



Choosing your course

Corporate taxation of the shipping industry around the globe

2022

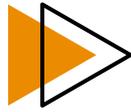
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By describing the various corporate tax schemes for shipping around the globe, this publication can help you understand how the shipping industry is treated and help you with finding the most suitable location to fit your business model.



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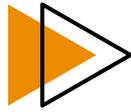
The shipping industry plays an extremely important role in global trade, with an estimated volume in excess of 90% of all goods and commodities traded globally being transported by sea.

Over the last couple of years, maritime trade has faced increasing challenges, primarily as a result of the COVID-19 pandemic, which has caused significant disruptions to global supply chains, causing demand and supply imbalances, volatile freight rates and port congestion. More recently, geopolitical risks have increased and shipping has had to navigate increasingly complex sanctions imposed by various governments around the world.

As the world tries to get to grips with these new challenges, there is increasing focus on the shipping industry's contribution to society. Its efforts to decarbonise are being scrutinised along with the overall management of environmental risks, leading many shipping companies to focus increasingly on their ESG performance and reporting.

Despite all of the aforementioned challenges, throughout 2021 and in the year to date, the shipping industry has experienced strong performance across most vessel types as freight rates rose above historical averages, in some cases reaching historical peaks. The largest shipping companies – the containership liner operators – have experienced record profits and are now seeking to invest some of these profits in pursuing a path to decarbonisation, digitising operations and divesting further up or down the supply chain.





Global tax landscape



The global tax landscape is also changing. There is increased focus on tax planning and fair share, substance, beneficial ownership, economic nexus and transparency from local tax authorities as well as other stakeholders. This has resulted in amendments to both domestic and international tax law and policy.

For example, the proposed introduction of Pillar 2, a tax system with a minimum effective tax rate of 15% for Multinational Enterprises with a turnover of at least EUR 750m, can have a significant impact on the shipping industry and the use of specific shipping schemes such as the tonnage tax regime. Although the draft Pillar 2 rules from the OECD and the EU exclude international shipping income and ancillary international shipping income, the scope of this exclusion is not fully aligned with the domestic (tonnage) tax schemes or the scope of existing tax treaties. It is unclear whether jurisdictions will bring their domestic (tonnage) tax schemes more in line with the Pillar 2 shipping exclusion or not. This will have an impact on, amongst other things, shipping companies active in the offshore industry.

ESG is a key priority for shipping companies nowadays.

Sustainability



For many countries, the shipping industry is of great importance. The need for the shipping industry to reduce overall CO2 emissions is clear and important innovation areas in this respect are, for example, the use of low carbon fuels and electric motors. Governments are using green tax incentives (e.g. accelerated depreciation schemes or tax subsidies) to stimulate investments. But the availability of tax incentives and special schemes can change quickly. For example, the combination of increasing government expenditure as a result of the COVID-19 pandemic and debates on whether corporations pay their fair share of taxes have caused OECD countries to reconsider various kinds of tax schemes that might lead to a reduced effective tax rate for businesses operating throughout the world.

Choosing your course



There are many reasons why a number of jurisdictions have introduced alternative or supplementary taxation schemes for the shipping industry, such as its capital-intensive nature, the volatility of the shipping market and long economic life cycle of international shipping. Other reasons are to ensure competition on an international level playing field, secure and develop an active maritime industry job sector in their territory and in order for countries and regions like the EU to secure their logistics chain and fleet.

Choosing an optimal and globally accepted tax scheme for your organisation is more important today than it has ever been. This brochure describes the different ways the shipping industry is taxed around the world and compares tonnage tax systems, as well as relevant tax treaties and countries with other shipping tax schemes. 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, while these interesting times hold challenges, they certainly also hold opportunities. To stay competitive, shipping companies will need to adapt their corporate strategies and processes. Effective ways to align corporate, operational and tax structures will be critical. PwC can help companies in the shipping and offshore industry to optimise their worldwide tax position in line with their organisation's strategy, in full compliance with legislation and regulations, ensuring sustainability and transparency, taking into account international tax developments such as Pillar 2.



Definitions and abbreviations



CFC Controlled Foreign Corporation

OECD Organisation for Economic Cooperation and Development

CIT Corporate Income Tax

SPV Special Purpose Vehicle

DTT Double Taxation Treaty

T&L Transportation & Logistics

EEA European Economic Area

VAT Value Added Tax

EU European Union

WHT Withholding tax

International traffic at sea

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





This brochure describes general patterns in corporate taxation of the shipping industry across the world with a view to guiding you towards the scheme that best suits your business strategy.

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

The shipping industry has always had a special position worldwide. This relates to the capital-intensive nature, market volatility and long economic life cycle of international shipping. But also to ensuring competition on an international level playing field, to countries securing and developing an active maritime industry job sector in their territory and to countries and regions like the EU securing their logistics chain and fleet.

From a tax perspective, the shipping industry often enjoys special treatment in respect of VAT, payroll taxes, corporate income tax and for the seafarers. This brochure is limited to corporate income tax.

We examine three categories:

- **Tonnage tax schemes:** tax schemes under which the tax payable is based on the tonnage of a vessel
- **Specific shipping schemes:** tax schemes with beneficial tax provisions specifically aimed at the shipping industry
- **Taxation in other shipping countries of interest:** countries with no specific exemption for the shipping industry, but which are to date commonly used in shipping structures

In addition, we take a closer look at DTT 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 research and the current publication are not intended to be exhaustive and must not be interpreted as advice. We always recommend that you contact your PwC shipping contact to discuss your specific needs.





Selection of countries

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

1. The importance of a country for the global shipping industry;
2. The overall relevance of the tax scheme; and
3. The availability of tax schemes specifically aimed at the shipping industry.

Key shipping countries and their respective tax schemes

Country	Tonnage tax schemes Dutch model vs. Greek model	Other shipping schemes
Australia	-	Yes
Barbados	-	No
Belgium	Dutch model	No
Bermuda	-	No
Brazil	-	Yes
British Virgin Islands	-	No
Bulgaria	Dutch model	No
Canada	-	Yes
China	-	Yes
Croatia	Dutch model	No
Cyprus	Greek model	No
Denmark	Dutch model	Yes
Estonia	Dutch model	No
Finland	Dutch model	No
France	Dutch model	Yes
Germany	Dutch model	Yes
Greece	Greek model	No
Hong Kong	-	Yes
India	Dutch model	No
Indonesia	-	Yes
Ireland	Dutch model	No
Isle of Man	-	Yes
Italy	Dutch model	Yes
Japan	Dutch model	No
Latvia	Dutch model	No
Luxembourg	-	No
Malaysia	-	Yes
Malta	Greek model	No
Mexico	-	No



Country	Tonnage tax schemes Dutch model vs. Greek model	Other shipping schemes
Netherlands	Dutch model	No
Norway	Dutch model	No
Oman	-	Yes
Pakistan	Greek model	Yes
Philippines	-	Yes
Poland	Dutch model	Yes
Portugal	Dutch model	Yes
Republic Of (South) Korea	Dutch model	Yes
Singapore	-	Yes
Slovenia	Dutch model	No
South Africa	-	Yes
Spain	Dutch model	Yes
Sweden	Dutch model	Yes
Taiwan	Dutch model	Yes
Thailand	-	Yes
Turkey	-	Yes
United Kingdom	Dutch model	Yes
United Arab Emirates	-	No
United States of America	Dutch model	Yes



2 Tonnage tax schemes – general characteristics



Most tonnage tax schemes have similar characteristics and requirements. They could be regarded as a simplified and attractive tax system.

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 scheme for taxpayers liable to tax in their country.

Internationally accepted tonnage tax schemes have allowed an attractive effective tax rate to be achieved, allowing shipping companies to invest in a highly capital-intensive industry and compete on a level playing field.

Most tonnage tax schemes have similar characteristics. In a tonnage tax scheme, the calculation of the profit is based on the registered tonnage of the vessel, multiplied by a fixed amount of deemed profit per ton per sailing day. All countries use a regressive scale system because smaller vessels tend to sail with a higher profit margin per ton than larger vessels. Within the EU, the European Commission has established guidelines for State Aid to maritime transport. That has created considerable 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 scheme. Tonnage tax schemes usually apply to 'maritime transport', i.e. the international transport of goods and persons by sea. Under some tonnage tax schemes, vessels engaged in towage, cable and pipe laying, dredging, wind farm and offshore installation, supply and/or ship management activities may also qualify.

Lock-in period



Some tonnage tax schemes are subject to a so-called 'lock-in period', a period in which in principle a taxpayer cannot switch schemes. Under the tonnage tax schemes in most countries it is only possible to enter the tonnage tax scheme for a fixed period, usually ten years, after which in some countries a new election to opt in or out must be filed.





Ownership



In order to qualify for a tonnage tax scheme, 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 schemes. The conditions in this respect usually relate to the following kinds of requirements:

- The shipping company must own a seagoing 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 scheme 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 in respect of the vessel is undertaken in the country of which the company is tax resident.

Under most tonnage tax schemes, strategic and commercial management must usually be undertaken directly by the company that owns the vessel or operates the vessel under a charter contract.

Capital gains



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

- When entering the scheme, hidden reserves may or may not be taxable and/or may result in deferred tax liabilities.
- Leaving the scheme within the lock-in period sometimes results in a direct tax liability.
- When leaving the scheme 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 resulting of that valuation.

Flag requirement



Most tonnage tax schemes 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 scheme. However, many exceptions apply.

Management



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

- **Strategic management:** the decisions regarding, among other things, investment and divestment 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

For most tonnage tax schemes, strategic and commercial management should be exercised directly by the vessel owning company. However, sometimes ship management companies are also eligible for a tonnage tax scheme. 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.

3 Tonnage tax schemes – Dutch model



Two different tonnage tax models can be distinguished:

- the Dutch model, introduced in 1996
- 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, Croatia, Denmark, Estonia, Finland, France, Germany, India, Ireland, Italy, Japan, Latvia, the Netherlands, the Republic of Korea (South Korea), Norway, Poland, Portugal, Slovenia, Spain, Sweden, Taiwan, the UK, and the USA have all implemented a basic structure based on the Dutch model.

In principle, the schemes 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 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. The amount of deemed taxable profit is subject to ordinary CIT rates. Apart from that, the shipping company and its non-qualifying shipping income is subject to regular taxation rules.

Example



Calculating the profit and tax payable 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.

€ 9.08	up to 1,000 net tons
€ 6.81	for the excess up to 10,000
€ 4.54	for the excess up to 25,000
€ 2.27	for the excess up to 50,000
€ 0.50*	for the excess over 50,000
Amount of taxable profit per day per 1,000 net tons	

*Under certain conditions.

Taxable profit 2022: $1 \times € 9.08 + 9 \times € 6.81 + 8 \times € 4.54 = € 106$ of taxable profit per day. Per year, the taxable profit amounts to $€ 106 \times 365 = € 38,690$. Based on a country-specific CIT rate of 25.8%, the CIT levied amounts to $€ 38,690 \times 25.8\% = € 9,982$.



3 Tonnage tax schemes – Greek model



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 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/office in Greece that is exclusively engaged in ship management activities that meet certain criteria. Foreign ship owning companies with vessels flying a foreign flag that maintain a company or 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 an annual special contribution.

The Greek model is also used by Cyprus, Malta and Pakistan, but they apply slightly different calculation methods. The Greek tonnage tax model covers all vessels and all shipping activities.

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 is levied on shipping profits.

Example

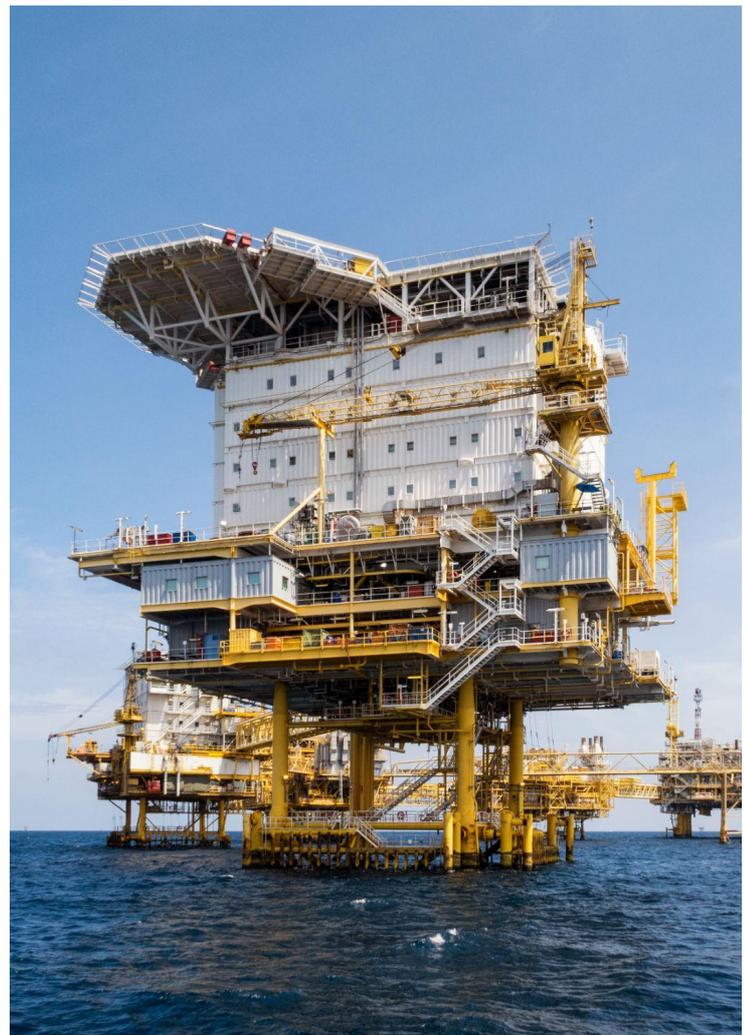


In the example below, the taxable tonnage and the tax levied are calculated according to the Greek tonnage tax model for a 5-year-old foreign flagged cargo vessel operated by a Greek resident company, operational all year with a gross tonnage of 20,000 and a net tonnage of 18,000. To calculate the taxable tonnage using the Greek model, the following scales can be used (2022 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 (2022 rates).





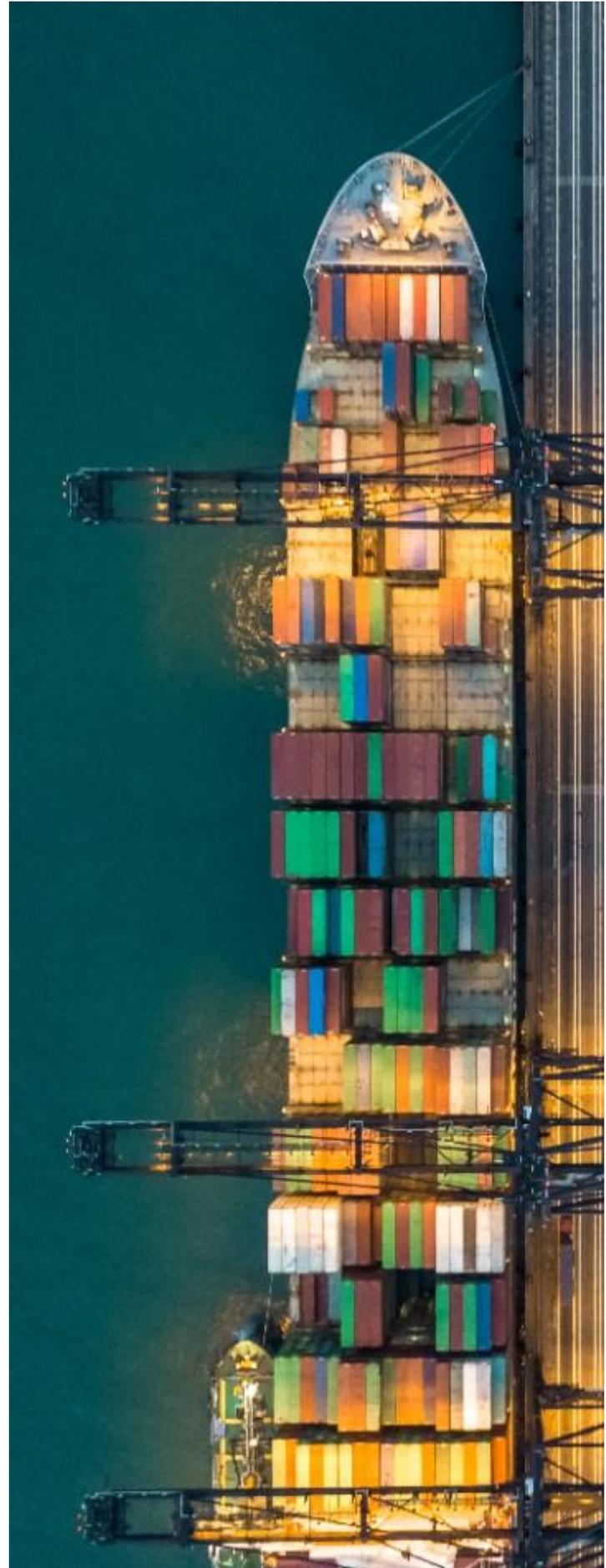
A' Category vessels (2022 rates)

Age of vessel	Rates (\$/ton)
0-4	0.496
5-9	0.889
10-19	0.870
20-29	0.824
Exceeding 30	0.636

CIT levied amounts to $23,000 \times \$ 0.889 = \$ 20,447$.

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 scheme (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 WHT is levied on the shipping profits of the company. A credit is provided for any tonnage tax that has already been paid abroad by the company.





The details of local tonnage tax schemes may differ. We describe the general rules and the most important local deviations, allowing you to choose the best location 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 scheme:



Method of calculating the tonnage tax



Qualifying vessels and ownership requirements



Flag and registration requirements



Qualifying activities



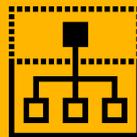
Who can qualify



Lock-in period

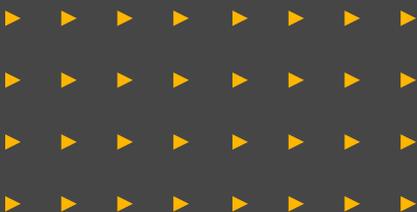


Capital gains



Ship management activities

For 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. The calculated profit is taxed against the statutory CIT rate or, for individual entrepreneurs, in most cases against individual income tax rates.

