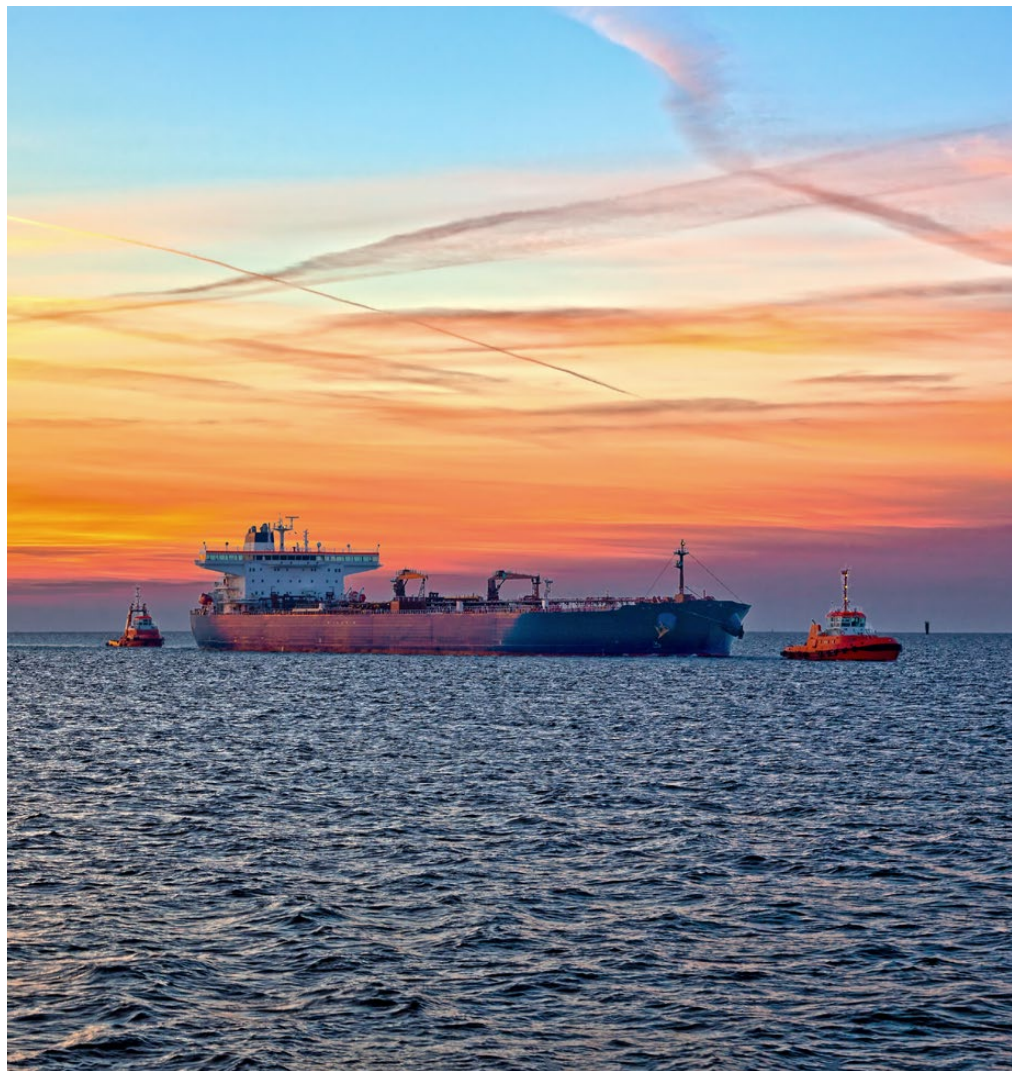


Choosing your course

Corporate taxation of the shipping industry around the globe



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work together*

Foreword

By describing the various corporate tax regimes for shipping around the globe, this publication can help you with finding the most suitable location and tax regime for your business.



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No one can escape the reality of an increasingly globalised world. Large numbers of vessels sail the world's oceans every day, transporting vast quantities of goods of all kinds to and from various locations around the globe. Up to 2007 the shipping industry was in a strong position to benefit from increasing global trade.

In 2008, everything changed. Double-digit annual volume growth and strong freight rates were shaken as the worldwide economic downturn shocked the shipping industry. Since then, there have been signs of recovery in some regions. But weakness remains in others. Overall, market conditions are still challenging in the global economy. And that has a profound impact on the shipping industry.

With growth no longer a given, shipping companies are being forced to take a critical look at their business models. In order to survive a period of reduced demand for shipping volume, the traditional shipping industry will have to operate far more flexibly than in the past.

Not every sector is declining - the relatively young offshore sector is actually growing strongly. Traditional fossil energy extraction, green energy and offshore construction have all made significant advances. The number of market players has grown, as has the types and designs of the specialised vessels servicing the sector, and the range of shipping services offered to the offshore industries.

With growth no longer a given, shipping companies are being forced to take a critical look at their business models. To survive, the traditional shipping industry will have to operate more flexibly.

For many countries, the shipping industry is of great importance. Tax incentives are used to stimulate investment and the economic crisis prompted several countries to reinforce such incentives. But the availability of tax incentives and special regimes can change quickly. The combination of decreasing government revenues, an increasing economic significance of multinational companies and various forms of resistance against globalisation have caused OECD countries to reconsider various kinds of tax regimes that could lead to a low effective tax rate for businesses operating throughout the world. That may have an impact on shipping tax regimes too.

Choosing an optimal and globally accepted tax regime for your organisation is more important than ever. This brochure describes the different ways the shipping industry is taxed around the world and compares tonnage tax and incentive systems, as well as looking at relevant tax treaties and countries with favourable tax regimes. Our analysis considers both general trends and specific interpretations, to give you a clearer picture of how the world's most important shipping nations handle taxation.

As always, periods of economic downturn are not only full of challenges, but also of opportunities. Over the long term, the outlook for the shipping industry is very positive, but there will be profound changes. Markets are consolidating and the balance of world trade is shifting. To stay competitive, shipping companies will need to adapt their corporate strategies and processes. They will need to serve sectors that offer better profitability and operate more internationally. That means coping with more diverse tax authorities, which are also getting more sophisticated. Effective ways to align corporate, operational and tax structures will be critical. PwC can help you to optimise your worldwide tax position by taking a global view of your business and finding you the most appropriate location and tax regime.

Over the long term, the outlook for the shipping industry is very positive, but there will be profound changes. Effective ways to align corporate, operational and tax structures will be critical.

1. Introduction

This brochure describes general patterns in corporate taxation of the shipping industry across the world, guiding you towards the regime that best suits your business.

The aim of this publication is to provide a concise overview of the tax regimes applicable to the shipping industry around the globe.

We examine three categories of tax regimes:

- a) Tonnage tax regimes: tax regimes under which the tax payable is based on the tonnage of a vessel;
- b) Shipping incentives regimes: tax regimes with beneficial tax provisions specifically aimed at the shipping industry;
- c) Favourable tax regimes: tax regimes that make no specific exemption for the shipping industry, but are generally characterised by their low effective tax rate.

In addition, we take a close look at tax treaty benefits and taxation of non-resident taxpayers.

For each of these categories, we highlight main characteristics as well as significant exceptions. We have made a special effort to identify general patterns and to analyse whether and how differences in taxation have consequences for the shipping industry. However, our investigation and the current publication are not intended to be exhaustive.

Selection of countries

For our investigation, the selection of the countries was made on the basis of three criteria:

- a) The importance of a country for the shipping industry, measured primarily by the number of vessels registered in that country and the size of the domestic shipping industry;
- b) The overall attractiveness of the tax regime; and
- c) The availability of tax incentives specifically aimed at the shipping industry.

Our analysis includes the countries listed in Figure 1, all of which meet at least two of these criteria.



