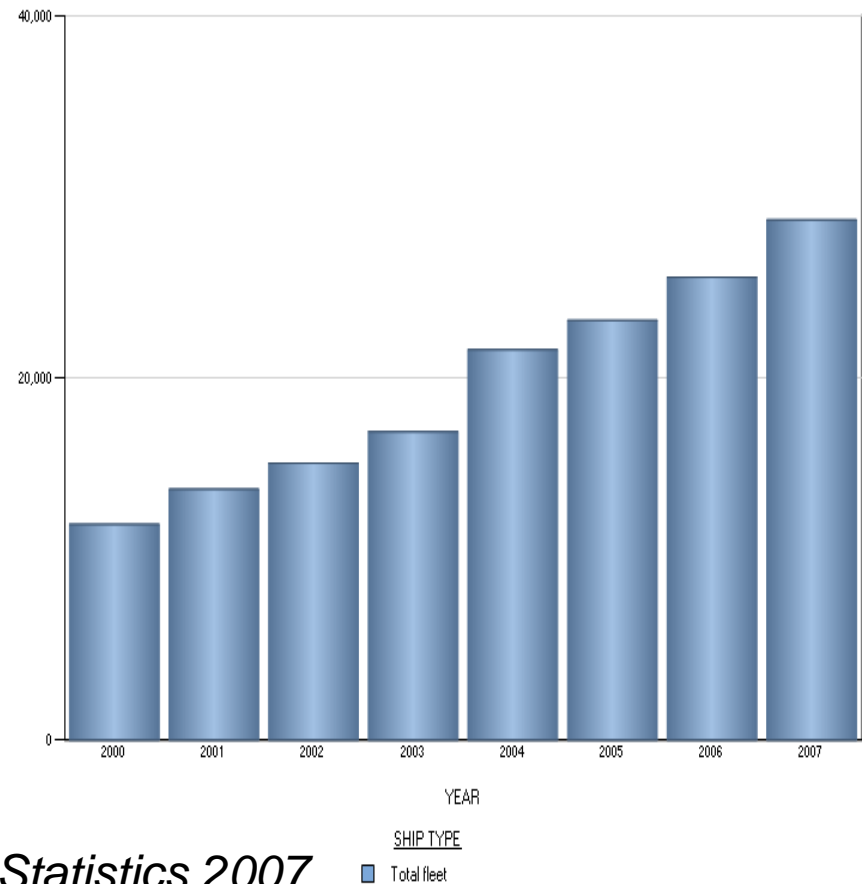
# Performance

# Growth in British Tonnage

## Growth in the UK ships register

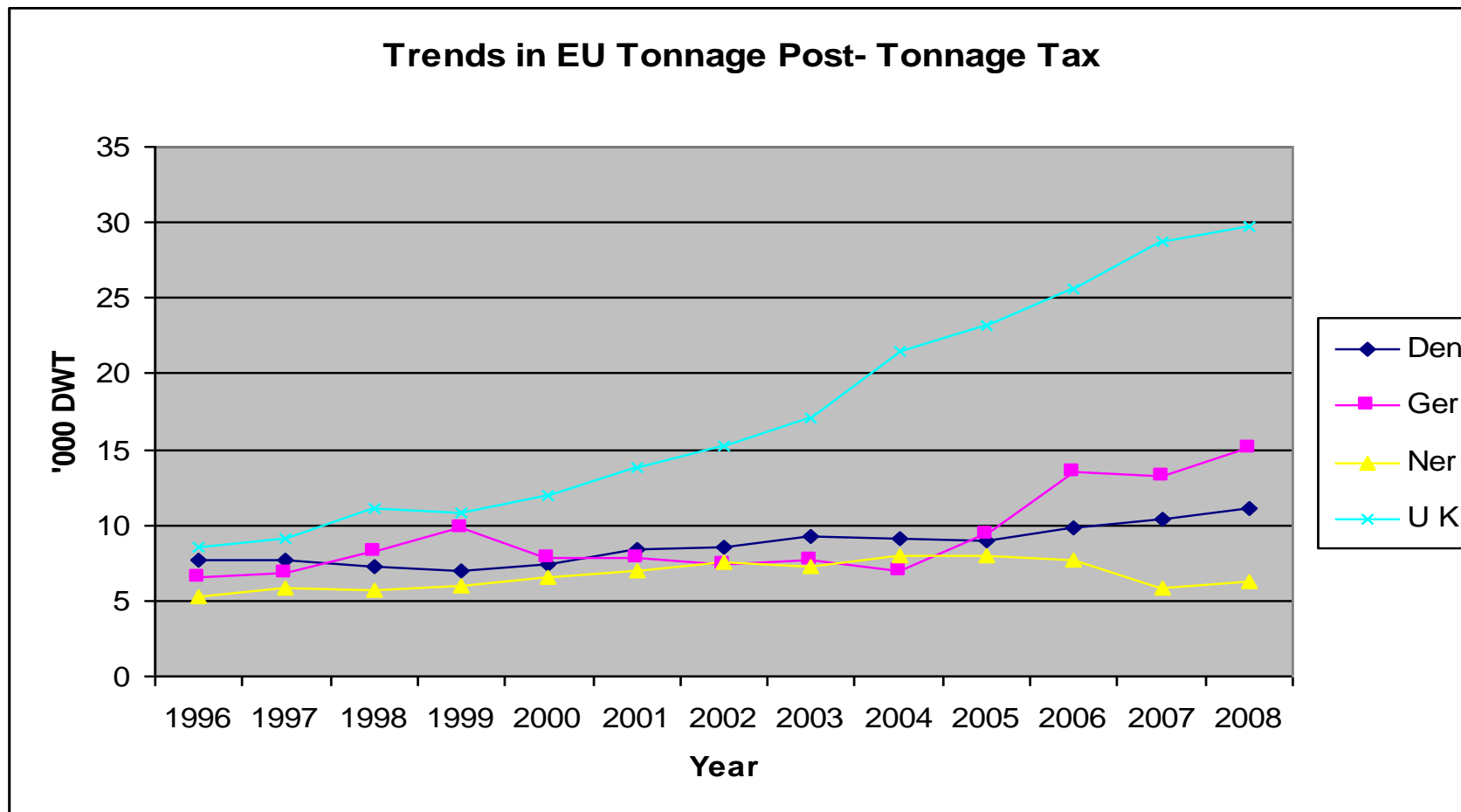
- 11,913 dwt in 2000 to 28,715 dwt in 2007
- 1.5% of total world fleet in 2000 to 2.8% in 2007
- 379 ships in 2000 to 646 in 2007

Trends in UK fleet 2000-2007 ,000dwt



*UNCAD Worldbook of Statistics 2007*

# Other EU Member-States



Source: UNCTAD Handbook of Statistics, 2008

## Trends in Cadet Intake and Officer Numbers since the Tonnage Tax

Year	Intake	In-training	Officer Nos
2000	450	980	15,970
2001	480	1,020	13,300
2002	480	1,010	14,655
2003	600	1,000	16,477
2004	610	1,030	15,656
2005	540	1,050	15,767
2006	630	1,090	16,157

*Source:* UK Seafarers Analysis 2006

# National Economic Benefits

# Direct Economic Benefits of the Tonnage

1. Achieved a reversal of the decline in the UK merchant fleet and registered significant growth
2. Increased the amount of shore-side maritime cluster activity because participating companies have kept their bases in the UK with further spill-over benefits for the economy
3. Increased employment opportunities in shore-side and deep sea maritime operations
  - *96,000 direct employment (including UK officers and Ratings and shore-based jobs – 2007)*
  - *The industry indirectly supports a total of 212,000 jobs*