Below we have only highlighted those countries that have exceptions to the general Dutch model.

Exception to general rule

France	The taxable amount is calculated based on net tonnage, increased by some specific items such as: indirect subsidies from related parties that are not subject to tonnage tax, tax results deriving from transparent subsidiaries, capital gains deriving from the sale of eligible vessels or realised on some depreciable assets upon merger subject to favourable tax scheme.
Latvia	The amount of tonnage tax to be paid depends primarily on the net tonnage of the vessel multiplied by coefficient of each scale of net tonnage and the days the vessel carries out commercial activities. Latvia uses 4 size groups. Tonnage tax calculation formula: Tonnage tax liability per ship = (net tonnage of the ship x tonnage tax coefficient x days spent in international traffic) / 0.8 x 20%. It must be noted in the calculations that ship's operating time (the time spent in international traffic) does not include ship repair and ship lay-up time or the time during which a ship is not operated due to arrest or circumstances caused by force majeure.
Netherlands	Ship management companies get a reduction of 75% of the calculated tonnage tax profits. In specific cases, the profit is increased by €1,77 per day per 1,000 net ton to the extent that the net tonnage of the vessel exceeds 50,000. For profit splits we refer to qualifying activities.
Norway	The annual tonnage tax is a fixed fee in lieu of CIT. The tonnage tax is calculated per day per vessel according to rates determined in the annual tax decree from the Parliament. The tonnage tax rate is reduced with up to 25% for vessels that fulfil certain environmental requirements set by the Norwegian Directorate of Shipping and Navigation.
Poland	The shipping company's income from activities subject to tonnage tax is calculated as the product of the daily rate – a regressive size group based on the net tonnage and the operational period in a given month of all qualifying ships of the shipping company. The calculated profit is then taxed at the statutory CIT rate.
Portugal	Reductions of 50% and 25% of the taxable income are granted in the first and second year of activity, respectively. Reductions of 10% to 20% apply for vessels with a capacity exceeding 50.000 net tonnes, provided that they meet certain environmental requirements.

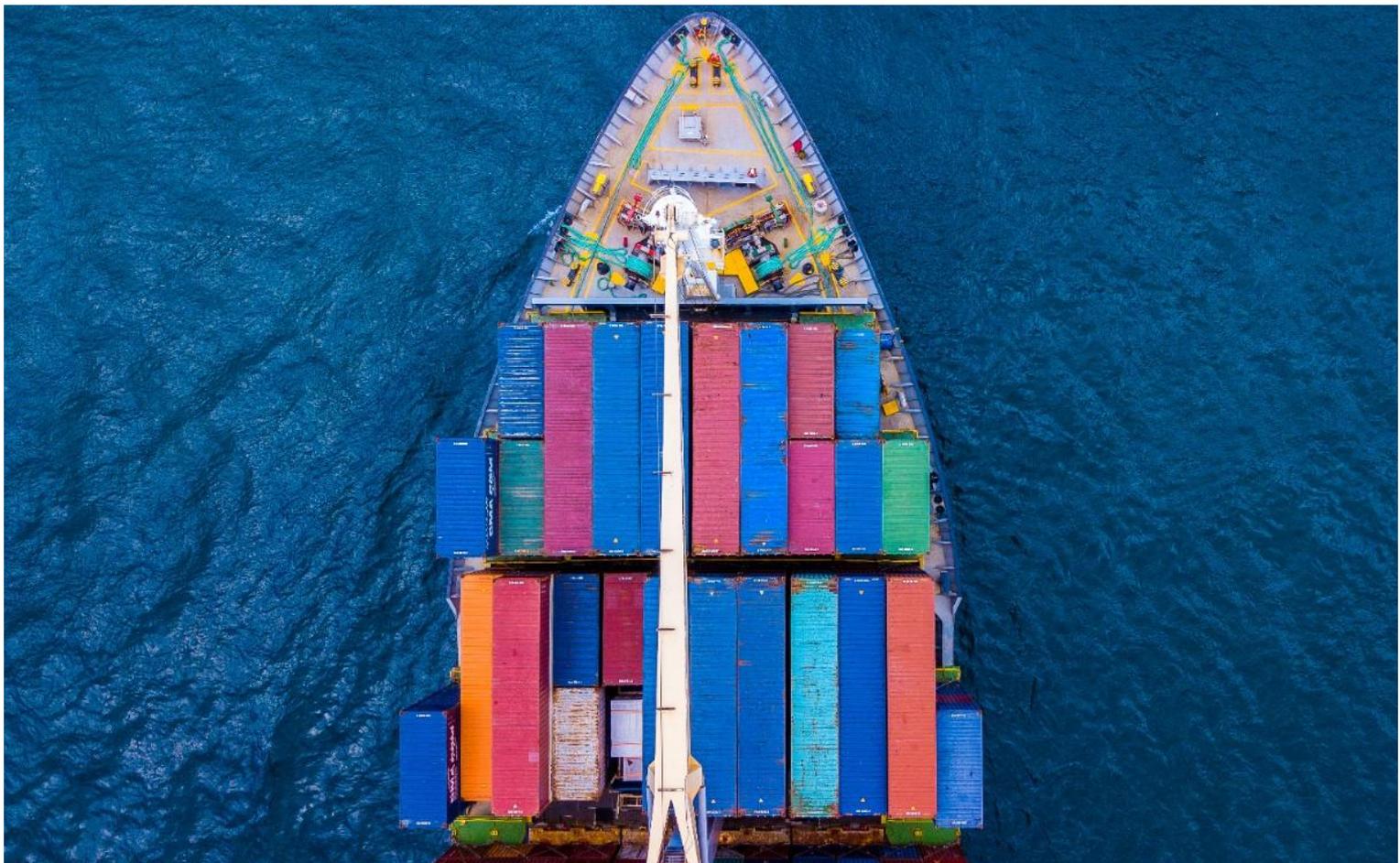


Method of calculating the tonnage tax



Exception to general rule

Republic of Korea (South Korea)	The shipping income per ship is calculated by the formula (tonnage per ship x profit per ton per day) x operating days x utilisation rate. If the company owns the ship or charters the entire ship, the utilisation rate is 100%. If the company has chartered part of the vessel the utilisation rate is the ratio of the company's loaded volume to the vessel's maximum cargo.
Spain	For purposes of applying the size categories (based on net tonnage), those days of the tax period shall be taken into account on which the vessels are at the disposal of the taxpayer or on which the technical management and management of the crew are carried out, excluding those days on which the vessels are not operational due to ordinary or exceptional repairs.
USA	US legislation generally allow corporations to elect a "tonnage tax" in lieu of the CIT on taxable income from certain shipping activities. An electing corporation's gross income will not include its income from qualifying shipping activities, and deductions relating to such income are disallowed. Qualifying income is then taxed at the maximum CIT rate on their notional shipping income (net tonnage). Notional shipping income for each of its qualifying vessels is equal to an amount derived by multiplying the daily notional shipping income (calculated at the rate of 40 cents for each 100 tons of its first 25,000 net tons and 20 cents for each 100 tons in excess of 25,000 net tons) by the number of days during the tax year that the electing corporation operated a vessel as a qualifying vessel in U.S. foreign trade.





Method of calculating the tonnage tax



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 instead of the net tonnage. Subsequently, the tax is calculated by using the tax rate that corresponds to the age of the vessel. No other CIT or dividend WHT 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.

Exception to general rule

Cyprus	<p>Cyprus uses 5 size groups and applies a 30% and 60% increase for non-community vessels flying a flag in, respectively, the Grey list and the Black list of the Paris Memorandum of Understanding.</p> <p>In Cyprus, tonnage tax is calculated based on the net tonnage of the vessels.</p> <p>As from 2021, legislation in Cyprus provides for a reduction of the annual tonnage tax liability of up to 30% for owners of Cyprus and EU/EEA flagged vessels that use mechanisms for the environmental preservation of the maritime environment and the reduction of the effects of climate change.</p>
Greece	<p>Greece uses 5 size groups. Exemptions provided from tonnage tax include, indicatively:</p> <ul style="list-style-type: none"> • Exemption from tax for the first 6 years for vessels built in shipyards in Greece, under a Greek flag • 50% reduction for vessels operating regular routes between Greek/foreign ports or solely between foreign ports
Malta	<p>Malta uses 8 size groups and applies a fixed amount of tax per group plus an amount of tax for exceeding net tonnage. A reduction of up to 30% of the respective fees are applicable for vessels 10 years or younger.</p> <p>An increase in fees of between 5% to 50% is applicable for vessels older than 15 years.</p>
Pakistan	<p>Vessels purchased or bareboat chartered flying the Pakistani flag pay tonnage tax equivalent to USD 1 per Gross Registered Tonnage (GRT) per annum.</p> <p>Vessels not registered in Pakistan and hired other than under bareboat charter pay tonnage tax equivalent to USD 0.15 per GRT per voyage capped to 1 USD per annum.</p> <p>A Pakistan resident company owning a seaworthy vessel flying the Pakistani flag and registered with the Securities and Exchange Commission of Pakistan after 15 November 2019 pays tonnage tax equivalent to USD 0.75 per GRT per annum.</p>





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 scheme. 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 compliance with certain obligations in respect of the training of seafarers.

Non-qualifying activities are subject to the general CIT schemes. If there are both qualifying and non-qualifying activities, a profit split must be made to determine the CIT due; this is based partly on the tonnage tax scheme and partly on the general CIT scheme.

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.

Exception to general rule

Belgium	<p>The following activities qualify for the tonnage tax scheme:</p> <ul style="list-style-type: none"> • The transportation of goods and persons on (i) international sea routes or (ii) routes to and from offshore installations for the exploration or exploitation of natural resources. The scheme also applies to ancillary activities that are related to such exploitation if the profits derived from those activities do not exceed 50% of the total profits derived from such vessels • The transportation of material extracted from dredged material on the high seas in the exploration or exploitation of natural resources at sea where more than 50% of the vessel's operational time during the taxable period is spent transporting such dredged material by sea • The performance of towage work on the high seas if concerns 50% of the activity actually performed by that vessel during the taxable period
Bulgaria	<p>Certain additional requirements, such as training requirements, must also be met. Additional requirements regarding entities managing vessels under a management agreement are the following:</p> <ul style="list-style-type: none"> • The company is established in EU/EEA • 60% of the tonnage of the vessels is under Bulgarian or EU/EEA flag • The company must comply with the international conventions and EU law on health, safety and environmental issues • More than half of the onshore 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 that are resident for tax purposes in an EU/EEA Member State



Exception to general rule

Croatia	<p>The shipping company has to carry out qualifying maritime activities (i.e. passenger and/or cargo transport by sea outside the internal sea waters and territorial sea of the Republic of Croatia, between ports in the Republic of Croatia and foreign ports or between ports in the Republic of Croatia and offshore facilities outside the territorial sea of the Republic of Croatia or between foreign ports or offshore facilities). Maritime activities also include other ancillary activities.</p> <p>Ship management services (for technical management and/or ship's crew) qualify for tonnage tax scheme in Croatia if:</p> <ul style="list-style-type: none"> • at least 51% of the employees are EU or EEA citizens • two-thirds of the managed ships are managed from the EU or EEA Member States, regardless of whether management is performed from the manager's office or is subcontracted to other service providers • 60% of the managed ships are registered in Register of the EU or EEA Member States • all other conditions stated in EU rules and guidelines on state aid to ship management companies are met
Denmark	<p>Operation of at least 1 ship of minimum 20 GT used for transporting goods or passengers, or hiring out of such vessels on time-charter for the same purpose. Bareboat out due to temporary overcapacity is allowed one time per vessel and for a maximum of 3 years.</p> <p>The following other vessel activities are also covered:</p> <ul style="list-style-type: none"> • Guard and supply vessels. All kinds of offshore supply activities may be covered by the tonnage tax scheme, including support and service functions • Ice management vessels. All kinds of offshore ice management activities are covered by the Danish Tonnage Tax Act • Wind turbine installation and construction vessels. Activities consisting of construction, repair and dismantling of offshore wind turbines and other offshore installations, e.g. breakwaters • Subsea pipeline and cable laying, inspection and repair • Accommodation and Support Vessels with accommodation for personnel, storage of spare parts or workshop facilities in connection with offshore activities • supply vessels, including bunkering, Anchor hauling (AHTS), CTVs, OSVs, etc.
Finland	<p>The shipping enterprise has to carry out qualifying international maritime activities (detailed list in the law) and undertake management of vessels in Finland.</p>





Exception to general rule

France	<p>Only companies deriving at least 75% of their turnover from qualifying ship operations can opt for the French tonnage tax scheme.</p> <p>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 transport activities that need to be provided at sea.</p> <p>Certain 'incidental operations' which are not necessary to the fulfilment of the maritime operations mentioned above are excluded from qualifying operations.</p> <p>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 the French flag).</p> <p>Bareboat out to French affiliated companies that have themselves opted for the tonnage tax system qualifies.</p>
Germany	<p>Almost all ship management activities must be performed from German soil (qualifying presence in Germany).</p> <p>Vessels operated for towing, salvage and the search for mineral resources may qualify.</p> <p>Owned or chartered (self-equipped) seagoing vessels (when equipped vessels are chartered both vessel charterer and owner can qualify for tonnage tax provided that the operator also operates vessels of his own or vessels equipped by himself).</p>
India	<p>Certain additional requirements, such as transferring a minimum amount to reserve (i.e. 20% of the book profits derived from core and incidental shipping activities to be transferred each year to tax tonnage reserve which is to be used for specified purposes such as the purchase of new ships), training requirements, a proportion of chartering activity (i.e. if profits from incidental activities > 0.25% of turnover from core activities; excess profits from incidental activities are taxable under the normal provisions of Indian Tax Law), should also be met.</p>
Ireland	<p>In addition to the general rule as mentioned at the start of this chapter, other activities that can be included in the Irish tonnage tax scheme include (among others):</p> <ul style="list-style-type: none"> • the provision of certain services or goods on board the qualifying ship (such as cinema, bars, restaurants, etc.) once they are ancillary to the transport of cargo/passengers • transport services for services at sea (such as transport for cable laying activities) • foreign exchange gains and forward freight agreements
Italy	<p>Certain additional requirements, such as training requirements, must also be met.</p>



Qualifying activities



Exception to general rule

Latvia	<p>The shipping company has to (1) carry out international carriage activities and activities related thereto and (2) perform ship management activities in Latvia. The ship management activities may be also provided to third parties.</p> <p>A list of activities defined as international carriage may be found under Section 1(12) of the Latvian CIT Act. The information on the requirements applying to vessels to be used in international carriage in order to qualify for tonnage tax scheme is provided in the 'Qualifying vessels/ownership conditions' section</p>
Netherlands	<p>In addition to the vessels mentioned under the general rule, vessels used for the following activities may also qualify:</p> <ul style="list-style-type: none"> • Vessels used for transportation of goods or persons in relation to the exploration or exploitation of natural resources at sea • Vessels used for support services related to exploration of the seabed • Vessels used for dredging operations at sea • Towing and support services at sea • Transportation activities of cable laying vessels, pipe laying vessels, research vessels and crane vessels <p>In addition, ancillary income may also qualify for the tonnage tax scheme as long as the ancillary income arises primarily in connection with the qualifying activities. The profit must generally be split between transport activities (tonnage tax scheme applicable) and non-transport activities (regular profit scheme applicable). Profits derived from the transport of persons or goods in international maritime traffic are fully eligible for the tonnage tax regime. However, a profit split should be made in case the revenue related to the non-transport activities exceed 50% of the revenue derived with the exploitation of the vessel (relevant for cruise vessels, for example).</p>
Norway	<p>Companies within the tonnage tax scheme are only allowed to carry out activities that are eligible under the tonnage tax scheme, and may only own assets necessary for carrying out these activities. Eligible activities are ownership, leasing and operation of owned and chartered-in vessels. In addition, the company can perform strategic and commercial management, including daily technical operations and maintenance of vessels owned or chartered in by the tonnage company itself and vessels owned or chartered in by associated limited companies, associated partnerships and associated CFCs. There is no general requirement for taxation within the tonnage tax scheme that the company must be strategically and commercially managed from within the EEA. However, for companies chartering out parts of the fleet on bareboat terms in the offshore sector, the strategic management of all vessels chartered out must be from within the EEA. Furthermore, ancillary activities closely connected to the transport activities are eligible for the tonnage tax scheme, including the loading and unloading of goods, temporary storage of goods, leasing out of containers, door-to-door transport, sale of goods and services for consumption on board a vessel, operation of ticket offices and passenger terminals, etc. Note that the Norwegian Ministry of Finance issued a consultation paper in September 2021 which entails that on certain terms a tonnage tax company may be able to carry out both eligible and non-eligible activities/income without being disqualified from the scheme. Income from non-eligible activities would be taxed at the ordinary CIT rate of 22%. There is no concrete timeline as to when the proposal will be processed.</p>
Poland	<p>The general rule applies, including the rule concerning dredging and towing activities. Additionally, seagoing rescue activities may also qualify.</p>