Figure 1. Key shipping countries and their respective tax regimes

Country	Tax regime
 Antigua and Barbuda	Favourable tax regime
 Barbados	Favourable tax regime
 Belgium	Tonnage tax – Dutch model
 Bermuda	Favourable tax regime
 Brazil	Shipping incentives
 British Virgin Islands	Favourable tax regime
 Bulgaria	Tonnage tax – Dutch model
 Canada	Non-resident tax payer regime
 Canary Islands	Shipping incentives
 Cayman Islands	Favourable tax regime
 China	Shipping incentives
 Curaçao & St. Martin	Tonnage tax – Dutch model; Shipping incentives
 Cyprus	Tonnage tax – Greek model
 Denmark	Tonnage tax – Dutch model
 Estonia	Favourable tax regime
 Finland	Tonnage tax – Dutch model
 France	Tonnage tax – Dutch model; Shipping incentives
 Germany	Tonnage tax – Dutch model
 Greece	Tonnage tax – Greek model
 Hong Kong	Shipping incentives
 India	Tonnage tax – Dutch model
 Ireland	Tonnage tax – Dutch model
 Isle of Man	Favourable tax regime
 Italy	Tonnage tax – Dutch model; Shipping incentives
 Japan	Tonnage tax – Dutch model
 Liberia	Non-resident tax payer regime
 Malaysia	Shipping incentives
 Malta	Tonnage tax – Greek model
 Marshall Islands	Favourable tax regime; Non-resident tax payer regime
 Netherlands	Tonnage tax – Dutch model; Shipping incentives
 Norway	Tonnage tax – Dutch model
 Panama	Shipping incentives
 Philippines	Shipping incentives
 Poland	Tonnage tax – Dutch model
 Republic of Korea (South Korea)	Tonnage tax – Dutch model
 Russia	Shipping incentives
 Saint Lucia	Favourable tax regime
 Singapore	Shipping incentives
 South Africa	Tonnage tax – Dutch model; Favourable tax regime
 Spain	Tonnage tax – Dutch model
 Sweden	Shipping incentives; Tonnage tax – Dutch model under review for possible implementation
 Taiwan	Tonnage tax – Dutch model
 Turkey	Shipping incentives
 UK	Tonnage tax – Dutch model
 USA	Tonnage tax – Dutch model

Source: PwC analysis

2. Tonnage tax regimes – general characteristics

Most tonnage tax regimes have similar characteristics and requirements and allow for a very low effective tax rate.

The main principle of tonnage taxation is that the tax payable is calculated on the basis of the tonnage of vessels instead of the actual accounting profits from the exploitation of a vessel. Various countries have introduced a tonnage tax regime for taxpayers who are liable to tax in their country.

The main advantage of tonnage tax regimes is that, under certain circumstances, a very low effective tax rate of less than 1% can be achieved.

Most tonnage tax regimes have similar characteristics. In a tonnage tax regime, the calculation of the profit is based on the registered tonnage of the vessel, multiplied by a fixed amount of deemed profit per tonne per sailing day. All countries use a regressive scale system because smaller vessels tend to sail with a higher profit margin per tonne than larger vessels. Within the EU, the European Commission has established guidelines for state aid to maritime transport. That has created a lot of uniformity, but there are still differences in interpretation in individual countries. These are described in the following sections.

Qualifying activities

Only certain shipping activities qualify for a tonnage tax regime. Tonnage tax regimes usually apply to 'maritime transport', i.e. the transport of goods and persons by sea, in international traffic. Under some tonnage tax regimes, towage, cable- and pipe-laying, dredging and/or ship management activities may also qualify.

Ownership

In order to qualify for a tonnage tax regime, a shipping company must have a certain form or degree of ownership regarding the vessel. The required form or degree of ownership differs between the various tonnage tax regimes. The conditions in this respect usually refer to the following kinds of requirements:

- The shipping company must own a sea-going vessel or it must have the right to use the vessel under a bareboat charter arrangement.
- The shipping company is permitted to charter out vessels on time charter and in certain circumstances on a bareboat charter.
- The shipping company may apply the tonnage tax regime to some vessels that are time chartered-in.

Conditions regarding the level of ownership are typically used in combination with a requirement that a certain level of management activities, with respect to the vessel, is undertaken in the country of which the company is tax resident. Under most tonnage tax regimes, strategic and commercial management should usually be undertaken directly by the company which owns the vessel.

Lock-in period

Some tonnage tax regimes are subject to a so-called 'lock-in period', a period in which a taxpayer in principle cannot switch regimes. Under the tonnage tax regimes in most countries, it is, for example, only possible to enter the tonnage tax regime for a fixed period, usually ten years.

Capital gains

Capital gains on the sale of vessels and equipment related to international shipping activities are in some tonnage tax regimes not subject to ordinary taxation. In comparing the different regimes, the main points to note are the following:

- When entering the regime, hidden reserves may or may not be taxable and/or may result in deferred tax liabilities.
- Leaving the regime within the lock-in period sometimes results in a direct tax liability.
- When leaving the regime after the expiry of a lock-in period, different rules may be applicable regarding the valuation of the vessel for tax purposes and the consequences attributed to that valuation.

Flag requirement

Most tonnage tax regimes require a link between the flag a vessel is flying and the place of residence of the company that owns the vessel. For example, for EU resident companies, in principle only EU and EEA flagged vessels qualify for the application of the tonnage tax regime. However, many exceptions apply.

For most tonnage tax regimes, strategic and commercial management should be exercised directly by the vessel owning company. However, sometimes ship management companies are also eligible for the tonnage tax regime. For example, ship management companies may be able to apply for the tonnage tax system if the company performs the full technical-nautical and crew management.

Management

The management requirements for applying a tonnage tax regime differ per country. In general, four types of management are relevant:

- **Strategic management:** the decisions regarding investment and disinvestment of a vessel and also decisions regarding the way other management activities are performed.
- **Commercial management:** activities regarding affreightment, chartering and the carrying of cargo.
- **Technical-nautical management:** activities to keep the vessel in actual operation.
- **Crew management:** the hiring and setting to work of seafarers.



3. Tonnage tax regimes – Dutch model vs. Greek model

Two different tonnage tax models can be distinguished:

- the Dutch model, introduced in 1996 in advance of the EU guidelines
- the Greek model, introduced in 1957

The Dutch tonnage tax model

Under the Dutch tonnage tax model, the taxable base is calculated based on the net tonnage of the vessels instead of the actual operating profits.

The Dutch model, first introduced in 1996 by the Netherlands and further developed throughout the following years, is the most popular form of tonnage taxation. Belgium, Bulgaria, Curaçao & St. Martin, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, the Republic of Korea (South Korea), the Netherlands, Norway, Poland, South Africa, Spain, Taiwan, the UK, and the USA have all implemented its basic structure. In addition, a committee in Sweden is also considering the possible introduction of a tonnage tax regime.

In principle, the regimes can be applied by individuals and companies liable to tax in the respective countries.

Calculating the taxable profit based on the Dutch tonnage tax model

In the Dutch model, the taxable operating profit of a vessel is based on the net tonnage of the vessel, and not on the actual operating results. The amount of deemed taxable profit is subject to ordinary (corporate) income tax ('CIT') rates. The main difference between the Dutch model and the ordinary taxation method is the calculation of the profit related to the shipping activities of the shipping company. Apart from that, the shipping company and its non-qualifying shipping income is subject to regular taxation rules.

Example

Calculating the profit and tax according to the Dutch tonnage tax model for a 5-year-old cargo ship, with a gross tonnage of 20,000 and a net tonnage of 18,000, that is operational all year.

Amount of taxable profit per day per 1,000 net tons	
€ 8.00	up to 1,000 net tons
€ 6.00	for the excess up to 10,000
€ 4.00	for the excess up to 25,000
€ 2.00	for the excess over 25,000

Taxable profit: $1 \times € 8.00 + 9 \times € 6.00 + 8 \times € 4.00 = € 94$ of taxable profit per day. Per year, the taxable profit amounts to $€ 94 \times 365 = € 34,310$. Based on a country specific CIT rate of 25%, the CIT levied amounts to $€ 34,310 \times 25\% = € 8,578$.



The Greek tonnage tax model

Under the Greek tonnage tax model, the taxable base is calculated based on the gross tonnage of the vessels instead of the actual operating profits.

The Greek model was introduced in 1957 but has recently been subject to significant amendments. As a general rule, the Greek model of tonnage tax applies to:

- Greek or foreign ship owning companies with vessels flying a Greek flag; and
- Foreign ship owning companies with vessels flying a foreign flag that maintain a ship management company in Greece that is exclusively engaged in ship management activities that meet certain criteria.¹

The Greek model is also used by Cyprus and Malta, but the calculation methods applied by Cyprus and Malta differ slightly from the Greek one.

The Greek tonnage tax model covers all vessels and all shipping activities. Profit distributions to an unlimited number of intermediate holding companies up to the benefitting owner are also exempt from taxation.

Calculating the taxable profit based on the Greek tonnage tax model

Under the Greek model, the taxable tonnage of a vessel is calculated based on coefficients using a fixed number of tonnage size groups. The coefficients are multiplied by taxable gross tonnage. Subsequently, the tax is calculated by using the tax rate that corresponds to the age of the vessel. No other CIT or dividend withholding tax is levied on shipping profits.

Example

In the example below, the taxable tonnage and CIT levied are calculated based on the Greek tonnage tax model for a 5 year old cargo vessel operated by a Greek resident company, operational all year with a gross tonnage of 20,000 and a net tonnage of 18,000.