Source: Oxford Economics, 2009

# Direct Economic Benefits of the Tonnage

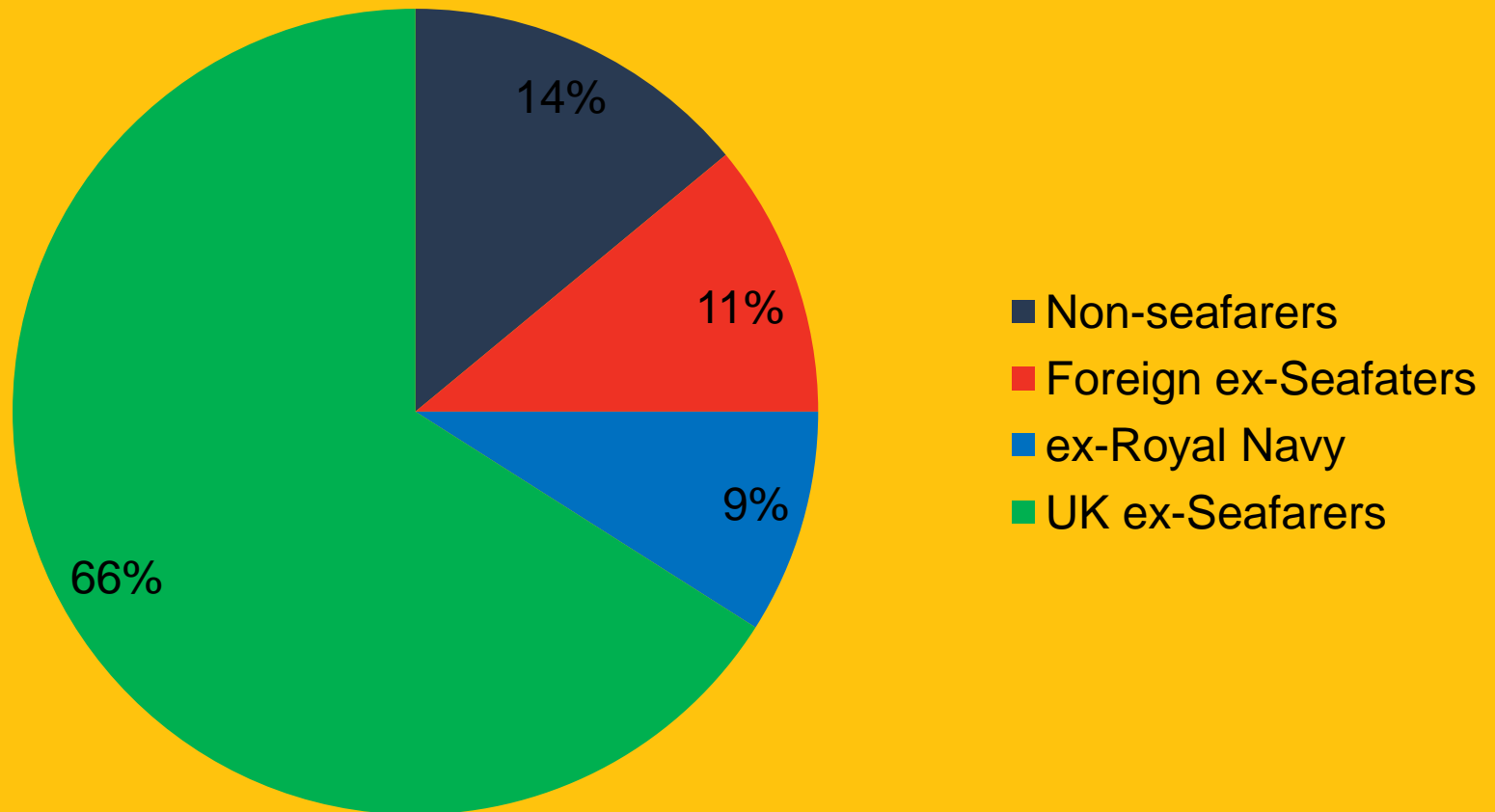
4. Following the tonnage tax the transport sector has consistently recorded a surplus starting from 2004
5. Contributes about £9.8 billion per year to the UK's GDP
6. Contributed about £2.9 billion revenue to the exchequer in 2007 (income tax, National Insurance Contributions, VAT, other indirect taxes and tonnage tax)
7. Protected a £1 billion a year contribution made to overseas earnings by the shore based maritime sector

Source: Oxford Economics, 2009

# Indirect Overall Economic Impact

- Ex UK-seafarers are important for many shore-based jobs. For around 16,000 shore-based jobs ex-seafarers are preferred and are essential for 8,000 of these
- Under the tonnage tax regime, training of UK seafaring officers has increased from around 450 per year to nearer 730 a year
- London is one of the world's leading providers of maritime services. Over 14,000 people are employed in this sector
- The presence of a strong domestic shipping industry is considered an important factor in its continued success
- The UK shipping industry is a crucial part of the UK's transport infrastructure which delivers benefits to the economy through enhancing competition and raising productivity
- UK merchant shipping acts as an important source of ships and UK seafarers that could be requisitioned for defence purposes in times of need

# Preference for Ex- Seafarers in UK Land-based Jobs



Source: Oxford Economics, 2009

# Concluding Thoughts on an Australian Tonnage Tax

- A tonnage tax would be beneficial for deep sea shipping, coastal shipping as well as developing a pool of much needed marine skills
- Increased coastal shipping will assist in achieving the goal of greening the Australian transport sector
- A reinvigorated shipping industry would catalyse activity in the wider maritime sector and stimulate rapid economic expansion
- However any such policy requires a delicate balanced implementation for workforce as well as capital capacity building
- There is also need for extensive research into what makes a tonnage tax work and building the right support structures to ensure successful outcomes