Qualifying activities



Exception to general rule

Latvia	<p>The shipping company has to (1) carry out international carriage activities and activities related thereto and (2) perform ship management activities in Latvia. The ship management activities may be also provided to third parties.</p> <p>A list of activities defined as international carriage may be found under Section 1(12) of the Latvian CIT Act. The information on the requirements applying to vessels to be used in international carriage in order to qualify for tonnage tax scheme is provided in the 'Qualifying vessels/ownership conditions' section</p>
Netherlands	<p>In addition to the vessels mentioned under the general rule, vessels used for the following activities may also qualify:</p> <ul style="list-style-type: none"> • Vessels used for transportation of goods or persons in relation to the exploration or exploitation of natural resources at sea • Vessels used for support services related to exploration of the seabed • Vessels used for dredging operations at sea • Towing and support services at sea • Transportation activities of cable laying vessels, pipe laying vessels, research vessels and crane vessels <p>In addition, ancillary income may also qualify for the tonnage tax scheme as long as the ancillary income arises primarily in connection with the qualifying activities.</p> <p>The profit must generally be split between transport activities (tonnage tax scheme applicable) and non-transport activities (regular profit scheme applicable).</p> <p>Profits derived from the transport of persons or goods in international maritime traffic are fully eligible for the tonnage tax regime. However, a profit split should be made in case the revenue related to the non-transport activities exceed 50% of the revenue derived with the exploitation of the vessel (relevant for cruise vessels, for example).</p>
Norway	<p>Companies within the tonnage tax scheme are only allowed to carry out activities that are eligible under the tonnage tax scheme, and may only own assets necessary for carrying out these activities. Eligible activities are ownership, leasing and operation of owned and chartered-in vessels. In addition, the company can perform strategic and commercial management, including daily technical operations and maintenance of vessels owned or chartered in by the tonnage company itself and vessels owned or chartered in by associated limited companies, associated partnerships and associated CFCs. There is no general requirement for taxation within the tonnage tax scheme that the company must be strategically and commercially managed from within the EEA. However, for companies chartering out parts of the fleet on bareboat terms in the offshore sector, the strategic management of all vessels chartered out must be from within the EEA. Furthermore, ancillary activities closely connected to the transport activities are eligible for the tonnage tax scheme, including the loading and unloading of goods, temporary storage of goods, leasing out of containers, door-to-door transport, sale of goods and services for consumption on board a vessel, operation of ticket offices and passenger terminals, etc.</p> <p>Note that the Norwegian Ministry of Finance issued a consultation paper in September 2021 which entails that on certain terms a tonnage tax company may be able to carry out both eligible and non-eligible activities/income without being disqualified from the scheme. Income from non-eligible activities would be taxed at the ordinary CIT rate of 22%. There is no concrete timeline as to when the proposal will be processed.</p>
Poland	<p>The general rule applies, including the rule concerning dredging and towing activities. Additionally, seagoing rescue activities may also qualify.</p>



Exception to general rule

Portugal	<p>In Portugal, the eligible activities are:</p> <ul style="list-style-type: none">• Maritime transport of persons and goods• Sale of goods for consumption on board and supply of services closely related to the maritime transportation activity, including services of lodging, catering, entertainment activities and trade on board an eligible ship or vessel, provided these services are of an ancillary nature in relation to the activity of transport of persons and goods• Short-term investment of the capital, when it corresponds to the remuneration of the applications of the company's current treasury related to the covered activities in the special scheme• Advertising and sale, when it arises from the sale of onboard advertising spaces of ships or vessels considered in this special scheme• Ship Brokerage activity on behalf of the ships or vessels used and covered under the special scheme• Sale of operational assets related to the maritime transportation activity• Deep-sea exploration activities• Activities related to the setting up of cables and pipelines at a deep-sea level, as well as crane operations• Activities related to strategic, commercial, technical, and operational management, as well as crew management for the ships or vessels covered by the special scheme• Towage activities, provided 50% of the annual operations concern maritime transportation and exclusively in respect of these• Dredging activities provided 50% of the annual operations concern maritime transportation and exclusively in respect of these• Chartering of ships or vessels when the taxpayer continues to control the functioning and the crew members of the ship or vessel• Indemnities and subsidies received in respect of the maritime transportation activity
Slovenia	<p>A person liable to tonnage tax is any person who is liable to CIT under the CIT Act and has acceded to the tonnage tax system in accordance with Tonnage Tax Act.</p>
Spain	<p>The tonnage tax scheme may not be applied unless all of the vessels are registered in Spain or in another Member State of the European Union. Neither may vessels intended, directly or indirectly, for fishing or sporting activities, nor recreational vessels, be covered by this scheme.</p> <p>This scheme shall also not be applicable during tax periods in which the following circumstances occur simultaneously:</p> <ul style="list-style-type: none">• The entity has the status of medium-sized or large company in accordance with the provisions of Recommendation 2003/361/EC of the European Commission• The entity receives State restructuring aid granted in accordance with the provisions of Communication 2004/C244/02 of the European Commission• The European Commission did not take into account the tax benefits deriving from the application of this scheme when it took the decision on the restructuring aid



Qualifying activities



Exception to general rule

Sweden	Bareboat charter out is included if the charter period does not exceed 3 years in a 10-year period and the gross tonnage of such vessels does not exceed 20% of the total qualified vessels. The strategic and economic management of qualified vessels should be in Sweden; however, not all decisions need to be taken in Sweden.
Taiwan	<p>Qualifying income/activities include the following:</p> <ul style="list-style-type: none"> • Income earned from self-owned or bareboat, time or meter chartered vessels (excluding vessels chartered to others as bareboats) that are actually operating, engaged in passenger and cargo transportation business and other necessary activities that are inseparable from the business. The 'essential and inseparable activities' refer to the services necessary for the smooth operation of the ship, including the transportation of passengers and cargo, the provision of food to passengers during the voyage, or the business of refrigerating or storing the cargo • Income from services related to shipping business, including income from services such as loading and unloading, consolidation, sub-packaging, temporary storage of goods or rental of containers • Surcharges and additional fees charged for operating the shipping business, such as currency adjustment surcharge, fuel adjustment surcharge, port congestion surcharge, over-length and overweight surcharge, transshipment surcharge, delay fee, lien fee, change of destination fee or bill of lading • Other necessary and related gains and losses for the operation of shipping business, including gains and losses from interest rate contracts or foreign exchange contracts, fuel contract gains and losses, and foreign exchange gains and losses related to the operation of ships
UK	<p>A ship will qualify for the tonnage tax scheme with the following activities:</p> <ul style="list-style-type: none"> • Carriage of passengers by sea • Carriage of cargo by sea • Towage, salvage or other marine assistance carried out at sea • Transport in connection with other services of a kind necessarily provided at sea <p>Certain additional requirements, such as training requirements, must also be met.</p> <p>There are special rules for charging profits from Offshore activities to Corporation Tax under the normal rules, whilst leaving profits from activities elsewhere within the Tonnage tax scheme. The special rules apply to all qualifying ships engaged in offshore activities, unless they are of a type which is specifically excluded.</p>





Exception to general rule

USA

Qualifying shipping activities consist of:

- core qualifying activities
- qualifying secondary activities
- qualifying incidental activities

Core qualifying activities consist of the operation of qualifying vessels in US foreign trade. Secondary activities include the active management or operation of vessels in US foreign trade, and the provision of vessels, barge, container or cargo-related facilities or services. Incidental activities are activities that are incidental to core qualifying activities and are not qualifying secondary activities.

All of an electing entity's core qualifying activities are excluded from gross income. However, only a portion of an electing corporation's secondary and incidental activities are treated as qualifying income and, thus, are excluded from gross income.





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.

Exception to general rule

Cyprus	<p>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.</p> <p>This applies to the vessel owner (as well as the bareboat charterer - Bareboat charter out agreements remain eligible for tonnage tax, with restrictions introduced for bareboat charter agreements to third parties), the charterer and the manager (crew and/or technical manager).</p> <p>'Ancillary services' fall under the tonnage tax scheme, provided that the income from these does not exceed 50% of the total income generated from Maritime Transport Activities.</p>
Greece	<p>In principle, qualification depends on ownership and on activities. The application of the tonnage tax scheme has been extended beyond ship owning companies, also to bareboat charterers and lessees in case of ship leasing arrangements. However, for foreign ship owning companies with vessels flying a foreign flag, the maintenance of a ship management company or office in Greece is important.</p>
Malta	<p>The international maritime transport of goods and passengers qualify. Towage and dredging may also apply under certain conditions.</p> <p>Bareboat chartering out of vessels may only qualify in the case that such vessels are either bareboat chartered to another shipping organisation forming part of the same group or in the case that the ship was bareboat chartered out due to short-term over-capacity and the term of the charter does not exceed 3 years, subject to the satisfaction of certain further conditions.</p> <p>Other activities may also qualify in line with EU guidelines and practice.</p> <p>Ship management activities may also be eligible, provided that the applicable conditions are satisfied, e.g. the ship manager has assumed responsibility for either or both of the technical or crew management of the ship(s).</p> <p>'Ancillary activities' linked to maritime transport may also benefit under the tonnage tax, provided that the revenues generated from such activities do not exceed certain stipulated thresholds.</p>
Pakistan	<p>Any person who is tax resident in Pakistan and engaged in the business of shipping is subject to tonnage tax scheme. Ships and all floating craft including tugs, dredgers, survey vessels and other specialised craft are covered.</p> <p>Bareboat charter for vessels not registered in Pakistan is not covered.</p> <p>Bareboat charter out and flying the Pakistani flag is covered for the charterer.</p>



Dutch tonnage tax model



Under the Dutch tonnage tax model, all entrepreneurs may generally qualify for the tonnage tax scheme, 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.

Exception to general rule

Belgium	Only Belgian companies or Belgian branches can opt for the Belgian tonnage tax scheme if they derive profits from ocean shipping activities.
Bulgaria	Only corporate legal entities can opt for the tonnage tax system. Permanent establishments of EU/EEA resident companies can also qualify.
Croatia	Taxpayers of tonnage tax in Croatia are legal entities that have headquarters in Croatia or if their place of effective management and supervision of the business is located in Croatia and they opted to pay tonnage tax instead of CIT.
Denmark	Only corporate legal entities can opt for the tonnage tax system. Permanent establishments of EU resident companies can also qualify. Also, foreign companies with their place of management and control in Denmark can opt for Danish tonnage tax.
Estonia	The special tax scheme is primarily established for Estonian tax resident companies for cargo vessels but under certain conditions can also be applied to dredgers and tugs, as well as passenger ships providing regular service outside the European Economic Area (EEA). In addition, the tonnage tax scheme could also be applied by resident companies providing crew management and technical management services.
Finland	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	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).
Germany	All entrepreneurs may generally qualify for German tonnage taxation if the place of effective management is in Germany and almost all ship management is carried out from German soil (qualifying presence in Germany).
India	The tonnage tax benefit is available only to an Indian company having its place of effective management in India and having as its main object carrying on the business of operating ships and owning at least one qualifying ship. The tonnage tax payable is calculated based on the net tonnage of the qualifying ship for the entire year or for the number of days in part of the year in case the ship is operated by the company as a qualifying ship for only part of the year.



Exception to general rule

Ireland	<p>The Irish tonnage tax scheme only applies to 'qualifying companies'. In order to be a qualifying company the company must;</p> <ul style="list-style-type: none">• perform core qualifying activities• be within the charge to Irish tax (i.e. therefore be an Irish tax resident company or operate the shipping business through an Irish branch)• operate (own, charter in, or manage) qualifying ship(s)• carry on the strategic and commercial management of those ships in Ireland <p>The company does not need to have been incorporated in Ireland.</p>
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Exception to general rule

Italy	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	Only a legal entity can opt for the tonnage tax scheme.
Latvia	Only a Latvian legal entity, having Latvian tax resident status can opt for the tonnage tax scheme. More details on this aspect are given in the 'Qualifying activities' section on page 19, where comments on the activities that should be carried out by the shipping company are provided and in the 'Qualifying vessels/ownership conditions' section on page 27, where the information regarding qualifying vessels/ownership rights is given.
Netherlands	Basically, the tonnage tax scheme can be applied by all entrepreneurs subject to tax in the Netherlands. In partnership structures, activities performed by the (general) partners could be attributed to the limited partners.
Norway	Norwegian private and public limited liability companies may qualify for the tonnage tax scheme. Eligible assets can also be held through partnerships, limited partnerships (Norwegian or foreign) and CFCs. Companies similar to Norwegian limited liability companies and registered in other EEA states, and which only carry out eligible shipping activities in Norway, can also qualify for the tonnage tax scheme. In order to be eligible for tonnage taxation, a company must own either an eligible vessel, or shares or interests in limited liability companies, partnerships or CFCs that own such ships. The minimum ownership share in partnerships, limited partnerships and CFCs is 3%. A tonnage taxed company is not allowed to have income from non-tonnage-taxed activities except for financial income. Companies and groups that are part of the tonnage tax scheme must enter all their eligible vessels into the tonnage scheme.
Poland	The Polish Tonnage Act excludes foundations from opting for the tonnage tax. Tonnage tax applies to shipping companies operating in the field of international shipping as a key factor.
Portugal	<p>Portuguese CIT-payers who mainly conduct commercial activities related to the transportation of people or cargo may opt in to the scheme. At least half of the crew members are required to be nationals from the EU, the EEA or Portuguese-speaking countries.</p> <p>A taxpayer that owns vessels or ships registered outside the EU or the EEA (except for vessels or ships performing towage and dredging activities) may opt in to the scheme, as long as all of the following conditions are met:</p> <ul style="list-style-type: none"> • At least 60% of the net tonnage of its fleet flies an EU or EEA Member State flag • Strategic and commercial management (control and risk of the maritime activity) of all of its vessels occurs in the EEA territory • The rules in force in the EEA concerning protection, safety, environment, and onboard working conditions are complied with



Exception to general rule

Republic Of (South) Korea	A qualifying company is a domestic company that carries on ocean-going service under the Shipping Act.
Slovenia	A company may request to be subject to tonnage tax instead of CIT if it meets certain conditions (i.e. it operates in maritime transport in international shipping) and notifies the tax authorities in advance.
Spain	Only entities subject to CIT can opt to the tonnage tax scheme.
Sweden	Companies can opt for the tonnage tax system. The term 'companies' is broad and includes, for example, partnerships and self-employed individuals.
Taiwan	<p>All shipping businesses with their head office established within the territory of Taiwan in accordance with the Maritime Industry Law and approved by the Ministry of Communications, that:</p> <ul style="list-style-type: none"> engage in passenger or cargo transportation with the qualifying vessels and are responsible for the business strategy and business management of such vessels have the registered ownership of more than one Taiwanese ship. The total net tonnage of its own Taiwanese ships shall reach 15% of the total net tonnage of all vessels owned by the enterprise and its directly or indirectly controlled subsidiaries (through 50% or more ownership) since the end of the 3rd fiscal year to which the tonnage tax scheme is applied. Since the end of the 5th fiscal year to which tonnage tax is applied, such percentage shall reach 30% employ more than 35 Taiwanese employees (including sea and shore staff) and, according to the number of Taiwanese ships with a gross tonnage of more than 500, and the total number of crew members to be equipped according to regulations, provide two internships for every fifteen crew members. If there are more than 10 crew members remaining, an additional internship will be provided to undertake the training obligations of the crew of Taiwan
UK	Companies within the charge to UK corporation tax, which operate qualifying ships carrying out qualifying activities that are 'strategically and commercially managed in the UK', can elect in to the Tonnage Tax scheme. All qualifying members of a group have to come in together.
USA	It only applies to a qualifying vessel operator, which is any corporation that operates one or more qualifying vessels and satisfies a specified shipping activity requirement.





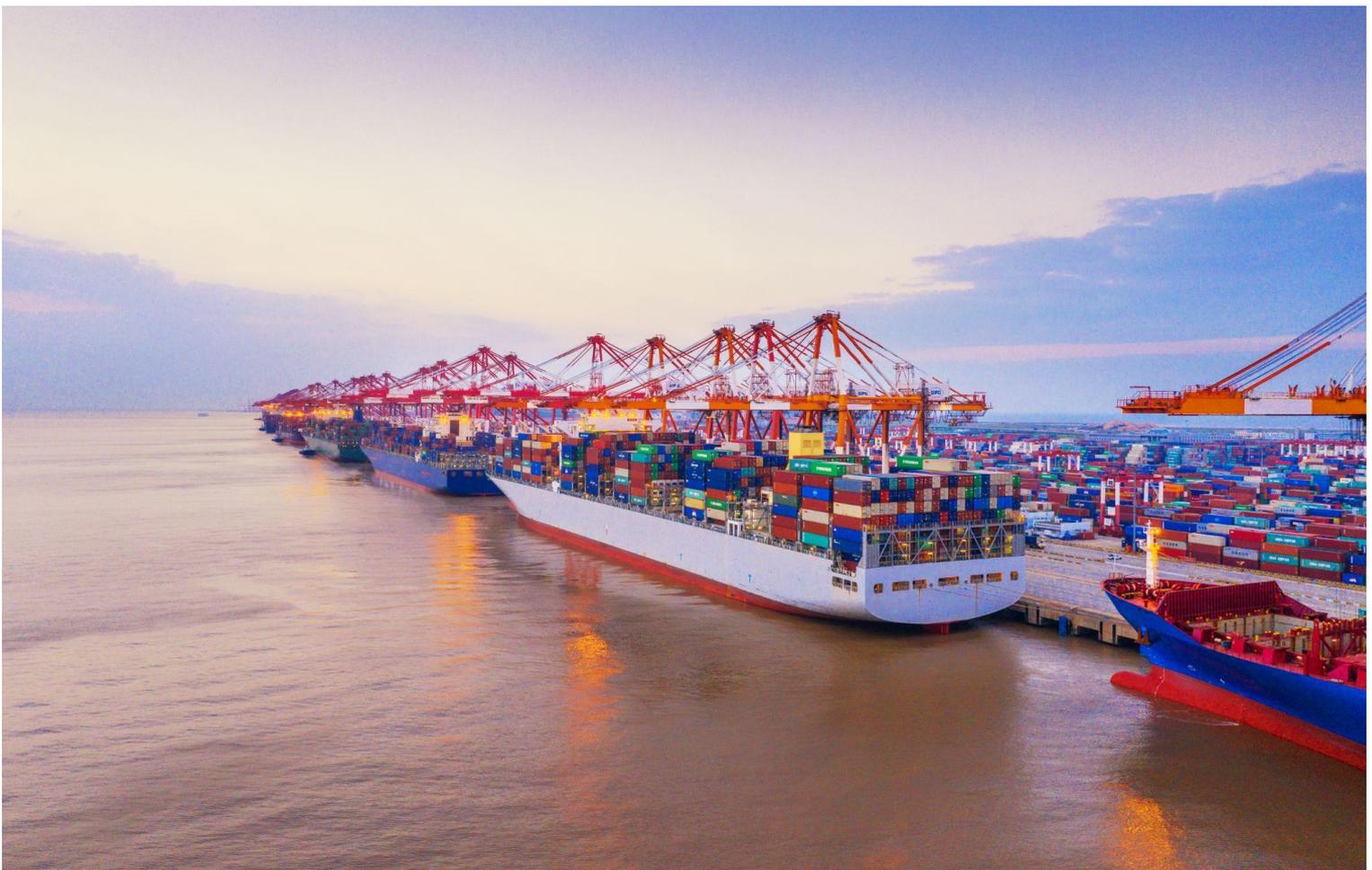
Greek tonnage tax model



The Greek tonnage tax scheme generally allows entrepreneurs to apply the scheme, 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.