To calculate the taxable tonnage based on the Greek model, the following scales can be used (2015 scales):

A' Category vessels	
Gross Tonnage	Rates
100-10,000	1.2
10,001-20,000	1.1
20,001-40,000	1
40,001-80,000	0.45
Exceeding 80,001	0.2

For a GRT 20,000 vessel this results in:
 $10,000 \times 1.2 + 10,000 \times 1.1 = 23,000$
taxable tonnage.

This amount is multiplied by the respective tax rate corresponding to the age of the vessel (2015 rates).

A' Category vessels (2015 rates)	
Age of vessel	Rates (\$/ton)
0-4	0.407
5-9	0.730
10-19	0.714
20-29	0.676
Exceeding 30	0.522

CIT levied amounts to
 $23,000 \times \$ 0.730 = \$ 16,790$.

In Greece, the ship owner is not liable to ordinary income tax with regard to the income derived from the exploitation of the ship or capital gains arising from the sale of a vessel flying the Greek flag (in other words, the tonnage tax represents his entire tax liability). If the owner is a company, this extends to its shareholders.








If a foreign ship owning company uses a ship management company in Greece to enjoy the Greek tonnage tax regime (with regard to vessels flying either a Greek flag or a foreign flag), the tonnage tax also exhausts the tax liability of this foreign company, as well as of the shareholders thereof. No CIT or dividend withholding tax is levied on the shipping profits of such a company. A credit is provided for any tonnage tax that has already been paid abroad by such a company.

¹ Foreign ship owning companies with vessels flying a foreign flag that maintain an office in Greece that is engaged in activities other than ship management (i.e. brokerage, chartering, insurance, etc.) are not subject to tonnage tax, but to a special contribution for the years 2012-2015.


4. Tonnage tax regimes – detailed comparison

The details of local tonnage tax regimes may differ. We describe the general rules and the most important local deviations, allowing you to choose the best regime for your enterprise.

In the previous section, we described the general characteristics of the Dutch and Greek tonnage tax models. We will now explain the main requirements in more detail, focusing on the following characteristics of a tonnage tax regime:

1. Method of calculating the tonnage tax; 
2. Qualifying activities; 
3. Qualifying persons; 
4. Qualifying vessels and ownership requirements; 
5. Lock-in periods; 
6. Capital gains; 
7. Flag and registration requirements; 

and

8. Ship management activities. 

In describing each category of requirements, we will first describe the general rules under the Dutch tonnage tax model and subsequently provide a list of additions to or deviations from these rules in the various countries applying this model. After that, the same procedure will be followed for the same category of requirements under the Greek tonnage tax model.



Method of calculating the tonnage tax



Dutch tonnage tax model

Under the Dutch tonnage tax model, a fixed (deemed) profit is calculated using regressive size groups based on net tonnage (see page 10). The calculated profit is taxed against the statutory CIT rate, or for individual entrepreneurs, in most cases against individual income tax rates.

Greek tonnage tax model

Under the Greek model, the taxable tonnage of a vessel is calculated based on coefficients using a fixed number tonnage size groups. The coefficients are multiplied by taxable gross tonnage (see page 10). Subsequently, the tax is calculated by using the tax rate that corresponds to the age of the vessel. No other CIT or dividend withholding tax is levied on shipping profits. In addition to or in deviation from these general rules, the following applies in specific countries with regard to the method of calculating the tonnage tax.

Cyprus	<ul style="list-style-type: none">• Cyprus uses 5 size groups and applies a 30% and 60% increase for non-community vessels flying a flag in the Grey list and Black list respectively of the Paris Memorandum of Understanding• In Cyprus, tonnage tax is calculated based on the net tonnage of the vessels
Greece	<ul style="list-style-type: none">• Greece uses 5 size groups• Exemptions provided from tonnage tax include, indicatively:<ul style="list-style-type: none">• Vessels built in shipyards in Greece, under a Greek flag, are exempt from tax for the first 6 years• 50% reduction for vessels operating regular routes between Greek/foreign ports or solely between foreign ports• An annual financial contribution is imposed additionally for the years 2014-2016, which is equal to double the final amount of tonnage tax, payable for every vessel during the immediately previous year (starting from 2013)
Malta	<ul style="list-style-type: none">• Malta uses 8 size groups and applies a fixed amount of tax per group plus an amount of tax for exceeding tonnage

Qualifying activities



Dutch tonnage tax model

Under the Dutch tonnage tax model, the basic requirement is that the operation of a vessel in international traffic at sea characteristically qualifies for the tonnage tax regime. Dredging and towing activities can also qualify under most systems, under the condition that more than 50% of these activities take place at sea. Chartering a vessel to a third party under a bareboat charter usually does not qualify. The vessel owner or bareboat charterer must usually exercise certain management activities with respect to the vessel. Several countries require that obligations are complied with in respect to the training of seafarers.

In addition to or in deviation from these general rules, the following requirements apply in specific countries in relation to activities qualifying for tonnage tax under a Dutch tonnage tax model.

Bulgaria	<ul style="list-style-type: none"> • Certain additional requirements, such as training requirements, should also be met • Additional requirements regarding entities managing vessels under a management agreement are the following: <ul style="list-style-type: none"> • More than half of the on-shore personnel or the vessel's crew should consist of EU/EEA nationals • At least two-thirds of the tonnage of the vessels should be managed by companies which are resident for tax purposes in a EU/EEA Member State
Curaçao & St. Martin	<ul style="list-style-type: none"> • Operating vessels in international traffic, towing, dredging, and activities connected with exploitation of natural resources at sea qualify • The tonnage tax regime also applies to bareboat chartered-out vessels
Finland	<ul style="list-style-type: none"> • The shipping enterprise has to carry out qualifying international maritime activities (detailed list in the law) and undertake management of vessels in Finland
France	<ul style="list-style-type: none"> • Only companies deriving at least 75% of their turnover from qualifying ship operations can opt for the French tonnage tax regime • The operations directly linked to the use of qualifying ships means the operations necessary to carry out maritime transport operations of passengers or goods, including when they are linked to any other activities carried out at sea, as well as maritime operations of towage on the high seas, sea rescue, other maritime assistance activities, or the exercise of any other activities that need to be provided at sea • Certain 'incidental operations' which are not necessary to the fulfilment of the maritime operations mentioned above are excluded from qualifying operations • Eligibility is reserved for commercial vessels that are managed from France from a strategic and commercial point of view (this condition is deemed to be fulfilled if the vessel flies French flag)
Italy	<ul style="list-style-type: none"> • Certain additional requirements, such as training requirements, should also be met

India	<ul style="list-style-type: none"> • Certain additional requirements, such as training requirements, should also be met
Netherlands	<ul style="list-style-type: none"> • In addition to the vessels mentioned above, vessels used for transportation of goods or persons in relation to the exploration or exploitation of natural resources at sea, vessels used for the exploration of the sea bed, vessels used for cable or pipe laying on the sea bed, and vessels used for the provision of hoisting and lifting services at sea for vessels may also qualify
Norway	<ul style="list-style-type: none"> • It is not a requirement for taxation within the tonnage tax regime that the company performs management activities with respect to the vessel
Poland	<ul style="list-style-type: none"> • Sea-going rescue activities may also qualify
Taiwan	<ul style="list-style-type: none"> • Tonnage tax applies to vessels used for freight, towing, dredging or other transporting activities, except those supplying goods or services within the inland region of Taiwan (such as shops, restaurant and hotels) • Certain additional requirements, such as training requirements, should also be met
UK	<ul style="list-style-type: none"> • Certain additional requirements, such as training requirements, should also be met

Greek tonnage tax model

Under the Greek tonnage tax system, it is difficult to provide a general rule for qualifying activities. We refer to the country specific rules outlined below.

Cyprus	<ul style="list-style-type: none"> • Operating vessels in international traffic qualifies. Dredging and towing activities can also qualify under the condition that more than 50% of these activities take place at sea. Other activities may also qualify. This applies to the vessel owner (as well as the bare boat charterer), the charterer and the manager (crew and/or technical manager)
Greece	<ul style="list-style-type: none"> • In principle, qualification depends on ownership, not on activities • However, for foreign ship owning companies with vessels flying a foreign flag, the maintenance of a ship management office in Greece is important
Malta	<ul style="list-style-type: none"> • The international maritime transport of goods and passengers qualify • Towing and dredging may also apply subject to certain conditions • Other activities may also qualify in line with EU guidelines and practice • Ship management activities are also eligible, provided the applicable conditions are satisfied

Who can qualify



Dutch tonnage tax model

Under the Dutch tonnage tax model, all entrepreneurs may generally qualify for the tonnage tax regime, e.g. individual entrepreneurs, foundations, legal entities, partnerships, and permanent establishments. In addition to or in deviation from these general rules, the following applies in specific countries with regard to qualifying taxpayers.