Exception to general rule

Cyprus	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	A legal entity that qualifies as a '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 that has established a place of business in Malta) may apply to benefit from the tonnage tax.
Pakistan	Any person who is tax resident in Pakistan and engaged in the business of shipping qualifies for the tax scheme.





Exception to general rule

Estonia	In order to implement the tonnage scheme, the ships used by the resident company and the undertakings belonging to the same group as the company and included in the calculation of the tonnage scheme shall meet the following conditions: <ul style="list-style-type: none">• At least 25% of the gross tonnage of the ships must be owned by the company and the undertakings belonging to the same group as the company or used by them on the basis of a bareboat charter party• At least 60% of the gross tonnage of the ships, including all dredgers and tugboats, must be registered under the flag of a Contracting State
Finland	Legislation includes a detailed list of qualifying vessels. Under certain conditions also bareboat chartered-in vessels qualify.





Dutch tonnage tax model



Taxpayers using the Dutch tonnage tax model can generally apply the schemes 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.

Exception to general rule

Belgium	<p>A Belgian company or branch can opt for the tonnage tax if it:</p> <ul style="list-style-type: none"> • is the owner, co-owner or bareboat charterer of a seagoing vessel that is managed to a considerable extent in the EEA and that is not bareboat chartered out to a third party • is engaged in the crew and technical shipping management for third-party owners, provided that the ship managers are entrusted with both the management of the entire crew and the technical management of the seagoing vessel, and the company takes over the full responsibility from the owner for the vessel's operation and all the duties and responsibilities. Certain other specific conditions must also be met • has chartered seagoing vessels on a time charter or voyage charter provided that the annual total of the net daily tonnage of the chartered vessels does not exceed three times the annual total of the net daily tonnage of the vessels owned
Croatia	<p>Taxpayers in Croatia can apply the tonnage tax scheme to owned vessels, vessels in ownership of domestic or foreign dependent shipping companies and vessels used under a charter agreement. Vessels provided under charter agreement may also qualify if the share of vessels leased to the third parties is not higher than 20% of the net tonnage of the taxpayer's fleet and percentage of the vessels taken under shipping contract is not higher than 75% of the taxpayer's fleet's net tonnage, unless vessels taken under shipping agreement are registered in the EU or EEA Register.</p> <p>In addition, vessels whose net tonnage is included in the calculation of tonnage tax must meet safety standards.</p> <p>Furthermore, in the fleet of vessels participating in the ship tonnage tax system at least 60% of the total net tonnage of vessels must be Croatian or from one of the Member States of the EU or the EEA.</p> <p>Vessels participating in the tonnage tax system must have on board the minimum number of deck or engine trainees, citizens of the Republic of Croatia or one of the Member States of the EU or the EEA, as determined by the annual trainee plan.</p>
Denmark	<p>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 and is chartered for 1-7 years it is regarded as an owned vessel). Bareboat chartered vessels are also considered as owned when calculating the ratio.</p>



Qualifying vessels/ownership conditions



Exception to general rule

France	<p>Eligibility is reserved for commercial vessels:</p> <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 in (or rented under qualifying financial lease or lease with a purchase option) or time chartered • that have not been purchased from companies that are directly or indirectly associated during the election period to this scheme and that have not themselves opted for this scheme
Germany	<p>A use and chartering out of chartered merchant ships shall only be considered as operation of merchant ships in international traffic in the event that own or equipped merchant ships are simultaneously operated in international traffic. In case chartered merchant ships are not registered in a German seagoing vessels register this shall apply subject to the further prerequisite that the net tonnage of the chartered merchant ships in the fiscal year is not more than three times the merchant ships operated in international traffic (referred to as 'charter basket').</p>
India	<p>A ship is a 'qualifying ship' if it is a seagoing ship or vessel of fifteen net tonnage or more, is registered or licensed under the Merchant Shipping Act 1958 and there is a valid certificate in respect of such ship indicating its net tonnage. Certain types of vessels, e.g. fishing vessels, factory ships, pleasure craft, harbour and river ferries, offshore installations, a qualifying ship which is used as a fishing vessel for a period of more than thirty days during a previous year, etc., are excluded from the definition of qualifying ship.</p>
Ireland	<p>To fall within the Irish scheme, ships must be seagoing vessels of 100 tons or more gross tonnage. They must also be certified by the competent authority of a country.</p> <p>Certain ships are specifically excluded from the Irish scheme. The main category of excluded ships include: fishing vessels/factory ships, harbour/river ferries, dredgers, non-oceangoing tugs, fixed or mobile rigs, tankers used for petroleum extraction activities, private recreational or sports vessels and vessels used to provide goods/services normally provided on land (i.e. permanently moored ship used as a restaurant).</p> <p>A note on chartering: There is a further requirement within Irish tonnage tax rules that no more than 75% of the net tonnage of the qualifying fleet can be chartered in and operated by qualifying companies, unless done so on bareboat charter terms. Ships chartered in on bareboat charter terms qualify without restriction in the same way as ships owned by the company.</p> <p>Furthermore, any ship chartered out on bareboat charter terms is not treated as being operated by the company unless (a) it is chartered out to a related Irish tonnage tax company, or (b) the charter out is by reason of short-term overcapacity and the term of the charter does not exceed three years.</p>
Italy	<p>No more than 50% of the fleet's tonnage may be time chartered in.</p>



Qualifying vessels/ownership conditions



Exception to general rule

Japan	<p>Vessels owned by a subsidiary of the Japanese shipping company (such as a vessel owning SPV) can be brought under the tonnage tax scheme under certain conditions and subject to government approval. The main conditions are:</p> <ul style="list-style-type: none"> • 3 vessels per increase of 1 Japan owned/flagged vessel in accordance with the plan for increasing Japan owned/flagged vessels approved by the government • The Japanese company has to commit to transferring the classified foreign vessels to Japan if required by the government
Latvia	<p>The vessels that are used by the company (Latvian tax resident) for international carriage can be owned, co-owned or held on the basis of bareboat charter contract. The minimal net tonnage capacity of a vessel should be at least 100 units.</p>
Norway	<p>Vessels eligible for tonnage tax are transport ships and support vessels in petroleum activities. Ships in domestic traffic smaller than 100 gross registered tons, ferries in traffic between Norwegian ports where the distance between the first and last port is less than 300 nautical miles and ships conducting stationary activities or other activities where the sailed distance is less than 30 nautical miles, non-self-propelled vessels, pleasure and fishing boats, etc. are not eligible for the tonnage tax scheme. Wind farm vessels active in maritime transportation and vessels engaged in the construction, maintenance, repair and disassembly of wind turbines at sea are also eligible for the tonnage tax scheme. A tonnage tax company must either own an eligible vessel or a minimum of 3% of the shares or interests in limited liability companies, partnerships or CFCs that own such ships. No limitations apply to chartering in eligible vessels on bareboat terms. Chartering in on voyage or time charter is limited to 90% of non-EEA flagged vessels.</p>
Netherlands	<p>In addition to the main rule, voyage chartered-in vessels can also qualify for the tonnage tax scheme, but only if additional ownership requirements are met.</p> <p>The annual tonnage of vessels chartered in on a time charter or voyage charter basis and not flying an EU/EEA flag may not exceed 75% of the total tonnage.</p> <p>For qualifying ship management activities, please refer to the 'Ship management activities' section.</p>
Pakistan	<p>The following vessels qualify for the scheme:</p> <ul style="list-style-type: none"> • Vessels purchased or bareboat chartered, flying the Pakistani flag • Vessels not registered in Pakistan, hired under other than bareboat charter
Poland	<p>The decisive factor for the choice of tonnage taxation is whether the entity is a shipping operator according to the provisions of the Tonnage Tax Act. Being the owner of a vessel is one of the conditions for which a given entity may choose tonnage tax. Tonnage tax is applied to shipping companies that use ships of gross tonnage over 100 units each.</p>



Qualifying vessels/ownership conditions



Exception to general rule

Portugal	<p>The special scheme only applies to the income from activities performed by vessels or ships that: (i) fly an EU or EEA Member State flag; (ii) are strategically and commercially managed from an EU or EEA Member State (control and risk of the maritime activity); and (iii) carry on a qualifying activity (please see the section regarding qualifying activities). Please see the section before ('Who can qualify') for vessels or ships registered outside the EU or the EEA.</p> <p>Additionally, chartered vessels or ships (bareboat or time charter – short term) may benefit from the scheme, provided that the following conditions are met:</p> <ul style="list-style-type: none"> • The above-mentioned requirements are complied with • The percentage of net tonnage of these vessels or ships does not exceed 75% of the total fleet • The income resulting from chartered vessels or ships is not higher than 4 times the income derived from vessels or ships owned by the taxpayer <p>Chartered vessels or ships or those acquired under a leasing agreement (long term) are considered owned ships.</p>
Republic of Korea (South Korea)	<p>The total tonnage of shipping operation per year by chartered ship (chartered less than 2 years) shall be within 5 times of that of shipping operation per year by a standard ship (owned by a company or chartered for 2 years or more)</p>
Slovenia	<p>Any taxable person may accede to the tonnage tax system provided that:</p> <ul style="list-style-type: none"> • It deals with maritime transport in international navigation • It operates with one or more ships that meet the conditions referred to in Article 9 of Tonnage Tax Act • The ships referred to in the previous point are strategically and commercially operated from the Republic of Slovenia
Spain	<p>No more than 75% of the fleet's tonnage may be time chartered in.</p>
Sweden	<p>The following requirements must be met:</p> <ul style="list-style-type: none"> • At least 20% of the gross tonnage of qualified vessels must be owned or hired in on bareboat charter • At least 20% of the total gross tonnage of qualifying vessels must be registered within the EEA. At least 60% of the total gross tonnage of qualified vessels on group level are registered within the EEA. If this requirement is not met, the share of EEA-registered gross tonnage must be maintained or increased <p>Each vessel is qualified if the gross tonnage is at least 100, the strategic and economic management is located in Sweden and the vessel is used mainly (at least 75%) in international traffic.</p>



Qualifying vessels/ownership conditions



Exception to general rule

Taiwan	<p>Actually operating marine transport vessels of more than 300 gross tonnage that are self-owned or chartered from others by bareboat, time or meter, including vessels used for passenger and cargo transportation services, tugboats, salvage or other transportation services at sea qualify. However, this does not include self-owned vessels leased to others by bareboat.</p> <p>It does not include ships used to provide land sales of goods or services (such as shopping stores, restaurants, hotels, etc.), fishing boats, fishery processing vessels, yachts and port handling vessels, work vessels, transportation vessels or port ferries in the port area.</p>
UK	<p>A ship will not be a qualifying ship unless it satisfies all of the following conditions:</p> <ul style="list-style-type: none"> • It is seagoing • It is of 100 tons or more gross tonnage and it has a valid International Tonnage Certificate or a valid certificate regarding its tonnage as measured in accordance with domestic tonnage regulations • It is not used for the provision of goods or services of a kind normally provided on land • It is used for the qualifying activities (refer to 'Qualifying activities') • It is not the type of vessel excluded from being qualifying ships • It is a requirement of entering or remaining within the Tonnage Tax scheme that no more than 75% of the tonnage operated by a company or group is chartered in otherwise than on bareboat charter terms. Bareboat Charter terms are defined as 'the hiring of a ship for a stipulated period on terms which give the charterer possession and control of the ship, including the right to appoint the master and crew' • In practice this test is applied by comparing: <ul style="list-style-type: none"> • the total tonnage of qualifying ships 'chartered in' across the ring fence, and • the total tonnage of the qualifying ships operated by the group <p>Bareboat charters, and charters between Tonnage Tax companies in the same group, are ignored for this purpose.</p> <p>This is a test that needs to be applied annually.</p>
USA	<p>The scheme may apply to income from activities beyond the mere leasing or operation of qualified vessels, provided certain requirements are met. However, for a company to qualify for the scheme, it must operate one or more qualifying vessels and satisfy a specified shipping activity requirement.</p> <p>A person is treated as operating any vessel during any period if (i) such vessel is owned by, or chartered (including a time charter) to, the person, or (ii) the person provides services for such vessel pursuant to an operating agreement, and such vessel is in use as a qualifying vessel during such period. A qualifying vessel is a self-propelled (or a combination self-propelled and non-self-propelled) US flagged vessel of not less than 6,000 deadweight tons used exclusively in US foreign trade during the period that the election is in effect.</p> <p>A corporation will meet the shipping activity requirement for any taxable year only if, during each of the two preceding taxable years, on average, at least 25% of the aggregate tonnage of qualifying vessels used by the corporation were owned by or chartered to it on bareboat charter terms.</p>



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 scheme or not. Such a period is referred to as a 'lock-in period'. Sanctions may apply if the scheme is abandoned before the end of this 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.

Exception to general rule

Belgium	It is possible to opt in at any time; the choice is fixed for a 10-year period.
Bulgaria	The choice is fixed for 5 years.
Croatia	It is possible to opt in at least six months prior the commencement of the period for which tonnage tax is determined. The lock-in period is 10 years.
Estonia	It is possible to opt in at any time. The tonnage scheme should be applied until the conditions for application thereof are met, but no longer than the expiry of the respective decision of the European Commission authorising the granting of the State aid.
Finland	An application should be filed within three months after registration of a new company and the choice is fixed for 10 years.
France	The tonnage tax scheme is applicable upon election, which can be done during the year the company becomes eligible, or the following year (an exception applies for qualifying companies that become members of a tax group including entities that have elected the tonnage tax scheme). Once the option is granted, it is valid for 10 years with penalties applying for abandoning the scheme before the end of the 10-year period.
Germany	The choice is fixed for 10 years. If a company abandons the tonnage tax system before expiry of the 10-year period, it will be excluded from further tonnage taxation for the duration of the initial lock-in period.
India	The choice for the tonnage tax scheme must be made by making an application to the tax authorities within three months from the date of incorporation of the Indian company, or the date on which it becomes a 'qualifying company,' as the case may be. Once the choice is exercised, it is fixed for 10 years.





Lock-in period



Exception to general rule

Ireland	<p>The election to enter the tonnage tax scheme must be made within 3 years from the date on which the company first qualifies for the scheme. The election is valid for 10 years, but it is possible to make a renewal election for 10 years at any time whilst in the scheme and the renewal will supersede all previous elections.</p> <p>If part of a group and other companies within the group also qualify to elect in to the Irish tonnage tax scheme, then all such group companies must jointly elect in.</p>
Italy	<p>It is possible to opt in at any time; the choice is fixed for a 10-year period. If the option is no longer applicable due to the failure to satisfy the legal requirements, the company will no longer be able to opt for the tonnage tax scheme before the expiry of the original lock-in period and in any case not before the fifth tax period subsequent to the one in which the option has ceased to apply.</p>
Japan	<p>The tonnage tax scheme can apply for the period from government approval to the end of the planned period (please also refer to 'Flag and registration requirements'). Generally, the period approved by the government is 5 years. This can be extended subject to approval from the government.</p>
Latvia	<p>The lock-in period is 10 years as of the date of acquiring tonnage taxpayer status.</p>
Netherlands	<p>The request for applying the tonnage tax scheme should be done in the first year in which the enterprise derives income from shipping. The lock-in period is 10 years.</p>
Norway	<p>The tonnage tax scheme is available to eligible companies upon election in the tax return for the preceding year. The choice is fixed for a 10-year period. If a company abandons the tonnage tax system before expiry of the 10-year period, it will be excluded from re-entering the scheme until the 10-year period has expired.</p>
Poland	<p>It is possible to opt in at any time. The choice is fixed for a 10-year period. In the event of termination of the activity subject to tonnage tax during the taxation period, the re-selection of tonnage taxation may take place not earlier than after 3 years, counting from the end of the calendar year in which the shipping entrepreneur ceased to operate.</p>
Portugal	<p>There is a 5-year lock-in period.</p>
Republic of Korea (South Korea)	<p>A shipping company that elects to be taxed on the tonnage taxation system will be subject to the system for the consecutive five years beginning from the business year in which it wished this scheme to be applied.</p>
Slovenia	<p>The taxable person may not withdraw from the tonnage tax system before the expiry of the 10-year period unless it ceases in full to operate in international shipping vessels, of which fact it must notify the tax authority within eight days. In this case, it cannot re-enter the tonnage tax system until the end of the ten-year period.</p>
Spain	<p>It is possible to opt in at any time; the choice is fixed for a 10-year period. If the company abandons the tonnage tax scheme, there is an exclusion from the scheme for the next 5 years.</p>



Lock-in period



Exception to general rule

Sweden	Tonnage taxation is granted in advance and applies for a lock-in period of 10 fiscal years. The company needs to request to opt out at least 4 years prior to the beginning of the 10th fiscal year, otherwise the company automatically enters into a new 10-year period.
Taiwan	Tonnage tax shall apply starting from the year in which the approval letter is obtained from the authorities concerned or the year following that. It shall continue to apply for ten years and shall not be changed.
UK	Companies electing in will do so for an 8-year period (for elections made prior to 1 April 2022, this period was 10 years) and that election may be renewed (on a rolling basis) at any time during the 8 years.
USA	There is no fixed period for applying the tonnage tax scheme. Generally, a qualifying vessel operator may elect in to the tonnage tax scheme and the election is made in the form prescribed by the Treasury. An election is only effective if made before the due date (including extensions) for filing the corporation's return for the first applicable taxable year. Once made, an election is effective for the taxable year in which it was made and for all succeeding taxable years of the entity until the election is terminated. However, an election may be revoked voluntarily. Also, an election will be automatically terminated on the date the electing corporation ceases to be a qualifying vessel operator. Regardless of how the election is terminated, a qualifying vessel operator (and any successor operator) cannot make another election for five years without the consent of the IRS.





Lock-in period



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.

Exception to general rule

Cyprus	There is an optional system (mandatory for vessels flying the Cypriot flag). Upon adoption of the tonnage tax scheme, the taxpayer must stay in the system for at least 10 years unless there is a valid reason for exit.
Greece	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 or office in Greece.
Malta	Payment of tonnage tax is mandatory for 'tonnage tax' ships. However, a shipping company that applied to benefit from the Maltese tonnage tax may subsequently opt out of the Tonnage Tax Regulations and its income would then be subject to the normal CIT rate. Election to opt out is irrevocable.
Pakistan	No option. The scheme is presently applicable till 30 June 2030.





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 scheme and due to claw-back rules on hidden reserves realised 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.

Exception to general rule

Belgium	<p>The tonnage tax basis is an all-in tax basis, hence the lump-sum tonnage tax profit is assumed to include the capital gain/loss on a vessel. Capital gains are however taxable under the normal scheme at the standard tax rate of 25% if one of the following situations occurs:</p> <ul style="list-style-type: none"> • The percentage of net tonnage of these vessels or ships does not exceed 75% of the total fleet • a vessel is sold within 24 months (to a non-related entity) after the first application of the tonnage tax scheme • the net tonnage is permanently reduced by 30% after 1 January 2018, or • the tonnage tax activities after 1 January 2018 are wholly or partially terminated within 9 years of the first application of the scheme <p>The tonnage tax scheme still remains applicable despite a sale within 24 months if certain conditions are met (inter alia, sale to a related company).</p>
Bulgaria	<p>No exception for capital gains. Any calculated gains on sale of vessels are considered ancillary income. If the total ancillary income for the year exceeds 50% of the total turnover in the company (shipping income + ancillary income and other income), then the amount above the 50% threshold will be treated as normal income subject to CIT.</p>
Croatia	<p>No deferred tax liabilities arise.</p>
Denmark	<p>The Danish Government and its supporting parties have decided that the ancillary income turnover also includes income from capital gains on the sale of vessels from 2020 (which was actually made tax-exempt in 2007 for vessels acquired after 1 January 2007), even though this is not required by the EU Commission. Any gain (acquisition price+additions vs. sales price) will be included in the 50% of total ancillary income (turnover) versus total turnover calculation for the year, and any ancillary total income exceeding the 50% threshold will be added to the taxable income for that year.</p>
Finland	<p>There are detailed rules on the monitoring and reporting of residual value of machinery and equipment (including the vessels), which are adjusted according to specific rules.</p>



Capital gains



Exception to general rule

Germany	Capital gains on the disposal of merchant ships and the assets directly serving their operation qualify for tonnage tax.
France	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 scheme is subject to certain specific rules, and can notably benefit from rebates depending on how long the vessel has been owned and subject to the tonnage tax scheme.
India	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.
Ireland	<p>Full exemption from capital gains tax on any gains arising from the disposal of assets used wholly and exclusively for the company's tonnage tax activities. This is ideal for companies planning to expand or replace their fleet.</p> <p>Where companies have used the assets for both qualifying and non-qualifying activities, an apportionment must be done and assets must be held for a continuous period of at least 1 year. Sanctions can apply if the lock-in period is broken.</p>
Italy	The gain or loss realised upon the sale of one or more vessels is included in its entirety 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 scheme applies. If a vessel is acquired at a moment when the tonnage tax scheme does not apply yet, and sold when the scheme does apply, a part of the capital gain is subject to ordinary taxation. The capital gain cannot be less than the difference between the normal value and the net book value (cost - cumulated tax depreciation) as of the last tax period prior to election to join the tonnage tax system, net of the income relating to the ship sold realised during the effectiveness of the option.
Japan	Capital gains are subject to the regular statutory tax rate.
Latvia	On capital gains from the sale of ships and related equipment, including real estate used for its business activities by the tonnage taxpayer, CIT is calculated under the tonnage tax scheme. It will not result in an additional tax leakage for the taxpayer.
Norway	No claw-back on capital gains realised during the lock-in period.
Poland	Capital gains on the sale of vessels are taxed at a flat rate of 15%. A tax exemption applies if this is reinvested in a purchase, co-ownership, modernisation, renovation or rebuilding of the shipping fleet within 3 years of the moment of sale of that vessel.





Capital gains



Exception to general rule

Portugal	If a taxpayer adopts the tonnage tax scheme during the period of depreciation of the assets, the computation of any capital gains or losses should be made by using the minimum quotas of depreciation or amortisation (as defined by domestic legislation).
Republic of Korea (South Korea)	Capital gains on the disposal of vessels are included in the tonnage tax base. But some portion of capital gains of vessels purchased prior to the tonnage tax system are subject to regular CIT.
Slovenia	No deferred tax liabilities arise.
Spain	<p>There are two possible scenarios:</p> <ol style="list-style-type: none"> 1. If the shipping company did not have ownership of the vessel prior to enjoying the tonnage tax scheme, the gain or loss arising from the disposal of qualifying vessels would be included in the tonnage CIT base. 2. The shipping company had the ownership of the vessel prior to enjoying the tonnage tax scheme, or acquired used vessels during the enjoyment of said special tax scheme: In the first tax period in which the tonnage tax scheme is applicable or the used vessels are acquired, the shipping company (i) would record a non-distributable reserve amounting to the positive difference between fair market value and net book value of each vessel, or (ii) would show said difference – separately for each vessel and during the FY in which the shipping company has the ownership of them – in the Statutory Accounts (specifically in the accompanying Notes). A breach of this requirement would be subject to a penalty (5% on this difference). <p>In the FY in which the vessel is transferred, the amount of the positive reserve and, if appropriate, the positive difference between the tax depreciation and the accounting depreciation – in the date of the transfer of the vessel – would be added to the shipping company's tonnage CIT base.</p>
Sweden	As long as all requirements are met at all times, capital gains as a result of the sale of vessels are included in the qualified income. There are specific rules on deferred tax liabilities if the book value exceeds the tax value on vessels and other assets when entering in to the tonnage tax system. In order to avoid taxation, the company must allocate the difference to a specific reserve. If the company does not increase the net tonnage of qualifying vessels every fifth year, a share of the specific reserve should be reversed to ordinary taxation. Final reversal of the reserve could occur when opting out of the tonnage tax system.
Taiwan	Capital gains are subject to the regular statutory tax rate.
UK	Certain gains (arising on the disposal of assets used in a tonnage tax trade) which would otherwise have been chargeable gains are excluded (wholly or partly) from the charge to tax. That is, only the gain or loss referable to the time when it was not a tonnage tax asset is brought into account for tax purposes as a chargeable gain or allowable loss.
USA	Under the tonnage tax scheme, if any qualifying vessel operator sells or disposes of any qualifying vessel in an otherwise taxable transaction, the operator may elect not to recognise gain if a qualifying replacement vessel is acquired during a limited replacement period except to the extent that the amount realised upon such sale or disposition exceeds the cost of the replacement qualifying vessels.



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.

Exception to general rule

Cyprus	No deferred tax liabilities arise.
Greece	Capital gains on the sale of vessels flying a Greek flag are not taxed. Although there is no similar explicit exemption for vessels flying a foreign flag, the shipping community in practice has always tended to treat such gains as exempt. Capital gains arising from the sale of shares held in all vessel owning companies are not taxable.
Malta	No deferred tax liabilities arise.
Pakistan	Profits or gains arising from the transfer/disposal of a vessel are not eligible for tonnage tax. Instead, such gains are taxable under the normal provisions of Pakistani tax law.





Flag and registration requirements



Dutch tonnage tax model



In general, it is obligatory to sail under 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 scheme. However, many exceptions apply. In certain EU countries, under country-specific circumstances it is 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 flag and registration requirements.

Exception to general rule

Belgium	For the transportation of goods/passengers, the required EEA flag link can be waived if the conditions set out in the European Commission-Community Guidelines on State Aid to Maritime Transport of 2004 are complied with. Briefly, this means that a company benefiting from the Belgian tonnage tax scheme that also has vessels flying a non-EU flag commits itself to increasing or, at least, maintaining its tonnage fleet flying the flag of one of the Member States.
Bulgaria	At least 60% of the net tonnage of the vessels should be under a Bulgarian, EU or EEA flag.
Denmark	<p>During the income year, shipping companies that have elected to use the tonnage tax system must, on average:</p> <p>Main rule: Maintain or increase the percentage of owned gross tonnage registered in an EU/EEC registry.</p> <p>Exemption: This does not apply if:</p> <ul style="list-style-type: none"> • the average EU/EEC registered tonnage of all the shipping companies using the Danish tonnage tax system has not been decreased, or • the average EU/EEC gross tonnage of the specific shipping company is at least 60% <p>The baseline for measuring the level of EU/EEC flagged ships is the level that the shipping company had when it first entered the tonnage tax system, i.e. if the company did not have any EU flagged ships, the baseline that needs to be maintained or increased every year is 0%.</p>
France	There is no legal requirement for the vessels to fly the French flag. However, the election is only valid if the shipping company undertakes to maintain or increase, during the course of the ten-year period, the proportion of net tonnage operated under European Economic Area flag on the opening of the first fiscal year of application of the tonnage tax scheme. In addition, at least 25% of the eligible fleet tonnage must fly a French or EEA flag (whether owned, time or bareboat chartered).
Germany	There is no flag requirement. However, the ship has to be registered in a German ship register.



Flag and registration requirements



Exception to general rule

India	The qualifying ship is a ship registered under the Merchant Shipping Act, 1958, or a ship registered outside India in respect of which a license has been issued by the Director-General of Shipping under the Merchant Shipping Act, 1958. Qualifying ships owned by the Indian company generally need to be flagged in India.
Ireland	Quite unusually, the Irish tonnage tax scheme is FLAG BLIND, meaning there is no flag obligation or local territory registration obligation in Ireland. The vessel owner retains the freedom to choose under which registry they wish to flag their vessels under. The principal requirement is that the ships are strategically and commercially managed in Ireland.
Japan	In order to apply the tonnage tax scheme, the Japanese shipping company has to obtain approval from the government on its plan for increasing Japan owned/flagged vessels.
Latvia	Although the CIT Act and the Cabinet of Ministers regulation No. 40 “Rules on the granting of tonnage taxpayer status and the tonnage tax return” of 16 January 2018 do not explicitly specify whether the vessels have to be registered under Latvian flag, tonnage tax will certainly be applied to vessels under Latvian flag. However, ships under different flags may also be included if they are owned, co-owned or held on the basis of a bareboat charter agreement by companies registered in Latvia.
Netherlands	The basic principle of the tonnage tax scheme is that vessels must fly an EU/EEA flag. There are three exceptions to this general rule, which ensures a wider application of the tonnage tax scheme. The first two exemptions relate to the composition of the company's fleet; the last exemption takes into account the composition of the fleet at national level. However, on this basis, it could happen that a taxpayer applies the tonnage tax scheme without having a vessel flying an EU/EEA flag. Therefore, as part of the EU objective of getting more ships under EU/EEA flags, since 2020 a taxpayer that would like to apply the tonnage tax scheme is required in any case to have at least one vessel flying an EU/EEA flag.
Norway	In order for company groups to be eligible for tonnage tax, a link with the flag of one of the EEA States is required as a basic principle. However, fleets comprising vessels flying other flags are also eligible, provided that the eligible companies commit themselves to increasing or at least maintaining the share of the tonnage operated under EEA flags. The EEA tonnage share requirement does not apply to undertakings operating at least 60% of their tonnage under an EEA flag, or if the EEA flagged share of the total tonnage eligible for tax relief in Norway did not decrease on average the previous year.
Finland	A maximum of 40% of the gross tonnage can be vessels registered in countries other than EU countries.
Poland	There are no obligations resulting from the regulation of the Tonnage Tax Act that its application is conditional upon.



Flag and registration requirements



Exception to general rule

Republic of Korea (South Korea)	There are no flag requirements.
Slovenia	<p>A ship intended for the transport of passengers or goods by sea may be included in the tonnage tax system, regardless of the flag, unless otherwise provided in the Tonnage Tax Act.</p> <p>The tonnage taxpayer must increase or at least maintain the share of the total tonnage of ships under the flag of the Republic of Slovenia or other Member States with which it operated on the day of accession to the tonnage tax system and which it included in the tonnage tax system. This provision does not apply to taxable persons operating ships whose share of the total tonnage of ships flying the flag of the Republic of Slovenia or a Member State is at least 60% of the total tonnage of all ships operating and included in the tonnage tax system.</p>
Spain	There is no flag requirement. However, the ship or entity has to be registered in the Spanish or Canarian Ships and Shipping Entities' register.
Sweden	Refer to the 'Qualifying vessels/ownership conditions' section.
Taiwan	Refer to the 'Who can qualify' section.
UK	On 1 April 2022, all flagging requirements in respect of qualifying vessels were removed as a requirement under the scheme. As such there are no restrictions on the flagging of a vessel. A UK flag will be taken into consideration and may be an important factor when determining whether a company satisfies the strategic and commercial management requirement test.
USA	Applies only to US flagged vessels. A US flagged vessel is any vessel documented under the laws of the United States.





Flag and registration requirements

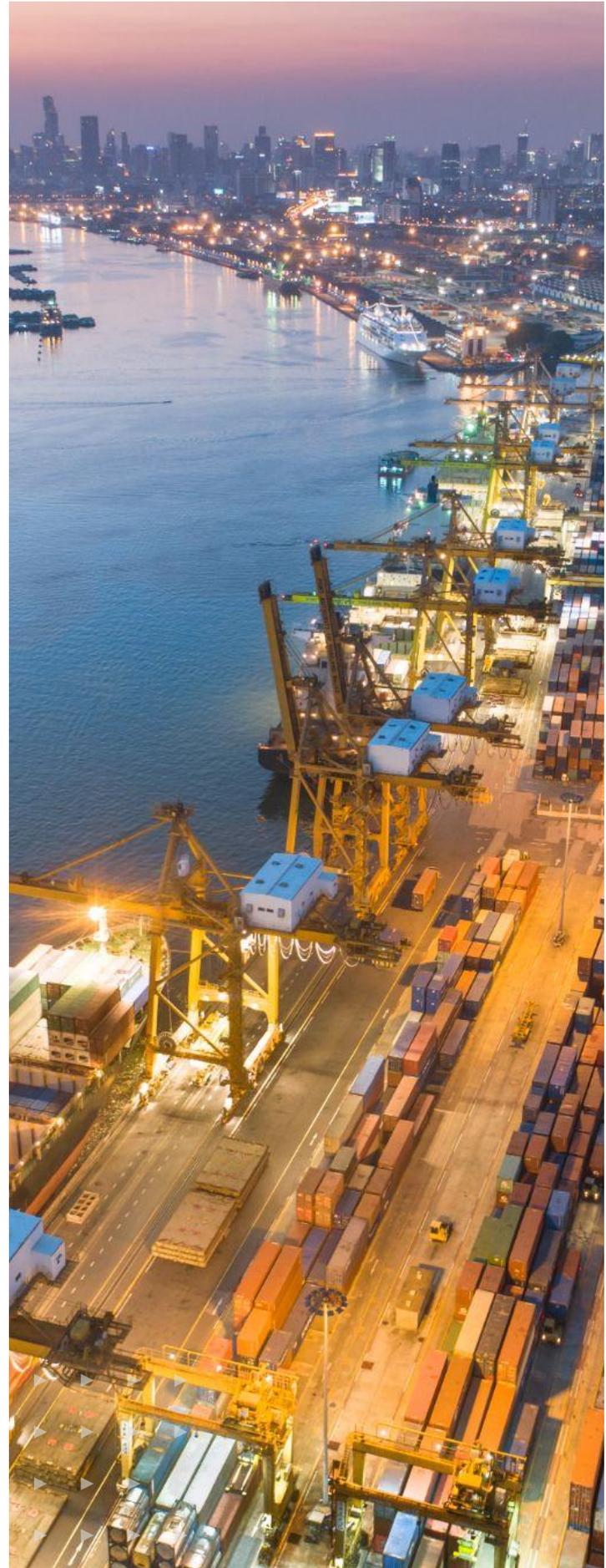


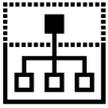
Greek tonnage tax model



Exception to general rule

Cyprus	The system is mandatory for owners of Cyprus flagged vessels and optional for other owners, charterers and ship managers. A minimum share of 60% EU/EEA flagged vessels is required for entry of non-EU vessels. However, the fleet will continue to qualify with at least one EU/EEA vessel, but in that case the share of EU/EEA vessels will be monitored.
Greece	Greek and foreign flagged vessels qualify. In the case of foreign flagged vessels, a ship management company or office engaged in ship management activities should be established in Greece. In addition, tonnage tax is applicable to certain categories of vessels flying a flag of EU/EEA member states. In such case, the application of the tonnage tax scheme does not have as a prerequisite that the management of such vessels be exercised in Greece.
Malta	EU/EEA flagged vessels qualify. Non-EU flagged vessels may also qualify subject to certain conditions and thresholds.
Pakistan	A Pakistan resident company owning a seaworthy vessel flying the Pakistani flag and registered with Securities and Exchange Commission of Pakistan after 15 November 2019 shall pay tonnage tax equivalent to USD 0.75 per GRT per annum.