Denmark	<ul style="list-style-type: none"> • Only corporate legal entities can opt for the tonnage tax system • Permanent establishments of EU resident companies can also qualify
Finland	<ul style="list-style-type: none"> • Limited liability companies and, under certain conditions, branches of companies resident in another EU country with permanent establishments in Finland can opt for the tonnage tax system
France	<ul style="list-style-type: none"> • Only legal entities subject automatically or under option to French CIT can opt for the tonnage tax system (to be confirmed for French permanent establishments of foreign companies)
India	<ul style="list-style-type: none"> • Only corporate legal entities can opt for the tonnage tax system
Italy	<ul style="list-style-type: none"> • Corporate legal entities and permanent establishments of foreign entities can opt for the tonnage tax system • The tonnage tax option must apply for all companies belonging to the same group
Japan	<ul style="list-style-type: none"> • Only a legal entity can opt for the tonnage tax regime
Norway	<ul style="list-style-type: none"> • Private and public limited liability companies may qualify for the tonnage tax regime • Partnership shares may be qualifying/legal assets for a tonnage taxed company • A tonnage taxed company is not allowed to have income from non-tonnage-taxed activities, except for financial income
South Africa	<ul style="list-style-type: none"> • Only corporate legal entities can opt for the tonnage tax system
Taiwan	<ul style="list-style-type: none"> • Only corporate legal entities having their head office within the territory of Taiwan can opt for the tonnage tax system • Certain other statutory requirements should be met
USA	<ul style="list-style-type: none"> • Only corporate legal entities can opt for the tonnage tax system



Greek tonnage tax model

The Greek tonnage tax system generally allows entrepreneurs to apply the regime, e.g. individual entrepreneurs, foundations, legal entities, partnerships, and permanent establishments. In addition to or in deviation from these general rules, the following applies in specific countries with regard to qualifying taxpayers.

Cyprus	<ul style="list-style-type: none">• Persons who are tax resident in Cyprus can qualify as ship owners. Legal persons who are tax resident in Cyprus can qualify as charterers or managers
Malta	<ul style="list-style-type: none">• A legal entity, qualified as a 'licensed shipping organisation' (limited liability company, partnership, whether 'en nom collectif' or 'en commandite', trust or foundation, any foreign body corporate or other entity enjoying legal personality which has established a place of business in Malta) qualifies for the tonnage tax regime• In terms of Maltese law, the tonnage tax regime is mandatory for vessel owners only in the sense that the registration fee and annual tonnage tax are payable irrespective of whether or not the vessel owner/charterer makes use of the benefits and concessions contained in the Maltese tonnage tax regime



Qualifying vessels/ ownership conditions



Dutch tonnage tax model

Taxpayers using the Dutch tonnage tax model can generally apply the regimes to owned vessels and vessels used under a bareboat charter arrangement. Vessels used under a time charter arrangement may also qualify, but only if additional ownership requirements are met. In some cases, there are also requirements with regard to the vessels themselves, such as a minimum tonnage.

In addition to or in deviation from these general rules, the following applies in specific countries in relation to ownership. Vessels that are bareboat chartered out generally do not qualify.

Belgium	<ul style="list-style-type: none"> No more than 75% of the fleet's tonnage may be time chartered-in
Curaçao & St. Martin	<ul style="list-style-type: none"> There are no additional requirements for vessels used under a time charter arrangement
Denmark	<ul style="list-style-type: none"> No more than 80% of the fleet's tonnage may consist of time chartered-in vessels without purchase options (if a time charter vessel has a purchase option it is regarded as an owned vessel)
Finland	<ul style="list-style-type: none"> Legislation includes a detailed list of qualifying vessels Under certain conditions also bareboat chartered-in vessels qualify
France	<ul style="list-style-type: none"> Eligibility is reserved for commercial vessels: <ul style="list-style-type: none"> that have a gross tonnage equal to or greater than 50 UMS (Universal Measurement System) that are either fully owned or co-owned with the exception of those vessels chartered on a bareboat basis to companies that are neither directly or indirectly affiliated, nor to affiliated companies that have not themselves opted for the system, or that are bareboat or time chartered that have not been purchased from companies that are directly or indirectly associated during the election period to this regime and that have not themselves opted for this system
India	<ul style="list-style-type: none"> A ship is a 'qualifying ship' if it is a sea-going ship or vessel of fifteen net tonnage or more, it is registered or licensed under Merchant Shipping Act 1958 and a valid certificate in respect of such ship indicating its net tonnage is in force. Certain types of vessels e.g. fishing vessels, factory ships, pleasure crafts, etc. are excluded from the definition of qualifying ships
Italy	<ul style="list-style-type: none"> No more than 50% of the fleet's tonnage may be time chartered-in

Japan	<ul style="list-style-type: none"> From 1 April 2013 onwards, vessels owned by a subsidiary of the Japanese shipping company (such as a vessel owning SPV) can be brought under the tonnage tax regime under certain conditions and subject to government approval. The main conditions are: <ul style="list-style-type: none"> 3 vessels per increase of 1 Japan owned/flagged vessel in accordance with plan for increasing Japan owned/flagged vessels approved by the government The Japanese company has to commit to transfer the classified foreign vessels to Japan if required by the government This rule is only applicable for 5 years after 1 April 2013
Norway	<ul style="list-style-type: none"> A tonnage-taxed company must own at least one qualifying asset (i.e. a vessel, for example bulk, tankers, container vessels, car carriers, tugboats, and entrepreneurial vessels and auxiliary vessels for use in the petroleum industry), new building contracts, a 3% ownership share in another tonnage-taxed limited company, or a 3% ownership interest in a partnership or CFC company that has at least one qualifying asset As long as the tonnage taxed company owns at least one qualifying asset, profits from operation of vessels that are hired in on bareboat charter or time charter are exempt from taxation without limitations. The vessels may be chartered-out on bareboat or time charter
South Africa	<ul style="list-style-type: none"> The tonnage tax regime is only applicable if additional ownership requirements are met
Spain	<ul style="list-style-type: none"> No more than 75% of the fleet's tonnage may be time chartered-in
Taiwan	<ul style="list-style-type: none"> A tonnage taxed company must own at least one vessel registered in Taiwan Once qualified, tonnage tax in principle applies to owned or hired-in vessels on bareboat charter, time charter or distance charter, of which the total gross tonnage per vessel is at least 300
UK	<ul style="list-style-type: none"> No more than 75% of the fleet's tonnage may be time chartered-in
USA	<ul style="list-style-type: none"> Qualifying vessels must be at least 6,000 deadweight tons

Lock-in period



Dutch tonnage tax model

The Dutch tonnage tax model generally requires a choice to be made in the first year in which the taxpayer is engaged in shipping activities and this choice is fixed for 10 years, regardless of whether one opts for the tonnage tax regime or not. Such a period is referred to as a 'lock-in period'. Sanctions may apply if the regime is abandoned before the end of such a period (if possible at all). In addition to or in deviation from these general rules, the following applies in specific countries with regard to lock-in periods.

Belgium	<ul style="list-style-type: none">• It is possible to opt in at any time; the choice is fixed for a 10 year period
Bulgaria	<ul style="list-style-type: none">• The choice is fixed for 5 years
Curaçao & St. Martin	<ul style="list-style-type: none">• It is possible to opt in at any time; the choice is fixed for a 5 year period
Finland	<ul style="list-style-type: none">• An application should be filed within three months after registration of a new company and the choice is fixed for 10 years
France	<ul style="list-style-type: none">• The tonnage tax regime is applicable upon election. Once the option is granted, it is valid for 10 years with penalties for abandoning the scheme before the end of the ten year period
Germany	<ul style="list-style-type: none">• The choice is fixed for 10 years• If a company abandons the tonnage tax system before expiry of the ten-year period, it will be excluded from further tonnage taxation within the initial lock-in period
India	<ul style="list-style-type: none">• The choice for the tonnage tax regime must be made by making an application within three months from the date of incorporation, or date on which it becomes a 'qualifying company,' as the case may be
Italy	<ul style="list-style-type: none">• It is possible to opt in at any time; the choice fixed for a 10 year period• If a company abandons the tonnage tax system before expiry of the ten-year period, it will be excluded from further tonnage taxation within the initial lock-in period
Japan	<ul style="list-style-type: none">• The tonnage tax regime can apply for the periods from government approval to the end of the planned period (see below under flag and registration requirements)• Generally, the period to be approved by the government is 5 years. This can be extended subject to approval from the government

Norway	<ul style="list-style-type: none"> • It is possible to opt at any time; the choice is fixed for a 10 year period • If a company abandons the tonnage tax system before expiry of the ten-year period, it will be excluded from further tonnage taxation within the initial lock-in period
Republic of Korea	<ul style="list-style-type: none"> • The choice is fixed for 5 years
South Africa	<ul style="list-style-type: none"> • The choice is fixed for 5 years
Spain	<ul style="list-style-type: none"> • It is possible to opt in at any time; the choice is fixed for a 10 year period
Taiwan	<ul style="list-style-type: none"> • Upon adoption of the tonnage tax regime, the choice is fixed for a 10 year period
USA	<ul style="list-style-type: none"> • There is no fixed period for applying the tonnage tax regime

Greek tonnage tax model

The Greek tonnage tax system is generally mandatory for qualifying taxpayers. In addition to or in deviation from this general rule, the following applies in specific countries with regard to lock-in periods.