Ship management activities



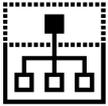
Dutch tonnage tax model



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

Exception to general rule

Belgium	<p>Ship management activities on behalf of third parties may qualify for the Belgian tonnage tax scheme, provided that the taxpayer is entrusted with the technical and crew management of a sea-going vessel and assumes the full responsibility for the operation of the vessel for the account of a third party. In addition, they must take over from the owner all the duties and responsibilities with respect to international maritime safety and pollution prevention.</p> <p>Furthermore, the following conditions will have to be fulfilled in order to be allowed to apply the tonnage tax system:</p> <ul style="list-style-type: none"> • At least 75% of the number of seagoing vessels managed by third parties must be registered in the Belgian Register of Shipping • The companies must have the management of seagoing vessels as their exclusive activity
Bulgaria	Performing commercial management activities for third parties may qualify.
Croatia	Ship management services (for technical management and/or crew management) may qualify.
Denmark	Performing technical and crew management for another company may qualify.
Estonia	Additional conditions apply to bring ship management activities under the tonnage tax scheme (detailed list in the Income Tax act art 52 prime (13)).
Germany	Performing technical and crew management for another company may qualify.
India	Income from certain incidental activities (such as maritime consultancy, loading and unloading of cargo, ship management fees or remuneration received for managed vessels, maritime education and recruitment) are also eligible for tonnage tax.
Ireland	<p>The provision of ship management services for qualifying ships operated by the company may qualify. Unlike in other jurisdictions, there are no ownership or bareboat charter requirements in Ireland; a company can provide these ship management services to both related and/or third parties without having any interest in the ships themselves (however arm's length principles apply).</p> <p>For example, income from pool operating companies can benefit from this category. For ship management services to qualify, the Irish company must have possession and control of the ship(s) in question and must have control of the management of day-to-day, technical, safety, training and bunkering/provisioning matters.</p>



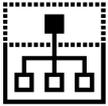
Ship management activities



Exception to general rule

Latvia	Ship management services (for strategic, commercial, technical and crew recruitment management) may qualify. The detailed description of the ship management services is given in the Cabinet of Ministers regulation No. 40 “Rules on the granting of tonnage taxpayer status and the tonnage tax return” of 16 January 2018.
Netherlands	Commercial management of ships owned by another party can also qualify for the tonnage tax scheme, but only if additional ownership requirements are met. Ship management (entire crew and technical management) also qualifies, if the vessel is flying an EU/EEA flag.
Norway	A tonnage taxed company can perform strategic, commercial/crewing and technical management services for other group companies (more than 50% joint ownership) or pools in which 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	Performing commercial and crew management activities for third parties may qualify.
Portugal	Activities related to strategic, commercial, technical and operational management, as well as crew management for the ships or vessels covered by the special scheme are eligible.
Republic of Korea (South Korea)	Performing technical and crew management for another company may qualify.
Spain	Performing technical and crew management for another company may qualify.
Slovenia	Technical crew management and ship management services might apply.
Sweden	Ship management activities may qualify, but not on a standalone basis. Only if such activities are necessary for or performed in close connection to a transportation at sea and are included in the remuneration for the transportation service, may it be seen as qualified income.
UK	At Autumn Budget 2021, the UK government announced that it would be reforming the UK’s Tonnage Tax scheme to ensure that the UK shipping industry remains competitive in the global market. As part of this, the government has committed to reviewing whether to include ship management within scope of the tonnage tax scheme.





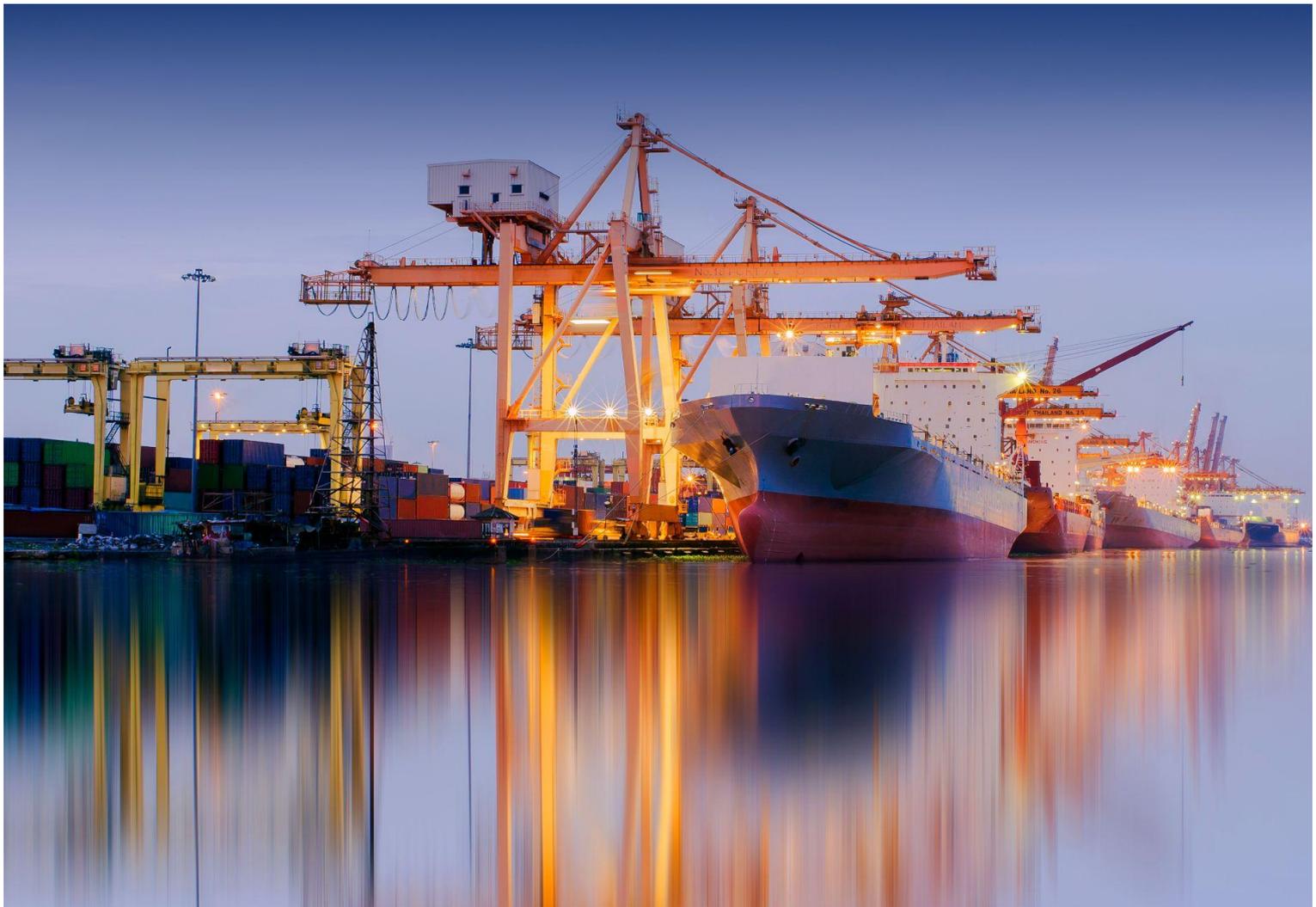
Greek tonnage tax model



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

Exception to general rule

Cyprus	A Cyprus tax resident company that performs crewing and/or technical management services may (provided certain conditions are met) be taxed under the Cyprus Tonnage Tax System (commercial management is not considered a qualifying activity). Ship management companies pay 25% of the normal tonnage tax rates. In Cyprus there is no requirement for the ship management company to own the vessel.
Greece	Ship management activities are not taxed if put under a special scheme.
Malta	Ship management activities may qualify for tonnage tax benefits provided certain conditions are satisfied.
Pakistan	Ship management activities fall under the domain of services and are subject to minimum tax at the rate of 8 per cent.





Many countries offer corporate tax and other incentives to the shipping industry, creating a global level playing field.

In this section, CIT incentives (other than tonnage tax schemes) are discussed. The form of the incentives differs and their effectiveness can vary. 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 jurisdictions with CIT incentives specifically designed for the shipping industry.

Many countries also offer tax schemes for seafarers and have a specific treatment for VAT. Examples of countries with beneficial schemes for seafarers are: Cyprus, Denmark, Germany, Latvia, Netherlands and Norway. The scope of this section is, however, limited to CIT schemes.



Australia

Australia's shipping tax incentive scheme (commonly known as the freight tax scheme) applies to ships carrying passengers, live-stock, mail or goods in Australia where the ship operators (owners or charterers) have a principal place of business outside of Australia.

The scheme applies to shipments from Australia, whether the shipments are delivered to another Australian location or a foreign location. However, the application of Australia's Double Tax Agreements can apply to limit Australia's taxing rights only to voyages wholly within Australia in some cases.

Eligible ship owners and charterers under the scheme are deemed to have taxable income of 5% of the amount paid or payable in respect of carriage passengers, livestock, mail or goods, regardless of whether this amount is payable in or out of Australia. The standard corporate tax rate is then applied to that taxable income (typically 30%, though it can be lower for groups with low aggregated turnover). There are no other deductions available against the deemed income. This effectively gives rise to a 1.5% tax on the gross proceeds for the relevant voyage.

Foreign-based ship operators eligible for this freight tax scheme are required lodge an Overseas Ships - Voyage Return Form and pay any assessed tax liability.

Australia has a number of concessions applicable to the shipping industry. However, given the broad scope of exclusions to the concessional scheme, these concessions are not commonly applied in practice.

For eligible entities/vessels, the scheme broadly provides the following concessions:

- Exemption from income tax if incidental income is less than 0.25% of core shipping income
- Depreciation concessions on vessels, including capped 10-year effective life and disposal rollover concessions
- Royalty WHT exemption on vessel payments



Belgium

Shipping companies that have not elected to be taxed under the tonnage tax, and hence are subject to the general corporate tax scheme, can nevertheless benefit from certain specific tax incentives:

1. an optional system of accelerated depreciation for new vessels and for second-hand vessels that come into possession of a Belgian taxpayer for the first time;
2. a tax exemption of capital gains on the sale of vessels, subject to certain conditions, such as a reinvestment condition;
3. an investment deduction of 30% of the purchase price of new vessels or of second-hand vessels that come into possession of a Belgian taxpayer for the first time.



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 from the AFRMM can be claimed, such as for cargo related to oil and gas exploration on the Brazilian shore and the importation under special customs scheme.

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%).



Canada

The Canadian tax system has two shipping incentive schemes: the first provides an exemption from tax for income from certain branch operations in Canada (referred to as the 'Branch Exemption') and the second allows a foreign shipping company to be operated or managed from Canada without subjecting the company to Canadian tax (referred to as the 'Residency Exemption').

The Branch Exemption allows a non-resident of Canada to earn income in Canada from international shipping or any activity incidental or pertaining to international shipping without being subject to Canadian income tax as long as their home country provides Canadian companies with a comparable exemption. To qualify for this exemption, the non-resident (or a related person) must have possession, control and command of the ship for which the exemption is claimed.

The Residency Exemption deems a company that is common law resident in Canada to be a non-resident of Canada provided that: (i) the principal business of the company is international shipping; (ii) a minimum percentage of its assets and income relate to investments in entities involved in international shipping; or (iii) a minimum percentage of its income relates to services provided to certain international shipping companies. This deeming rule means that income earned by these entities will not generally be subject to Canadian tax even if their central management and control is in Canada.



Canary Islands (Spain)

For CIT purposes, there is a tax allowance amounting to 90% of the taxable turnover arising from the exploitation of ships registered with the Special Registry 'REBECA'. Law 11/2021 contains amendments for tax periods starting from 1 January 2021, mainly:

- a. Ships registered in another Member State of the European Union (or of the EEA) will be considered as registered in the Special Register for the purposes set out in the tax incentives, provided that they belong to shipping companies registered in the REBECA and comply with the same requirements and conditions as those set out in our regulations for registration.
- b. The limit that the amount of the tax incentives together with the other aid received for maritime transport may not exceed the limit laid down in the EU guidelines on State aid to maritime transport.
- c. Tax losses arising from the activities that give rise to the right to apply this scheme cannot be offset against tax losses arising from the rest of the entity's activities, either in the current year or in subsequent years.

Alternatively (both incentives cannot be applied at the same time), there is a Special tax scheme in the Canary Islands Zone (ZEC) through which entities carrying out activities as maritime transport services, among others, and meeting certain requirements can apply a reduced CIT rate of 4% to the income derived from these activities.





China

For foreign international shipping companies, shipping income derived from outbound transportation shipment (exportation) departing from Chinese ports is subject to the deemed profit rate to be assessed and determined by the Chinese tax authority (i.e. no less than 15%). The deemed profit would be taxed at the standard Chinese CIT rate of 25%, unless it is qualified for an exemption under the respective DTT and international transportation agreements signed between China and overseas countries/regions.



France

Vessels used by shipping companies, including second-hand vessels, can be depreciated using the declining balance depreciation method. Therefore, a vessel may be depreciated using the declining balance depreciation method by each of its successive owners provided that the depreciation period is at least 8 years (exception to this rule is that vessels that are subject to a refinancing operation between related entities more than 24 months after their delivery may not benefit from this favourable depreciation method).

It is also accepted that a vessel may be depreciated as soon as the end of the financial year preceding the one in which delivery took place upon condition that keel laying of the vessel occurred before the closure date (subject to specific conditions).

Between 1 January 2020 and 31 December 2024, commercial vessels flying an EU/EEA flag can benefit, subject to specific conditions, from additional tax deduction related to green investments (notably for expenses directly linked to the installation of new equipment using hydrogen, low-carbon fuel, LNG, etc.). Entities subject to the tonnage tax scheme cannot benefit from this additional tax deduction.

All entities exercising a professional activity in France are liable to CVAE (made up of two elements: the company land contribution (CFE) and the company value added contribution (CVAE)), even if they are subject to the tonnage tax scheme for CIT purposes.

In terms of the requirements of the CVAE, shipping companies that 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 for the CVAE in respect of the portion of their added value from operations carried out within the limits of the national territory.



Hong Kong

The standard profits tax rate is 16.5%. A group of connected entities can nominate one entity within the group to enjoy the two-tiered rates under which the first HK\$2 million of assessable profits will be taxed at 8.25%.

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.

The shipping incentive scheme is subject to a substantial activity requirement measured by various indicators, such as the number of fulltime employees in Hong Kong with the necessary qualifications and the amount of operating expenditure incurred in Hong Kong.



Hong Kong (continued)

Concessionary tax schemes are available for qualifying ship lessors* and qualifying ship leasing managers. The applicable tax rate for qualifying ship lessors is 0% and the applicable tax rate for qualifying ship leasing managers is 0% or 8.25%. The tax concession is subject to a substantial activity requirement measured by various indicators, such as the number of fulltime employees in Hong Kong with the necessary qualifications and the amount of operating expenditure incurred in Hong Kong.

*A qualifying ship lessor cannot be a ship operator

Starting from 1 April 2022, concessionary tax schemes are available for qualifying ship agents, ship managers and ship brokers. Qualifying profits can enjoy a profits tax exemption or a concessionary rate of 0% or 8.25%. The tax concession is subject to a substantial activity requirement measured by various indicators, such as the number of fulltime employees in Hong Kong with the necessary qualifications and the amount of operating expenditure incurred in Hong Kong.



Indonesia

The Indonesia Income Tax Law stipulates that income from the shipping industry is subject to a final income tax with the following tax rates applying:

- 1.2% of gross revenue for domestic shipping taxpayers
- 2.64% of gross revenue for foreign shipping taxpayers

The gross revenue consists of income received or acquired from the transportation of passengers and/or cargo, including from ship's charter. If the shipping taxpayers receive income other than the above-mentioned income, it will be subject to a normal income tax scheme.

The gross revenue shall qualify for this final tax scheme for the following routes:

For domestic shipping taxpayers:

- From an Indonesian port to other ports in Indonesia
- From an Indonesian port to ports outside Indonesia and vice versa, and
- From a port outside Indonesia to other ports outside Indonesia

For foreign shipping taxpayers:

- From an Indonesian port to other ports in Indonesia, and
- From an Indonesian port to ports outside Indonesia

Domestic shipping taxpayer is defined as an individual who is domiciled or an entity which is established and domiciled in Indonesia and which carries out shipping services, while a foreign shipping taxpayer is a shipping company which is established overseas and conducts its operations through a Permanent Establishment in Indonesia.



Italy

By Ministerial Decree, even companies who have not made use of the tonnage tax scheme, and/or companies dismissed from the tonnage tax scheme, 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.



Latvia

There is no special shipping incentives scheme except a beneficial scheme for seafarers.





Malaysia

Non-exempted shipping income is taxed at the prevailing corporate income tax rate of 24%.

Tax exemptions are given to Malaysian resident persons undertaking shipping business using Malaysian ships provided that the qualifying conditions are met. Under the main legislation, the exemption is given for 70% of the statutory shipping income. However, the Government has via an exemption order provided for a full income tax exemption up to Year of Assessment ('YA') 2020. Via a letter to the industry, the Malaysian Ministry of Finance has further extended the full income tax exemption for another 3 years i.e. until YA 2023, subject to the Malaysian ship owner complying with the minimum requirements in terms of annual operating expenditure and number of full-time employees being installed (i.e. substance requirements). At this juncture, the Gazette order for the extension (together with detailed requirements) has not yet been made available.

Currently, there is also WHT exemption provided for certain charter hire payments made to non-residents by a qualifying Malaysian shipping company.

In the same letter, the Government indicated its intention to introduce a new scheme of tax based on the tonnage tax concept; no further details have been made available at this stage.

A Malaysian ship is defined for tax purposes as a sea-going ship registered as such under the Malaysian Merchant Shipping Ordinance 1952, other than a ferry, barge, tug boat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessel.



Netherlands

Shipping companies that do not use the tonnage tax scheme but are subject to the ordinary CIT scheme can apply an accelerated depreciation to vessels that would have qualified for the tonnage tax scheme. 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 scheme 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 Dutch tonnage tax scheme is not or only partly applied).



Oman

Income accruing to any establishment owned by an Omani natural person or an Omani company from carrying on its activity in the field of shipping shall be exempted from tax.

Income accruing to any person, other than provided for above, from carrying on its activity of shipping or air transport, shall be exempted from tax, provided that a similar treatment is accorded on a reciprocal basis in the country in which the juristic person is incorporated or in the country where the effective management and control are exercised on the person or in the country of which the natural person is a national.



Pakistan

The provisions regarding income tax withholding at import stage on vessels purchased or bareboat chartered by a Pakistani entity and flying the Pakistani flag are not applicable.

The provisions regarding income tax withholding while making payments to resident shipping companies for the cargo charges of goods transported are not applicable.



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 number 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:

- 3% of the gross income, or
- 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

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 DTT to which the Philippines is a signatory. This is subject to compliance with certain requirements and the filing of either a request for confirmation, or a tax treaty relief application (TTRA) with the Philippine tax office (Bureau of Internal Revenue or BIR).

The filing of a request for confirmation or a TTRA with the BIR within the time prescribed is a regulatory requirement, such that non-compliance may result in the imposition of penalties under the Philippine Tax Code. However, based on existing jurisprudence, treaty benefits may be enjoyed provided that the conditions under the relevant DTT are complied with.

In 2020, the Philippine Supreme Court confirmed the validity of a revenue regulation issued in 2013 which explicitly excludes from Gross Philippine Billings the detention and demurrage fees and other charges of international carriers as income derived from transportation of persons, goods and/or mail due to their nature, subjecting these to regular CIT (i.e. 25% beginning 1 July 2020).



Poland

Certain favourable regulations for shipbuilding entrepreneurs, including flat-rate tax in the event of building or reconstruction of a ship are included in the Polish Act on the activation of the shipbuilding industry and complementary industries.



Portugal

Portugal grants an incentive for ship owning companies of the national merchant marine, in which they are only taxed on 30% of the profit related to sea transport activities and are exempt from stamp duty on financing operations for the acquisition of vessels, containers and other ship equipment





Singapore

The prevailing Singapore CIT rate is 17%. However, ship operating companies can benefit from tax exemption under the Maritime Sector Incentives (MSI). Under the MSI, there are two main tax exemption schemes:

1. MSI - Singapore Registry of Ships (MSI-SRS):

To promote the Singapore registry, shipping enterprises (i.e. companies that own and/or operate Singapore-flagged ships) are granted an automatic tax exemption on qualifying shipping income derived from the operation of Singapore-flagged ships in international waters. There is no expiry date for this incentive as long as the ships that the shipping enterprises operate to derive qualifying shipping income continue to be Singapore flagged.

2. MSI - Approved International Shipping Enterprise (MSI-AIS):

This scheme was introduced to encourage international ship owners and ship operators to establish their commercial shipping operations in Singapore. To qualify for the MSI-AIS incentive, a company must substantiate that it will have substantial operations in Singapore and meet stringent quantitative criteria. This includes having to perform vessel management activities in Singapore and demonstrate that the control and management of the company is exercised here in Singapore. The company looking to apply for the MSI-AIS incentive has to be committed to making significant use of the maritime ecosystem (e.g. banking facilities) in Singapore as well as contributing to manpower development in Singapore.

Unlike the MSI-SRS incentive, the MSI-AIS incentive has to be applied for and approval has to be granted by the Maritime Port Authority of Singapore. Incentive period is limited to 10 years (subject to a 5th year review), but extendable up to a maximum of 40 years (subject to incremental economic commitments).

Companies under the above two main schemes can also enjoy the following:

- Tax exemption on qualifying income (e.g. income derived from foreign exchange and risk management activities carried out in connection with and incidental to qualifying shipping operations); and gains on the sale of ships (including shares in a wholly-owned ship owning SPV).
- WHT exemption on interest and related payments made to non-residents in respect of qualifying financing arrangements (subject to meeting certain conditions).
- WHT exemption on charter fee payments to non-residents for the chartering of ships as well as withholding exemptions on payments to non-residents that are treated as finance lease payments for Singapore tax purposes (available to MSI companies only).



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 WHT on interest. There are also special allowances and depreciation rules for movable assets, such as ships.





South Africa (continued)

A favourable scheme applies to 'international shipping companies', being companies that are tax resident in South Africa and that operate one or more South African ships that are utilised in international shipping.

For this purpose, 'international shipping' means the conveyance, for compensation, of passengers or goods by means of the operation of a South African ship mainly engaged in international traffic.

The international shipping income of any international shipping company is exempt from income tax. For this purpose, 'international shipping income' generally means receipts and accruals derived from international shipping mainly from the operation of one or more ships that are South African ships.

In addition, capital gains or losses of an international shipping company determined in respect of the disposal of a South African ship engaged in international shipping are disregarded in determining liability to capital gains tax.

Dividends paid by an international shipping company from income derived from international shipping are not subject to dividends tax.

Interest paid by an international shipping company in respect of debts utilised to fund the acquisition, construction and improvement of a South African ship utilised for international shipping is exempt from the interest WHT.



Sweden

Income from international shipping activities is exempt from Swedish CFC taxation under certain circumstances. However, recent case law regarding the participation exemption rules should be carefully assessed in connection to this.

An employer may receive shipping subsidy amounting to 99 % of paid social security contributions and preliminary income tax for Swedish seafarers. Several conditions on activities, route patterns, etc. must be fulfilled.



Taiwan

Any profit-seeking enterprise having its head office outside Taiwan, engaged in international transport in the Taiwan territory of which the cost and expenses are difficult to calculate, may apply for approval from the Ministry of Finance to consider 10% of its total revenue generated in Taiwan as its income derived within Taiwan regardless whether or not it has a branch office or business agent in Taiwan. In such cases, however, the regulation regarding the deduction of carried forward losses cannot be applied.

Business revenue derived by an international transport enterprise within Taiwan as provided in the paragraph above, in the case of a marine transport enterprise, refers to all ticket fares or transportation charges for outbound passengers and cargo accepted for carriage inside the territory of Taiwan.



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 that are registered in the TIVR are exempt from CIT, stamp duty, duties and banking and insurance transaction tax.

Salaries for ship crew who work in vessels registered in the TIVR are exempted from the income tax.

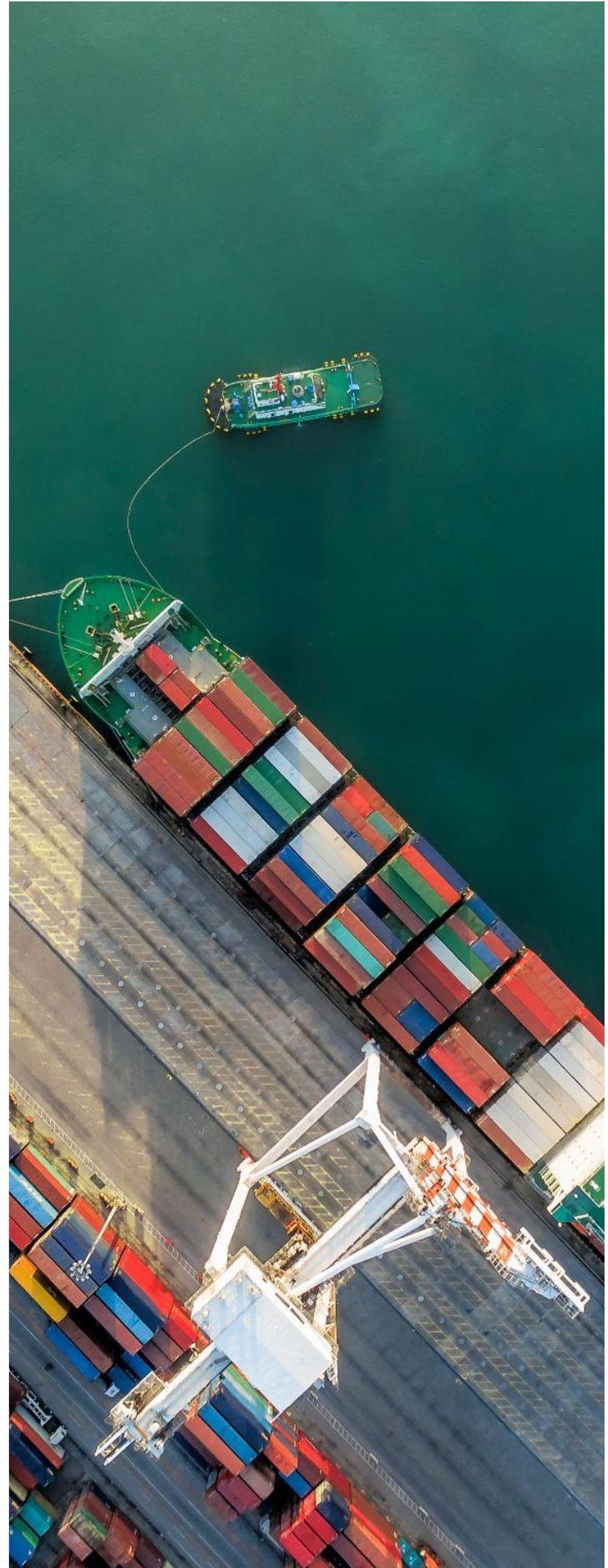


United Kingdom

The UK has introduced a number of Freeports. Freeports are special areas within the UK's borders where different economic regulations apply. Freeports in England are centred around one or more air, rail or seaport(s), but can extend up to 45km beyond the port(s).

The UK Freeports model includes a comprehensive package of measures, comprising tax reliefs, customs, business rates retention, planning, regeneration, innovation and trade and investment support.

Eligible businesses in Freeports enjoy a range of tax incentives, such as enhanced capital allowances, relief from stamp duty and employer national insurance contributions for additional employees. These tax reliefs are designed to encourage the maximum number of businesses to open, expand and invest in Freeports and so boost employment.



Certain jurisdictions are commonly used in shipping structures even though they do not have specific shipping schemes.

There are several countries that do not offer specific tax incentives for their shipping industry but where, instead, the general tax laws apply to shipping companies as they do for any other company. We have included these countries, because these countries are commonly used in shipping structures (e.g. as a flag state).



Barbados

Companies resident in Barbados are taxed on all sources, whether generated within or outside of Barbados. The applicable corporate tax rates in Barbados are:

- 5.5% on taxable income up to US\$0.5M
- 3.0% on taxable income exceeding US\$0.5M but not exceeding US\$10M
- 2.5% on taxable income exceeding US\$10M but not exceeding US\$15M, and
- 1% on taxable income in excess of US\$15M

However, shipping corporations incorporated under the Shipping Corporation Act Cap.296B are exempt from the application of the Barbados Income Tax Act and are therefore exempt from all income taxes.

Shipping is one of the relevant activities targeted by the Companies (Economic Substance) Act, 2019-43. Resident companies carrying on shipping business are required to meet the applicable economic substance test in full. The economic substance test is satisfied when:

- the relevant activity is directed and managed from Barbados
- the core income generating activity (CIGA) is directed and managed from Barbados
- the resident company has an adequate number of employees and adequate premises in Barbados, and
- adequate expenditure is incurred in Barbados

Capital gains are not taxed. It is also possible to apply for foreign tax credits.

There is no tax on dividends received by a Barbados resident company from a non-resident company where:

- the Barbados resident company owns > 10% of the capital of the non-resident company, and
- the investment is not held as a portfolio investment

Dividends paid out of foreign-sourced income to a non-resident shareholder are exempt from WHT in Barbados.

There is no property transfer tax or stamp duty on the sale of shares to a person who is resident outside of Barbados, whether or not the transferor is resident in Barbados, where the assets of the company concerned consists of foreign assets and its income is derived solely from sources outside Barbados.

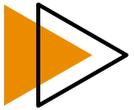
Shipping corporations have access to the Barbados' DTT network.

Vessels are depreciable assets for Barbados tax purposes as long as the resident company has the burden of wear & tear.



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, if they are registered as an 'exempted company'. Annual tonnage fees are payable both upon registration and every year thereafter by 31 March.



Bermuda (continued)

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.

Shipping is a 'relevant activity' under the Economic Substance Act. As defined in the sector-specific Guidance Notes, an entity will be carrying on the relevant activity of 'shipping' if it engages in specific activity. Shipping entities within the scope of the economic substance legislation are required to maintain a substantial economic presence in Bermuda, and in that regard comply with full economic substance requirements.



British Virgin Islands

In principle, companies incorporated in the BVI or managed and controlled there are liable to CIT. 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.

Amounts paid or distributed by BVI companies to non-resident persons are exempt from the application of the BVI Tax Ordinance.

No capital gains tax in the BVI.

Shipping business is one of the relevant activities targeted by the Economic Substance (Companies and Limited Partnerships) Act, 2018. Legal entities carrying on shipping business are required to meet the applicable economic substance test in full. The economic substance test would be satisfied when:

- the relevant activity is directed and managed from the BVI
- the core income generating activity (CIGA) is carried on in the BVI

- the legal entity has an adequate number of employees and adequate premises in the BVI, and
- adequate expenditure is incurred in the BVI

The Government of the BVI has implemented Country by Country Reporting (CbCR) from 1 January 2018. CbCR applies to MNE Groups with an annual consolidated group revenue of not less than seven hundred and fifty million euros (€750 million) in the preceding fiscal year.



Estonia

Under the existing Estonian CIT scheme, 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 scheme 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. Distributed profits are generally subject to 20% CIT.





Isle of Man

Companies resident in the Isle of Man (IoM) 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.

The IoM has economic substance requirements ('the substance requirements') for certain IoM tax resident companies, effective for accounting periods commencing on or after 1 January 2019. This includes IoM companies that are engaged in shipping, being 'the operation of ships in international traffic for the transport of passengers or cargo'. Shipping companies within scope of the economic substance requirements are required to demonstrate that they have sufficient substance in the Island and comply with economic substance requirements.



Luxembourg

There is no tonnage tax scheme in Luxembourg. Vessels are usually acquired by an entity formed under Luxembourg rules ('LuxCo') which, under conditions, is subject only to the CIT i.e. 17% (18.19% inclusive of the solidarity tax applicable to LuxCos). No Municipal Business Tax is due from shipping companies. In practice, the effective tax rate could be reduced significantly due to:

- the Investment tax credit mechanism a LuxCo can get in case of eligible investment assets and which is credited against the CIT; and/or
- the financing/operational costs of the vessels that may create tax losses. Tax losses incurred before 1 January 2017 might be carried forward for an unlimited period of time, whereas those generated as from 1 January 2017 can be carried forward for a maximum period of 17 years.

In addition, Luxembourg could be considered a stable environment because dividend distributions to be made to shareholders could be exempt from WHT: by means of either the domestic rules, i.e., participation exemption scheme, or by application of a DTT.



Norway

Norway has introduced withholding tax of 15% on certain lease payments (ships and other physical assets) to related parties in low-tax jurisdictions. There is an exemption for payments to low-tax jurisdictions within the EEA, provided that the receiving company is genuinely established and fulfils an overall substance test. The application of WHT on lease payments may be limited by existing Norwegian tax treaties. Payments from Norwegian tonnage taxed companies are, however, exempt from the new withholding tax rule.



United Arab Emirates

The UAE currently does not have a system of federal income taxation. Instead, most of the Emirates have their own CIT decrees that allow for CIT to be imposed on the income from business activities carried out in the relevant Emirates.

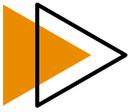
In practice, CIT is currently only enforced on foreign oil companies and branches of foreign banks.

Most of the UAE free zones provide exemptions from Emirate-level taxation for entities established within their territory for renewable periods of between 15 and 50 years.

On 31 January 2022, however, the UAE Ministry of Finance announced the introduction of a federal CIT in the UAE that will be effective for financial years starting on or after 1 June 2023.

UAE CIT will apply to all business and commercial activities alike, except for the extraction of natural resources, which will continue to be subject to Emirate level taxation. The corporate tax rates proposed are as follows:

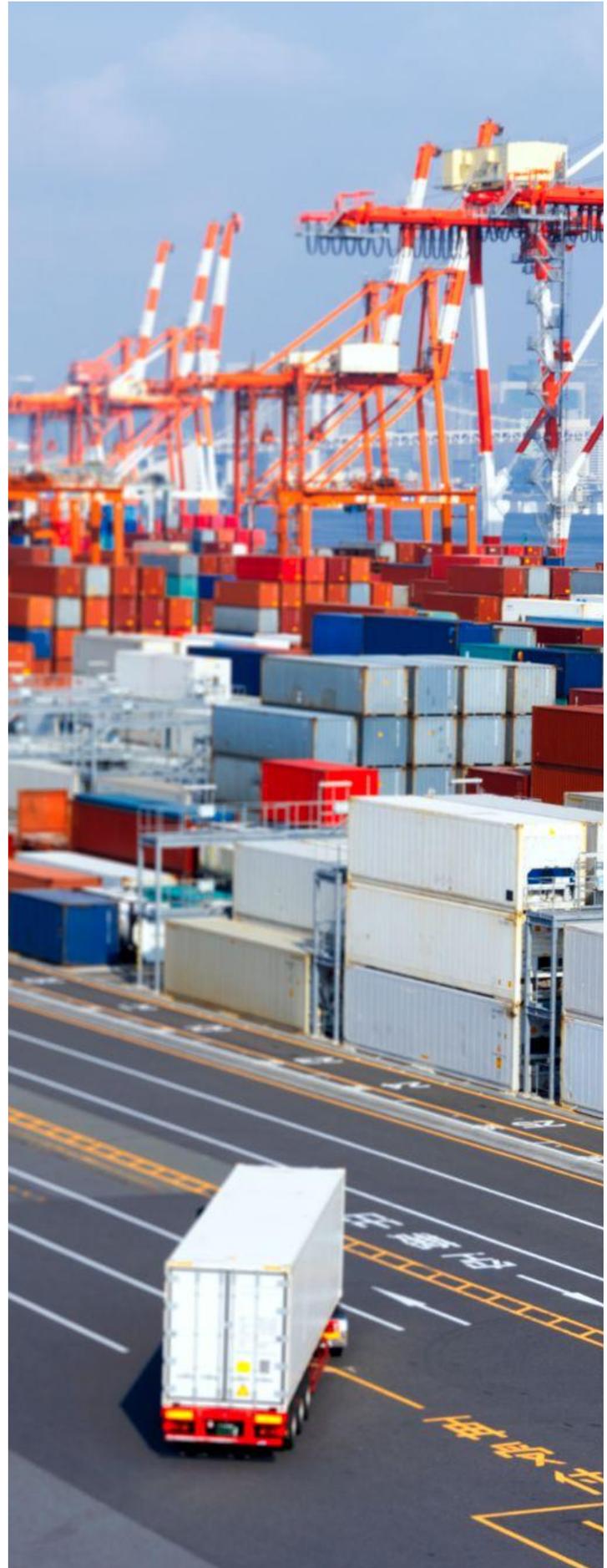
- 0% for taxable income up to AED375,000
- 9% for taxable income above AED375,000
- A different tax rate for large multinationals that meet the criteria under 'Pillar Two' of the OECD BEPS project



United Arab Emirates (continued)

Free zone businesses will be within the scope of UAE CIT, but will continue to benefit from CIT holidays/0% taxation if they comply with all regulatory requirements and do not conduct business with mainland UAE.

Further details of the UAE Corporate tax scheme are expected in the second half of 2022.





If your business is active across the world, taxation outside your country of residence is highly relevant. Tax treaties as well as domestic rules may provide benefits.

Whether an international shipping company can make optimal use of a tonnage, or other, tax scheme in its country of residence depends to a large extent on the way the company and its activities will be taxed in the countries in which it is not resident. The most important instrument for securing a company's tax treatment in this respect is the tax treaty network of its country of residence.

In view of the special nature of international traffic, 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 (its 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 that have such special rules for non-resident shipping companies.