Cyprus	<ul style="list-style-type: none"> • There is an optional system (mandatory for vessels flying the Cypriot flag). Upon adoption of the tonnage tax regime, the taxpayer must stay in the system for at least 10 years unless there is a valid reason for exit
Greece	<ul style="list-style-type: none"> • There is a mandatory system for vessels flying the Greek flag, foreign ship companies with vessels flying a foreign flag are only subject to Greek tonnage if they elect to establish a ship management company in Greece
Malta	<ul style="list-style-type: none"> • Payment of tonnage tax and registration fees are mandatory. However, a shipping company may opt out of the Tonnage Tax Regulations and its income would be subject to the normal CIT rate. Election to opt out is irrevocable

Capital gains

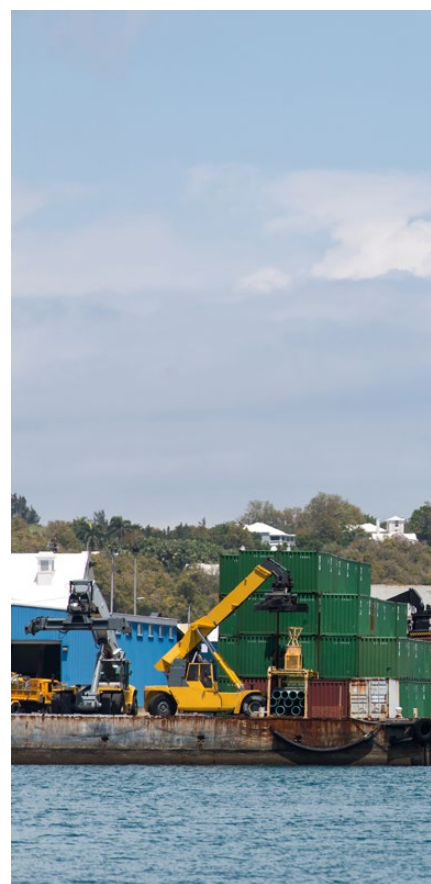


Dutch tonnage tax model

Under the Dutch tonnage tax model, capital gains are not subject to additional tax. Deferred tax liabilities may appear as a result of valuation at fair market value upon entry into the regime and due to claw-back rules on hidden reserves realized during the lock-in period. The deferred tax liabilities disappear after the lock-in period. In some countries no such rules with regard to hidden reserves are present, so that no deferred tax liabilities arise.

In addition to or in deviation from these general rules, the following applies in specific countries with regard to capital gains.

Denmark	<ul style="list-style-type: none">Capital gains on vessels (or contracts for vessels) are tax exempt for all vessels that are introduced into the tonnage tax system after 1 January 2007. Gains on vessels introduced prior to that date are generally taxed at the standard CIT rate of 24.5% (22% from 2016)
Finland	<ul style="list-style-type: none">There are detailed rules on monitoring and reporting of residual value of machinery and equipment (including the vessels), which are adjusted according to specific rules
France	<ul style="list-style-type: none">Capital gains are subject to the regular statutory tax rate. The determination of the gain/loss resulting from the sale of vessels eligible to the French tonnage tax regime is subject to certain specific rules
India	<ul style="list-style-type: none">Profits or gains arising from the transfer of a vessel are not eligible for tonnage tax. Instead, such gains are taxable under the normal provisions of the Indian tax laws
Italy	<ul style="list-style-type: none">The gain or loss realised upon the sale of one or more vessels is entirely included within the tonnage tax base (and therefore not subject to ordinary taxation) if the vessels are both acquired and sold during a period in which the tonnage tax regime applies. If a vessel is acquired at a moment when the tonnage tax regime does not apply yet, and sold when the regime does apply, a part of the capital gain is subject to ordinary taxation
Japan	<ul style="list-style-type: none">Capital gains are subject to the regular statutory tax rate
Norway	<ul style="list-style-type: none">No claw-back on capital gains realised during the lock-in period



Poland	<ul style="list-style-type: none"> Capital gains on sale of vessels are taxed against a flat rate of 15% A tax exemption applies when reinvested in a purchase, co-ownership, modernisation, renovation or rebuilding of the shipping fleet within 3 years from the moment of sale of that vessel
South Africa	<ul style="list-style-type: none"> It is proposed that between 50% and 100% of the gain will be subject to ordinary CIT at 28%, based on a formula
Taiwan	<ul style="list-style-type: none"> Gains on sale of vessels are subject to regular CIT of 17%
UK	<ul style="list-style-type: none"> No deferred tax liabilities arise
USA	<ul style="list-style-type: none"> Capital gains are subject to the regular statutory tax rate

Greek tonnage tax model

Under the Greek tonnage tax model, capital gains on vessels are not taxed. In addition to or in deviation from this general rule, the following applies in specific countries with regard to capital gains.

Cyprus	<ul style="list-style-type: none"> No deferred tax liabilities arise
Greece	<ul style="list-style-type: none"> Capital gains on the sale of vessels flying a Greek flag are not taxed. However, there is no similar explicit exemption for vessels flying a foreign flag. On the other hand, capital gains arising on the sale of shares held in all vessel owning companies are not taxable
Malta	<ul style="list-style-type: none"> No deferred tax liabilities arise



Flag and registration requirements



Dutch tonnage tax model

In general, it is obligatory to sail the flag of the country in which the tonnage tax model is applied. In EU countries using the Dutch tonnage tax model, an EU or EEA flag is usually required for the application of the tonnage tax regime. However, many exceptions apply. In certain EU countries it is under country specific circumstances permitted to use flags other than EU or EEA flag.

In addition to or in deviation from these general rules, the following applies in specific countries with regard to capital gains.

Curaçao & St. Martin	<ul style="list-style-type: none">• No flag requirement
Japan	<ul style="list-style-type: none">• In order to apply the tonnage tax regime, the Japanese shipping company has to obtain approval from the government on its plan for increasing Japan owned/flagged vessels
Republic of Korea	<ul style="list-style-type: none">• No flag requirement

Greek tonnage tax model

For the countries using the Greek tonnage tax model, the following applies with regard to flag and registration requirements.

Cyprus	<ul style="list-style-type: none">• The system is mandatory for owners of Cyprus flag vessels and optional for other owners, charterers and ship managers• A minimum share of 60% EU vessels is required for entry of non-EU vessels. However, the fleet will continue to qualify with at least one EU vessel, but in that case the share of EU vessels will be monitored
Greece	<ul style="list-style-type: none">• Greek and foreign flagged vessels qualify. In the case of foreign flagged vessels, a ship management office engaged in ship management activities should be established in Greece
Malta	<ul style="list-style-type: none">• EU/EEA flagged vessels qualify. Non-EU flagged vessels may also qualify subject to certain conditions and thresholds

Ship management activities



Dutch tonnage tax model

Under the Dutch tonnage tax model, ship management activities generally do not qualify for tonnage tax regimes. Exceptions to this general rule apply in various countries.

Belgium	<ul style="list-style-type: none"> Performing commercial management activities for third parties may qualify
Bulgaria	<ul style="list-style-type: none"> Performing commercial management activities for third parties may qualify
Curaçao & St. Martin	<ul style="list-style-type: none"> Performing commercial management activities for third parties may qualify
Denmark	<ul style="list-style-type: none"> Performing technical and crew management for another company may qualify
Germany	<ul style="list-style-type: none"> Performing technical and crew management for another company may qualify
India	<ul style="list-style-type: none"> Income from certain incidental activities (such as maritime consultancy, loading and unloading of cargo, ship management, maritime education, and recruitment) are eligible for tonnage tax
Ireland	<ul style="list-style-type: none"> The provision of ship management services for qualifying ships operated by the company may qualify
Netherlands	<ul style="list-style-type: none"> Performing commercial, technical and crew management for another company may qualify
Norway	<ul style="list-style-type: none"> A tonnage taxed company can perform strategic, commercial/crewing, and technical management services for other group companies (more than 50% joint ownership) or pools where the tonnage taxed companies or other group companies participate. The company must have at least one qualifying asset (a vessel or at least 3% of another tonnage taxed company or partnership with at least one qualifying asset)
Poland	<ul style="list-style-type: none"> Additional conditions apply to bring ship management activities under the tonnage tax regime
Spain	<ul style="list-style-type: none"> Performing technical and crew management for another company may qualify

Greek tonnage tax model

Under the Greek tonnage tax model, ship management activities generally do not qualify for the tonnage tax regime. However, alternatives are often available.