The OECD model treaty

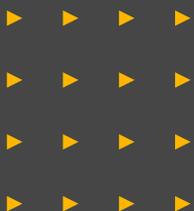


The shipping industry operates globally. Effective means of avoiding double taxation are required. This is acknowledged by the OECD. Hence, Article 8 of the OECD model treaty provides that profits from the operation of ships in international traffic shall be taxable only in the Contracting State in which the (effective management of the) enterprise is situated. In a number of (older) tax treaties this also applies to the operation of vessels engaged in inland waterways transport (not included in the latest model convention). By means of tax treaty agreements containing this article, shipping enterprises may rely on (the majority of) their shipping income only being taxed in their country of residence, even if they would have a permanent establishment in another country under the ordinary rules. In such a way, double taxation is avoided.

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, 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.





Australia

The Australian shipping freight tax scheme typically applies to all carriage of passengers, livestock, mail or goods from a location in Australia by a foreign ship operator, whether the goods are dispatched in or outside Australia. However, the scheme could be impacted by some DTTs. In particular, some DTTs limit Australia's taxing rights over shipping income to activities carried out wholly within Australian waters. These DTTs may therefore limit application of the freight tax scheme to coasting trade in Australia (being the shipping and discharging of carriage goods between Australian ports). Under such DTTs, shipments from Australia to a foreign location may not be subject to Australian tax.

However, separate to consideration of the freight tax scheme, many of Australia's DTTs deem a vessel owner and/or operator to have a taxable permanent establishment (PE) in Australia depending on the facts and circumstances of the shipping arrangements. This risk is often heightened particularly for vessels operating in the resources industry, in which case a taxable PE can be deemed to arise after as little as 30 days under some DTTs. Some of Australia's DTTs also deem a PE to exist from the first day of operation in Australia. This usually applies in the case of bareboat charters where the applicable DTT provides that a foreign entity is deemed to be carrying on a business (from day one) where substantial equipment generates revenue by, for or under contract such as a lease agreement. The conclusion will depend on precisely which DTT applies (and whether a DTT exists with the relevant country at all).

Australia also applies a Foreign Contractor WHT to certain construction-related activities, which includes offshore construction (e.g. pipe laying vessels). This non-final 5% withholding tax can be reduced to nil by reference to certain DTTs, upon application to the Australian Taxation Office.

With respect to capital gains, Australia has a 'clawback' rule whereby if a vessel has been used in a PE in Australia at any time and is later sold by the vessel owner/operator for a gain, some of that gain may be considered to be attributable to the historic PE as a clawback of any depreciation claims previously made. The application of this rule can also be impacted by the terms of any relevant DTTs.



Barbados

Barbados has an extensive DTT network.

Non-resident companies are generally only taxed on income derived from sources and operations conducted within Barbados.

Branch profits paid out of income derived from sources outside of Barbados are exempt from WHT in Barbados.





Brazil

As a general rule, a non-resident corporation is not subject to local corporate income taxation in Brazil as long as there is no permanent establishment locally.

There is also a WHT exemption that is generally applied to payments made to a non-resident in respect of charter agreements. Limits were established for the application of this WHT exemption in cases related to the exploration of O&G when the charter contract is executed simultaneously with a service contract and where the Charterer and the Service Provider were considered related parties.

Current limits imposed to the WHT exemption on charter payments (as of 2018):

- 70% for vessels with floating systems of production or storage and offloading
- 65% for vessels with rig systems for drilling, completion and maintenance of wells
- 50% for other types of vessels, and
- 60% for maritime vessels used in the transportation, transfer, storage and regasification of liquefied natural gas

Vessels used for maritime support navigation are not subject to the above limits.



Bulgaria

Under DTTs concluded by Bulgaria, revenues from international transport are taxed in the country where the effective management of the enterprise operating the vessel is located.



Canada

The Canadian tax system has two shipping incentive schemes: the first provides an exemption from tax for income from certain branch operations in Canada (referred to as the 'Branch Exemption') and the second allows a foreign shipping company to be operated or managed from Canada without subjecting the company to Canadian tax (referred to as the 'Residency Exemption'). Please refer to Chapter 5 ('Specific shipping schemes') for an extended description of these incentives.



China

For foreign international shipping companies, shipping income derived from outbound transportation shipment (exportation) departing from Chinese ports is subject to a favourable Chinese CIT rate of 1.25% (instead of the standard Chinese CIT rate of 25%), if not eligible for treaty protection.



France

Profits realised by foreign shipping companies arising from the operation of foreign vessels are exempt from CIT in France subject to the condition that a reciprocal and equivalent exemption be granted to French companies of the same nature. Such reciprocity may only result from a diplomatic agreement stated in a specific decree or from DTTs that generally include specific provisions related to shipping companies.





Germany

Non-resident shipping companies can be charged an additional levy against the freight earnings (voyage charter, time charter hire or bareboat hire) derived from international transport activities, when accessing German harbours ('freight tax').

The same applies if the non-resident shipping company carries out these activities via a German permanent establishment. However, these rules do not apply if a mutual DTT has been concluded (Germany has entered into over 90 treaties) or in case of reciprocity in connection with the stipulation of innocuousness (i.e. a tax exemption from freight tax) by the German ministry of transport.

If freight tax applies in relation to certain countries for lack of a treaty protection or reciprocity, 5% of the freight costs are deemed to be taxable income and are subject to the usual German income tax rates in the case of individuals or partnerships or the German corporate tax rates in case of corporations. In case of permanent establishments, trade tax might also apply.



India

Shipping income of a foreign shipping company is calculated on a presumptive basis at 7.5% of freight income.

However, if the DTT provides for an exemption under the Shipping Article, then the provisions of the DTT will override the presumptive tax provisions under the domestic law.



Indonesia

Some Indonesian DTTs grant taxing rights to the source country for international traffic with a 50% reduction of tax, whilst the others only grant taxing rights to the resident country for profits from the operation of ships in international traffic.



Latvia

There are no additional regulations for non-resident shipping companies in domestic legislation.

The CIT Act prescribes that WHT is applicable to the following payments made to non-residents:

- remuneration for management and consultancy services – 20% of the amount of remuneration
- remuneration for alienation of immovable property located in Latvia – 3% of the amount of remuneration (under the certain criteria the sale of shares could be treated as the sale of real estate)
- remuneration for rent of immovable property located in Latvia – 5% of the amount of remuneration
- any payments or dividends paid to entities located, set up or established in a low-tax or tax-free country or territory, except for the payments for supply of goods and purchased publicly traded securities of the European Union or European Economic Area if such goods and securities are purchased at a market price (value) – 20% of the total amount of payments/dividends



Malaysia

Shipping income of a foreign shipping company is generally calculated on a deemed basis at 1.2% of freight income.

However, if the DTT provides for an exemption under the Shipping Article, then the provisions of the DTT will reduce the tax under the domestic law.





Malta

In terms of general principles of Maltese income tax legislation, a company which is incorporated and tax resident exclusively outside Malta should be liable to income tax in Malta solely on its income or gains that are deemed to arise in Malta for tax purposes.

Accordingly, to the extent to which the income derived by the foreign entity from its shipping related activities is deemed to 'arise in Malta', such income should be liable to tax in Malta in terms of Maltese domestic tax law.

That said, the Maltese tax liability on the profits arising in Malta may be reduced in a number of ways including:

- Maltese tonnage tax system - If the corporation is established in the EU/EEA, it is possible that the entity's income derived from 'shipping activities' may benefit from an exemption from income tax in Malta (subject to satisfying the relevant statutory provisions discussed above)
- Reciprocity exemption - The Maltese Income Tax Act provides that the profits of a non-Malta-resident ship owner should be exempt from tax in Malta where the country to which the non-resident ship owner/charterer belongs extends a similar exemption to Maltese ship owners who are not resident in that country
- The DTTs concluded by Malta generally allocate the right to tax profits derived from the operation of ships (and aircraft) in international traffic to the state in which the place of effective management of the enterprise is situated



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, there is the requirement that the tax laws in the company's country of residence contain a similar provision (reciprocity).



Norway

Foreign ship owners engaged in shipping activities managed from Norway will as a starting point be liable to tax in Norway. However, if certain conditions are met, these companies may be exempted from Norwegian tax liability.

In order to benefit from the tax exemption, the taxpayer must prove that the conditions are met, and also fulfil certain documentation requirements.



Oman

Income accruing to any person (including non-resident companies) from carrying on its activity of shipping or air transport shall be exempted from tax, provided that a similar treatment is accorded on a reciprocal basis in the country in which the juristic person is incorporated or in the country where the effective management and control are exercised on the person or in the country of which the natural person is a national.





Pakistan

Shipping income of a non-resident shipping company is calculated on a presumptive basis as follows:

- 8 percent of the gross amount received or receivable anywhere for the carriage of passengers/cargo embarked in Pakistan (outbound)
- 8 percent of the gross amount received or receivable in Pakistan for the carriage of passengers/cargo embarked outside Pakistan (inbound)

However, if the DTT provides for an exemption/reduced rate under the Shipping Article, then the provisions of the DTT will override the presumptive tax provisions under the domestic law.



Philippines

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% based on gross receipts.

International carriers doing business in the Philippines, however, may make use of a reduced preferential rate or exemption from the tax on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable DTT or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier whose home country grants income tax exemption to Philippine carriers shall likewise be exempt from the tax imposed under the regulations.

Further, the reduced preferential rate or exemption is subject to compliance with certain requirements and the filing of a request for confirmation or a tax treaty relief application (TTRA) with the Philippine tax office (Bureau of Internal Revenue or BIR).



Republic of Korea (South Korea)

In most Korean tax treaties, income from the operation of ships or aircraft in international traffic shall be exempt from tax by the other Contracting State. But the use of or the right to the use of on a bareboat charter is deemed as income from the rental ships.



Singapore

Income derived by non-resident shipping companies from the uplift of goods in Singapore are tax-exempt under domestic law except where such carriage arises solely from transshipment from Singapore. (Note: The tax exemption does not apply to income derived from the operation of Singapore-flagged and foreign-flagged ships solely in Singapore waters.)



South Africa

South Africa provides the following income tax relief measures for a non-resident who carries on a business as an owner or charterer of ships:

- When a non-resident embarks passengers, loads livestock, mail or goods in South Africa ('the business'), the taxable income derived from this business is deemed to be 10% of the amount payable to it or any agent on its behalf (in/outside South Africa). However, if the non-resident discloses its actual income derived from the business and the South African Revenue Service is satisfied with these accounts, the amount disclosed will be used as its taxable income
- An income tax exemption is available to a non-resident ship owner/charterer if a similar/equivalent exemption is granted to South African residents carrying on the same type of business in the non-resident's country of residence as a ship owner/charterer



Spain

Shipping entities from countries where no DTT applies, but that have a reciprocity agreement with Spain (Lebanon, Paraguay, Peru, Seychelles and Zaire) and owning ships that touch Spanish territory may be exempt according to domestic non-resident income tax rules for the income obtained, even if they have consignees or agents in Spain.

The exemption applies to income obtained in the Spanish territory of shipping entities without a permanent establishment in Spain, deriving from lease, cession or transfer of containers or ships under a bareboat charter and which are used in the international traffic regarding shipping transport according to domestic non-resident tax rules.

If no DTT or exemption is applicable, according to domestic non-resident tax rules a tax rate of 4% is applicable to shipping entities tax resident abroad whose ships touch Spanish territory.



Taiwan

Business income obtained from the operation inside the territory of Taiwan by a foreign enterprise engaged in international transportation is exempted from tax, provided that reciprocal treatment is accorded by the foreign country concerned to an international transport enterprise of Taiwan operating in its territory.

Taiwan has an extensive treaty network that serves as the basis for the aforementioned.

Please also refer to the tax incentives section for the deemed profit ratio in favour of a foreign enterprise operating international transportation and generating revenue within the territory of Taiwan.



Thailand

A non-resident shipping company is subject to CIT on its transportation business as follows:

- For the transportation of passengers, both inbound and outbound, the tax rate is 3% of the fares, fees and any other benefits collected in Thailand before the deduction of any expenses
- For the transportation of goods from Thailand, the tax rate is 3% of the freight, fees and any other benefits collected, either within or outside of Thailand, before the deduction of any expenses

These rates are reduced under the provisions of certain double tax treaties that Thailand has entered into with other countries.



Turkey

In accordance with the Turkish CIT Law, tax base calculation of foreign transportation companies is performed according to a special provision determined by Article 23 of the Corporate Tax Law. The earnings of foreign transportation companies that would constitute the tax basis shall be calculated by applying the average equivalent ratios to the revenue. Average equivalent ratios of 15% shall apply to corporations that operate in Turkey permanently or incidentally for marine transportation. The Company should declare prepaid and collect export revenues as CIT declaration. The CIT rate is 23% for the year 2022. In addition to that, WHT will be applicable at the rate of 10% for the amount transferred abroad. As a consequence of the above taxation regulation, the total tax burden will be approximately 4.6% on export shipments revenue.



United Kingdom

Non-resident companies are generally only taxed on income derived from sources and operations conducted within the UK.



United Arab Emirates

At present, most non-resident entities (including those engaged in shipping businesses) are not subject to CT in the UAE.

The MOF Public Consultation Document on the proposed CT scheme provides that non-residents will be subject to UAE CT on taxable income from their Permanent Establishment in the UAE.

All other UAE-sourced income will be subject to 0% withholding tax.

The Consultation Document also specifically exempts income earned by a non-resident from operating or leasing ships (and associated equipment) used in international transportation from CT provided the same tax treatment is granted to a UAE business in the relevant foreign jurisdiction under the reciprocity principle.



USA

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 a DTT. 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.

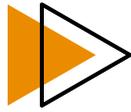
A similar exemption is available to non-resident alien individuals (i.e. who are not US citizens) engaged in the international operation of ships.

Non-resident corporations and individuals not eligible for exemption under the above rules are generally subject to a 4% tax on US-sourced 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 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



The specific circumstances of your enterprise are all-important when you have to make important business-related choices. Our dedicated shipping professionals can give you the detailed perspective you need in order to decide how to best organise your shipping business.

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 organise 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.

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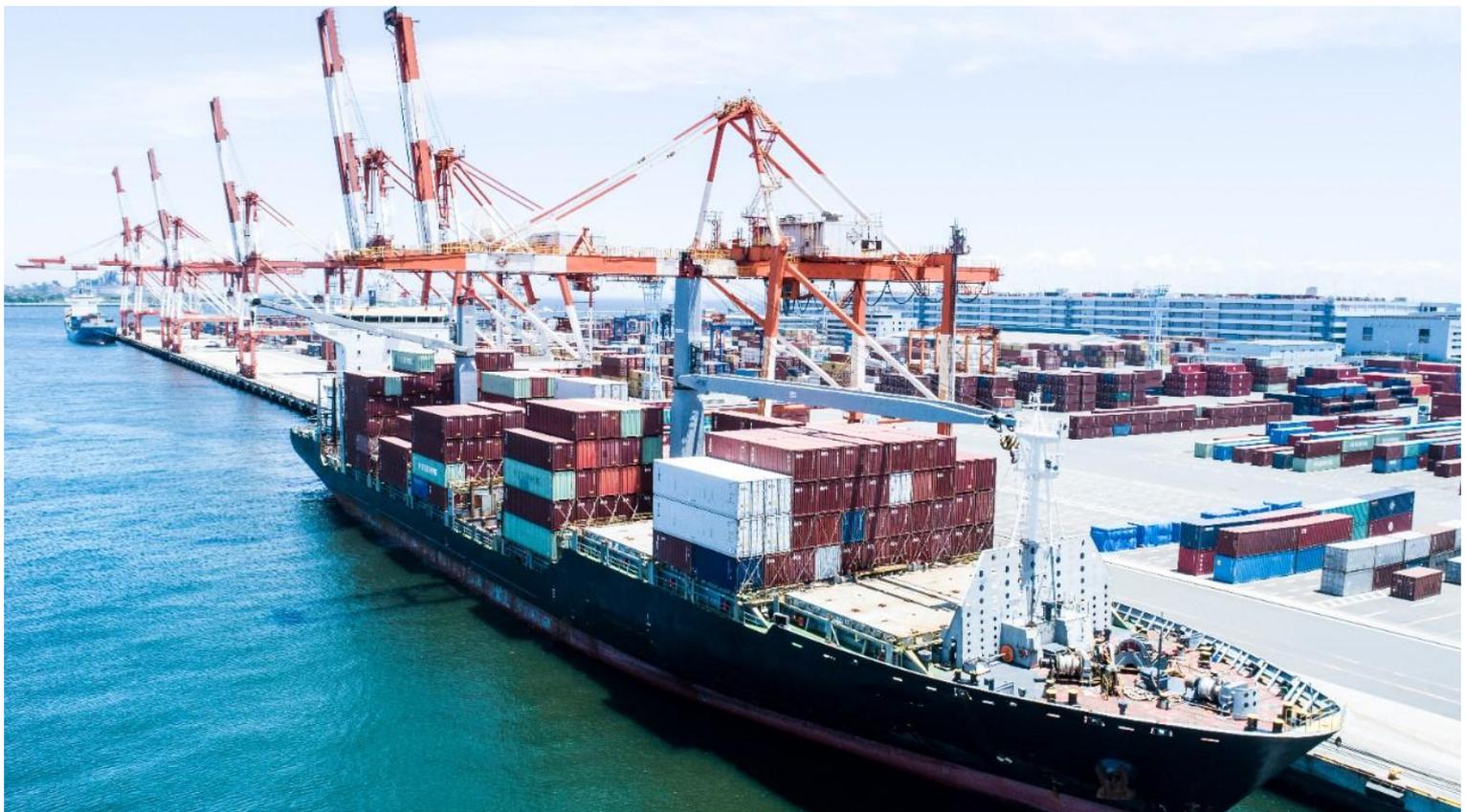
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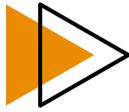
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PwC has established a Global Shipping Network of industry experts. Within this network, a dedicated team of assurance, tax and advisory professionals provide advice and support to businesses like yours. Through our network of local specialists, PwC can offer the solutions you need 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.

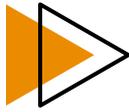




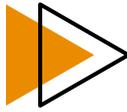
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