Cyprus	<ul style="list-style-type: none"> Qualifying vessel management companies (crew and/or technical) may opt to enter the tonnage tax system by paying taxes at 25% of the rates applicable to the shipowners
Greece	<ul style="list-style-type: none"> Ship management activities are not taxed if put under a special regime
Malta	<ul style="list-style-type: none"> Ship management activities may qualify for tonnage tax benefits provided certain conditions are satisfied

5. Shipping incentives regimes

Many countries offer corporate tax incentives other than tonnage tax to your shipping business.

Many countries offer tax and other incentives to the shipping industry.

In this section, CIT incentives (other than tonnage tax regimes) are discussed. The form of the incentives differs and their effectiveness can vary. However, the incentives generally have in common a reduction in tax burden. Tax incentives decrease the tax burden for shipping companies by narrowing the tax base, lowering the tax rate, or providing complete tax exemption. We will discuss separately tax jurisdictions with CIT incentives specifically designed for the shipping industry. These include Brazil, the Canary Islands, China, Curaçao & St. Martin, France, Hong Kong, Italy, Malaysia, the Netherlands, Panama, Philippines, Russia, Singapore, Sweden, and Turkey.

Brazil

- The Brazilian shipping sector is subject to the merchant marine renew contribution (AFRMM). The AFRMM is due by the consignee of the cargo on the unloading of goods in a Brazilian port. In specific circumstances, an exemption of the AFRMM can be claimed, such as cargo related to the oil and gas exploration on the Brazilian shore and the importation under special customs regime.
- Freight revenues relating to the exportation of goods from Brazil are exempt from federal contributions such as PIS and COFINS (generally levied at a 9.25%).

Canary Islands

- For CIT purposes, there is a tax credit amounting to 90% of the taxable turnover arising from the exploitation of ships registered with the Special Registry.

China

- For foreign international shipping companies, shipping income derived from outbound transportation shipment (exportation) departing from China ports is subject to a favourable Chinese CIT rate of 1.25% (instead of standard Chinese CIT rate of 25%), unless it is qualified for an exemption under the respective DTA and international transportation agreements signed between China and overseas countries/regions.

Curaçao & St. Martin

- Curaçao and St. Martin also have an alternative regime to the tonnage tax regime. In the alternative regime, the regular profit tax regime applies to 20% of the profits, but 80% of profits from international shipping are taxed at 1/10 of the standard corporate income tax rate.
- Curaçao and St. Martin have two provisions for capital investments, including vessels that allow for accelerated depreciation of 1/3 of the investment as well as a 16% investment allowance.

France

- Since 1 January 2010 a new tax has replaced the professional tax: the Territorial Economic Contribution (CET). This new contribution is made up of two elements: the company land contribution (CFE) and the company value added contribution (CVAE). All entities exercising a professional activity in France are liable to CVAE, including if they are subject to the tonnage tax regime for CIT purposes.
- In terms of the requirements of the CVAE, shipping companies which carry out activities in France and abroad at the same time do not need to account for the added value from operations linked directly to the operation of vessels for activity carried out in France. A decree from the French Conseil d'État specified the methods for applying this rule which allow the shipping companies concerned to only be subject to the CVAE in respect of the portion of their added value from operations

carried out within the limits of the national territory, which are directly linked to the operation of vessels. For these purposes, operations where the departure point (embarkment) and the arrival point (disembarkment) are in France are considered to be operations carried out within the limits of the national territory.

Hong Kong

- The standard profits tax rate is 16.5%.
- Shipping companies deriving freight income are tax-exempt in Hong Kong if there is no carriage shipped in Hong Kong.
- As a tax incentive, for shipping companies with ships flying a Hong Kong flag, freight income related to cargo uploaded in Hong Kong and navigated to international waters is still exempt from Hong Kong profits tax.
- Companies deriving charter hire income from the operation of ships would also generally be tax-exempt unless the ships are: (a) navigated solely or mainly within Hong Kong waters; or (b) between Hong Kong and Pearl River Trade waters.

Italy

- By Ministerial Decree, even companies who have not made use of the tonnage tax regime, and/or companies dismissed from the tonnage tax regime, can still make use of some facilities. For CIT purposes, the most important facility is that income arising from the use of vessels registered in the International Italian Registry is 80% tax exempt for Italian CIT purposes.

Malaysia

- Non-exempted shipping income is taxed at a rate of 25% (24% with effect from year of assessment (YA) 2016).
- Tax exemptions are given to Malaysian ship owners provided that certain conditions are met. Prior to YA 2012, an income tax exemption amounting to 100% of the statutory income was available to a Malaysian resident company in relation to its income from the carrying on of business of a Malaysian ship. A Malaysian ship is defined for tax purposes as a sea-going ship registered as such under the Malaysian Merchant Shipping Ordinance, other than a ferry, barge, tug-boat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessel. Recently, the law was changed to reduce the income tax exemption to 70% of the statutory income. The implementation of the reduced income tax exemption rate, however, has been deferred twice (the Gazette order for the latest deferment to YA 2016 is pending issuance).

Netherlands

- Shipping companies that do not use the tonnage tax regime, but are subject to the ordinary CIT regime can apply an accelerated depreciation to vessels that would have qualified for the tonnage tax regime. This facility allows taxpayers to use up to 20% of a vessel's depreciation potential per year.
- For (new and used) maritime ships to which the tonnage tax regime is not applied, declining balance depreciation is allowed.
- Investment allowances and/or accelerated depreciation are available for specific environmentally friendly or energy-efficient vessels (to which the tonnage tax regime is not applied).

Panama

- The statutory tax rate in Panama is 25%.
- Companies in the international transportation industry will be taxed over the freight, ticket, merchandise and other services when the port of origin and destination is Panama.
- For companies in the international maritime industry the taxable base will be the amount of miles travelled within Panama.
- Vessels registered under Panamanian flag are not subject to tax when the income relates to international maritime commerce.
- Companies in the international maritime industry can determine their net income in two ways: (i) 3% of the gross income or (ii) following the regular system contemplated in the Tax Code.
- Cruise companies who have their home port in Panama will not be subject to tax over the income generated by the tickets sold.

Philippines

- Philippines has a statutory CIT rate of 30%. International shipping companies doing business in the Philippines are liable to income tax of 2.5% based on Gross Philippine Billings and percentage tax of 3% on quarterly gross receipts.
- The 2.5% tax rate may be reduced using the preferential tax rate pursuant to the applicable tax treaty to which the Philippines is a signatory. This is subject to compliance with certain requirements and the filing of a tax treaty relief application (TTRA) with the Philippines tax office (Bureau of Internal Revenue or BIR).
- The filing of the TTRA with the BIR within the time prescribed is a mandatory requirement, such that non-compliance may result in the denial of the application for treaty relief.

Russia

- The standard CIT rate in Russia is 20%.
- The Russian Tax Code exempts from profits tax the following types of income from shipping related activities:
 - Income received from the use of vessels registered in the Russian International Vessel Register (RIVR), in the transportation of cargo or passengers, and other related shipping services provided the point of departure and/or point destination of their course are/is located outside of Russia. Russian companies may register ships in the RIVR e.g. if they received them under bare boat charter arrangements;
 - Income received from renting out the vessels registered in the RIVR (including under bareboat charter), provided the vessels are used for the transportation of cargo or passengers, and other related shipping services and the point of departure and/or point of destination of their course is located outside of Russia;
 - Income from the sale of vessels registered in the RIVR;
 - Income received from transportation of cargo or passengers, towage, and other related shipping services, if the ships were built by a Russian shipbuilding company after 1 January 2010 and are registered in the RIVR, regardless of the point of destination or the point of departure;
 - Income from renting out vessels if the ships were built by a Russian shipbuilding company after 1 January 2010 and are registered in the RIVR (including renting out under bareboat charter arrangements) if the vessels are rented for the purpose of transporting cargo or passengers, perform towage, and other related shipping services, regardless of the point of destination or the point of departure.

Singapore

- The Russian Tax Code does not allow tax deductions for expenses relating to the maintenance, repairs or other services related to the maintenance, use or sale of vessels registered on the RIVR.
 - All other non-shipping income received by a company (e.g. interest income and dividends of ships registered in the RIVR, etc.) is taxed under regular rates and rules.
- The current Singapore CIT rate is 17%. However, shipping companies can benefit from a reduced tax rate (up to 0%) under the Maritime Sector Incentives (MSI).
 - Under the MSI, there are two main tax exemption schemes:
 - To promote the Singapore registry, there is an automatic tax exemption on qualifying income derived by companies who own and operate Singapore registered ships in international waters. There is no expiry date for this incentive as long as the ships continue to be Singapore flagged.
 - To encourage the control and management of foreign flagged ships by Singapore resident companies, there is an Approved International Shipping Enterprise (MSI-AIS) incentive. To qualify, a company must substantiate that the control and management of its declared fleet will be based in Singapore and meet other quantitative qualifying criteria. Tax exemption will be granted on qualifying shipping income derived from foreign flagged ships sailing international waters. The tenure of this incentive is 10 years (with the possibility of extension up to another 30 years).
 - Companies under the above two main schemes can also enjoy the following:
 - Tax exemption on income derived from foreign exchange and risk management activities carried out in connection with and incidental to qualifying shipping

- operations, ship management services rendered to related qualifying SPV's, and gains on the sale of ships (including shares in a wholly-owned ship-owning SPV).
- Withholding tax exemption on interest and related payments made to non-residents in respect of qualifying foreign loans (subject to meeting certain conditions).
- Charter fee payments made to non-residents for the use of ships are also exempted from domestic withholding tax in Singapore.

Sweden

- The standard CIT rate in Sweden is 22%.
- The general tax depreciation rules on machinery and equipment, vessels included, allow for a depreciation of 30% on declining balance or 20% straight line, with correspondence to the accounts (excess depreciation). If the net tax value and net book value on machinery and equipment does not correspond, depreciation with 25% on declining balance is allowed.

Turkey

- According to the Turkish International Ship Registry Law, a registration fee and an annual tonnage fee is applicable for vessels registered in the Turkish International Vessel Registry (TIVR). There is no additional registration fee for the lease holder. There is no other tax than fixed fees.
 - The fee for each vessel to be registered in the TIVR is \$ 10,000 in addition to \$ 1 per ton.
 - The annual tonnage fee is \$ 1 for each net ton for each calendar year in which the vessel is registered in the TIVR.
- Purchases and sales of ships which are registered in the TIVR are exempt from stamp tax, duties and banking and insurance transaction tax.

6. Favourable tax regimes

Certain jurisdictions may be attractive for your enterprise because of the general tax benefits they offer.

Several countries do not offer special tax incentives for their shipping industry. Instead, the general tax laws apply as they do for any other company. Locating your shipping activities in these countries, even though there are no incentives specifically aimed at the shipping industry, might still be beneficial for your enterprise.

Other aspects of a tax regime may increase the attractiveness of a jurisdiction, like tax holidays or exemptions of tax.

Countries that will be discussed in more detail in this paragraph are Antigua and Barbuda, Barbados, Bermuda, the British Virgin Islands, the Cayman Islands, Estonia, the Isle of Man, Saint Lucia, and South Africa.

Antigua and Barbuda

- Companies incorporated in Antigua and Barbuda pay corporate income tax on their worldwide income at a flat rate of 25%. Non-resident companies deriving income from Antigua and Barbuda are also liable to corporate income tax.
- If a shipping company in Antigua and Barbuda is registered as an International Business Corporation (IBC), the company will be exempt from all taxes for fifty years from the date of incorporation. IBC's are exempt from all taxes as long as they conduct their business exclusively with individuals/companies who are not residents in Antigua and Barbuda.

Barbados

- Companies resident in Barbados are taxed on all sources, whether generated within or outside of Barbados. Non-resident companies are generally only taxed on income derived from sources and operations conducted within Barbados. The corporate tax rate in Barbados is 25%.
- If a shipping company in Barbados is licensed as an IBC or an International Society with Restricted Liability, the rates of corporate tax are on a sliding basis of 0.25% to 2.5%.

Bermuda

- Except for registration fees and an annual tonnage fee, shipping companies incorporated in Bermuda are not required to pay any income tax on profit, capital gains or personal income in Bermuda, when they are registered as an 'exempted company'. Registration fees are payable upon registration of the company and/or ship. Annual tonnage fees are payable both upon registration and every year thereafter by 31 March.
- For registering, certain requirements apply; most notably regarding the strategic and commercial management of the business. Exempted companies in Bermuda can enter into agreements such as a lease/tenancy agreement for a period of up to 50 years for business purposes. Currently, newly formed exempted companies are granted an exemption from any income, profits and/or capital gains taxes, in the event any such taxes are enacted, until March 2035 under the Exempted Undertakings Tax Protection Act 1966. Existing exempted companies may apply to the Minister of Finance of Bermuda for such an exemption.

British Virgin Islands

- In principle, companies incorporated in the BVI or managed and controlled there are chargeable to corporate income tax. Under the Business Company Act of 2004, however, companies incorporated under the BVI Companies Act are exempt from all income taxes. These companies only pay an annual license fee.
- For some activities, licenses are required. In particular, a trade license from the government is needed to transact business with persons resident in the BVI or own interests in real property located in the BVI.

Cayman Islands

- Corporate income, capital gains, payroll, or other direct taxes are not imposed on corporations in the Cayman Islands.
- Branches are treated the same as other corporations doing business in the Cayman Islands.
- Cayman entities carrying on business outside the Cayman Islands can register as 'exempted companies' (i.e. a company formed primarily to do business outside of the Cayman Islands and subject to certain requirements) and can apply under the Tax Concessions Law for an undertaking to be issued by the Governor-in-Council (i.e. the Cayman Islands government) exempting such company from any tax on profits, income, gains, or appreciation that might be introduced in the period of 20 years following the grant of such concessions. The concession is extendable for a further ten years after expiry. 'Exempted limited liability partnerships' (i.e. certain partnerships formed primarily to do business outside of the Cayman Islands) can apply under the Exempted Limited Partnership Law for a similar concession that is for 50 years (rather than 20 years).

Estonia

- Under the existing Estonian CIT regime, all undistributed corporate profits are tax-exempt. This exemption covers both active (e.g. shipping) and passive (e.g. dividends, interest, royalties) types of income, as well as capital gains on sales of all types of assets, including shares and immovable property. This tax regime is available to Estonian companies and branches of foreign companies that are registered in Estonia.
- The moment of taxation on corporate profits is postponed until the profits are distributed as dividends, other payments from equity or deemed profit distributions. In 2014, distributed profits are generally subject to 21% CIT (the rate will fall to 20% on net distribution from 2015).

Isle of Man

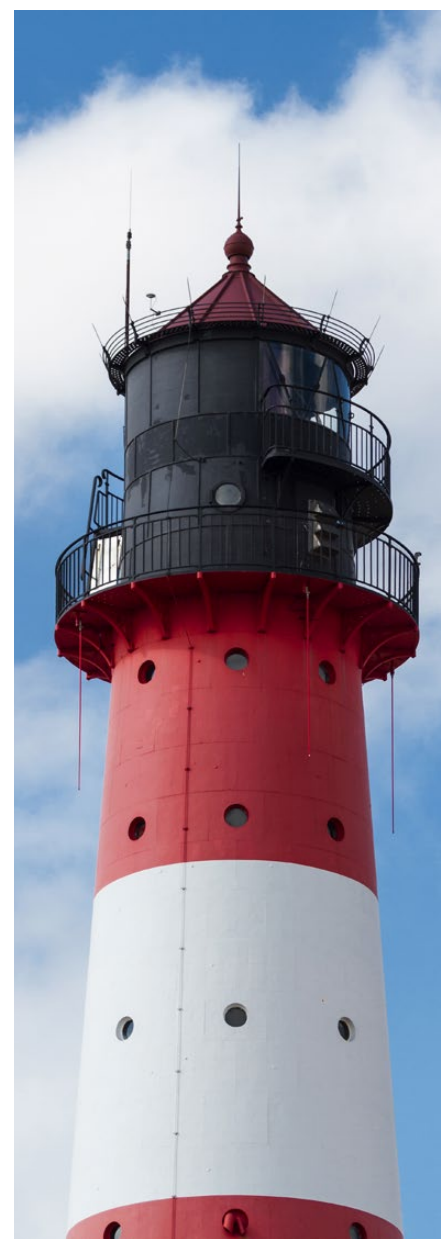
- Companies resident in the Isle of Man are taxed on their worldwide income. With limited exceptions, such companies are liable to CIT on their profits, but the CIT rate is 0%. This also applies to companies carrying on shipping related activities. There are no annual tonnage dues.

Saint Lucia

- Saint Lucia resident companies are subject to tax at a flat rate of 30% on gains or profits accrued directly or indirectly from all sources, whether in or out of Saint Lucia.
- Non-resident companies are taxed on Saint Lucia source income. The gross amount of such income is liable to 25% withholding tax.
- If a shipping company in Saint Lucia is registered as an IBC, and carries out no business in Saint Lucia, it may elect to be exempt from income tax or be liable to income tax on the profitable gains of the IBC at a rate of 1%.

South Africa

- International shipping income received by an international shipping company after 1 April 2014 will be exempt from normal tax. In order to qualify for this exemption the international shipping company must be resident in South Africa. Qualifying companies are also exempt from capital gains tax, dividends tax and cross-border withholding tax on interest. There are also special allowances and depreciation rules for movable assets, such as ships.



7. Tax treaty benefits and taxation of non-resident taxpayers

If your business is active across the world, taxation outside your country of residence is highly relevant. Both tax treaties and domestic rules may provide benefits.

Whether an international shipping company can fully turn a tonnage tax regime, tax incentives, or a favourable tax regime in its country of residence to its advantage depends to a large extent on the way this company and its activities will be taxed in the countries in which it is not resident. The most important instrument to optimise a company's tax treatment in this respect is the tax treaty network of its country of residence.

The OECD model treaty contains an article that under certain circumstances allocates the taxation of international shipping income to the country in which the enterprise's place of effective management is located.

In addition, domestic legislation of particular countries provides for an exemption or beneficial treatment of non-resident shipping companies. In the current section, we will first discuss the OECD model treaty and subsequently a number of countries in which such special rules for non-resident shipping companies are present. These countries include Canada, Liberia, the Marshall Islands, the Netherlands, Taiwan and the USA.

The OECD model treaty

Article 8 of the OECD model treaty provides that profits from the operation of ships in international traffic as well as the operation of vessels engaged in inland waterways transport shall be taxable only in the Contracting State in which the effective management of the enterprise is situated. By means of double taxation agreements containing this article, shipping enterprises may in many cases make sure that the majority of their shipping income is only taxed under the (favourable) tax regime of their country of residence, even if they would have a permanent establishment in another country under the ordinary rules.

A crucial notion in Article 8 is of course "international traffic". This term refers to any transport by a ship except when the ship is operated solely between places in one state. "Profits from the operation of ships" consist of profits directly obtained from the transportation of passengers or cargo, profits from activities directly connected with such operations and profits from ancillary activities. Ship leasing, code sharing, ground transport, pick-up/drop-off services, ticket sales, onboard advertising, as well as leasing and storage of containers are examples of activities that may qualify as directly connected activities or ancillary activities.

Domestic rules for non-resident shipping companies

In the following paragraphs, we will discuss a number of countries that have introduced specific rules for non-resident shipping companies in their domestic tax laws.

Canada

- Under Canadian domestic law, a non-resident company that earns income in Canada from international shipping is not taxed if the non-resident company resides in a country that would exempt a Canadian company from tax if they carried out similar international shipping activities in the other country.
- The most important Canadian shipping incentive is designed to encourage "traditional" international shipping companies to have their central management and control (which is referred to in Canada as the company's "mind and management") in Canada. In order to achieve this, a company that is not formed under Canadian law and only carries on international shipping activities is deemed a non-resident company and is therefore not subject to Canadian income tax, even if that company has its "mind and management" in Canada.
- Under proposed legislation that is expected to be enacted in the near future, the definition of "international shipping" is expanded to allow entities that may be a part of a larger shipping group but do not themselves perform

traditional shipping activities (such as back office services, treasury, management services, financing, etc.) to still benefit from the rules for international shipping companies. As a result, the new rules allow the senior management of a global shipping group to be located in Canada, while the companies within the group are not considered to have their “mind and management” in Canada and the activities of the senior management do not create a branch in Canada.

Liberia

- The income (including income from the sale, rental or chartering) of a vessel entity registered as a non-resident domestic vessel entity in Liberia is not taxable in Liberia, provided the earnings do not relate to traffic exclusively within Liberia.
- There are established criteria that are used to determine whether or not an entity is a non-resident domestic entity.
- Notwithstanding the above, a non-resident domestic vessel entity registered in Liberia is required to pay certain fees including annual tonnage fees, inspective fees, nautical training fees, radio communication fees, marine inspection fees and other charges as per the Maritime Law.
- In August 2013, Liberia assigned to the Maritime Labour Convention which requires shipping entities to make social security contributions on behalf of Liberian resident crew.

Marshall Islands

- The tax regime in the Republic of the Marshall Islands differs depending on whether a company is a resident or a non-resident. Assuming that it is a non-resident, Marshall Islands law generally provides that it shall be exempt from any CIT, income tax, withholding tax, asset tax, or other fees and taxes other than the initial incorporation fee and the annual registration fee.

- A non-resident entity is an entity “not doing business in the Republic”. “Doing business in the Republic” means that the entity is carrying on business or conducting business in the Republic.
- To register a vessel in the Marshall Islands register, the vessel must be owned by a Marshall Islands company.

Netherlands

- Dutch domestic CIT law contains an exemption for non-resident companies engaged in the transport of persons or goods by sea between places inside and outside the Netherlands or between places outside the Netherlands.
- The exemption is subject to the condition that the management of the shipping enterprise does not take place in the Netherlands. In addition, it is required that the tax laws in the company’s country of residence contain a similar provision (reciprocity).

Taiwan

- As regards a foreign shipping company, business income derived from operations in Taiwan shall be exempted from Taiwanese CIT, provided that reciprocal exemption treatment is granted by the foreign country to a Taiwan resident shipping company.
- In certain cases a foreign shipping company conducts international shipping activities in Taiwan and finds difficulty in calculating its taxable income derived from its shipping activities in Taiwan. The foreign shipping company may then apply for approval from the Ministry of Finance to use 10% of its turnover to calculate its deemed taxable income.

United States of America

- For non-resident corporations, an exemption from federal income tax is available for income from the international operation of ships if it is the object of a reciprocal exemption, i.e. where the country of residence of the non-resident corporation provides an exemption to US shipping companies under its domestic laws, a reciprocal shipping agreement, or an income tax treaty. Certain documentation and filing requirements apply. State and local taxes may in some cases apply, although many states provide special rules and reduced taxes for shipping companies.
- A similar exemption is available to non-resident alien individuals (i.e. who are not US citizens) engaged in the international operation of ships.
- Non-resident corporations and individuals not eligible for exemption under the above rules are generally subject to a 4% tax on US source gross transportation income (i.e. 50% of income from US-foreign or foreign-US voyages), as long as the income is not attributable to a US office or fixed place of business.
- The regular 35% federal CIT rate, plus applicable state or local taxes, applies where income from the international operation of ships is not eligible for an exemption and the income is attributable to a US office or fixed place of business.

Final remark

In making important choices, everything depends on the circumstances of your enterprise. Our dedicated shipping professionals can give you the detailed perspective you need in order to decide how to best structure your shipping business.

Your decision on the most suitable tax regime, how to structure it and where to locate your shipping activities will depend on the circumstances and your activities. Usually, it will be based on a combination of the possibilities of business control and strategic management, the effectiveness of the tax system for the specific shipping activities the enterprise is engaged in, ship financing, freight taxes, wage cost deduction for seafarers, and taxes at source, among other things.

Our PwC network of highly experienced and dedicated shipping professionals can give you the detailed perspective you need in order to decide how to best structure your shipping business. Contact us for an informal discussion about your individual situation and considerations. You can find the contact details of our global shipping team members and our global Transportation & Logistics network below.



Definitions and abbreviations

CFC
controlled foreign corporation

CIT
corporate income tax

DTA
double taxation agreement

EEA
European Economic Area

EU
European Union

international traffic at sea
any maritime transport by ship, except when the ship is operated solely between places in one state

OECD
Organisation for Economic Cooperation and Development

SPV
special purpose vehicle

T&L
transportation & logistics

UK
United Kingdom

USA
United States of America

VAT
value added tax

YA
year of assessment



Contacts

PwC has established a European and Global Shipping Network of industry experts. Within this network, a dedicated team of assurance, tax and advisory professionals provide advice and support to businesses like yours. Through our network of local specialists PwC can offer the solutions needed to manage your business on a local and global basis. The Shipping Network has strengthened its commitment to exchange experience through our global databases and regular meetings, allowing all members to share knowledge and find solutions that fit your needs. No matter where you are navigating, PwC has a Shipping team ready.

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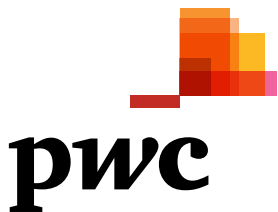
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