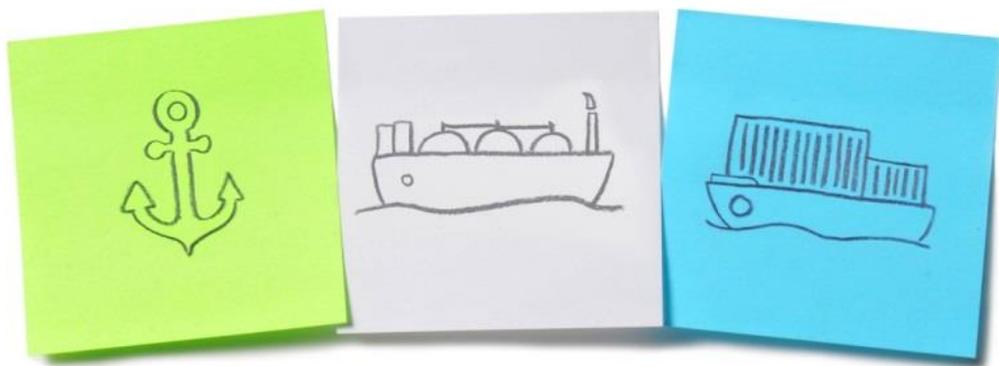


Shipping Tax Guide

Greece, Australia, Cyprus, Denmark,
Indonesia, Italy, Luxembourg, Malta,
Philippines, Singapore, Thailand, UK,
Vietnam



Shipping & Ports Group

Contents

Greece	5
Australia	17
Cyprus	35
Denmark	42
Indonesia	50
Italy	60
Luxembourg	69
Malta	82
Philippines	96
Singapore	107
Thailand	119
UK	124
Vietnam	134
Contacts	141

Greece

Greece

Individual Taxation

Income Tax

The new Greek Income Tax Code (Law 4172/2013), which is effective as of 1 January 2014, provides that individuals having their tax residence in Greece (i.e. Greek tax residents) are subject to tax on their worldwide income, whereas non-Greek tax residents are subject to tax only on their Greek-sourced income. Individuals are considered as Greek tax residents, if they a) have their permanent or main residence or habitual abode or the concentration thereto of their vital personal and professional activity in Greece and b) their presence in Greece exceeds 183 days in any 12 month period. Tax exemptions are available for non-residents from countries that have concluded a tax treaty with Greece.

Taxable income is classified under certain categories as follows: income from employment and pensions, income from business activities, income from capital and income from capital gains. Every category is taxed separately with different tax rates and scales.

Individuals in Greece are taxed up to 42% on total net employment income.

A tax credit of €2,100 is available for employment income up to €21,000, however, if the tax due is lower, the credit will be correspondingly decreased. For income exceeding €21,000, the €2,100 credit is decreased by €100 for every €1,000 of income and for any income above €42,000 no credit is available.

Employment income also includes income derived by an individual. If the individual provides services on the basis of a written agreement for the provision of services with no more than three individuals or legal entities; or if there are more than three, at least 75% of the individual's gross income derives only from one of the individuals or legal entities. Furthermore the individual neither conducts business activities nor holds a business address different from their home address. The aforementioned provision does not apply in cases where the individual earns employment income based on other provisions.

Individuals with income from business activities are taxed with a marginal tax rate of 33%. The same marginal tax rate applies for rental income above €12,000.

Further to the above, a special solidarity tax is imposed on individual income of at least €12,000 for fiscal years 2010-2016. This contribution is calculated on a taxpayer's total net income, whether real or deemed, taxable or exempt (although exemptions apply for certain taxpayers, such as the unemployed). The special tax is levied at the following rates:

€12,001 – €20,000	0.7%
€20,001 – €30,000	1.4%
€30,001 - €50,000	2.0%
€50,001 – €100,000	4.0%
€100,001 - €500,000	6.0%
Over €500,000	8.0%

EU residents who either earn more than 90% of their annual income in Greece or who can prove that their income is so low that they would be entitled to the tax deductions of their country of residence, are entitled to income tax deductions, when calculating their net income, following certain limitations. The allowable deductions are the following:

- Medical and hospital expenses
- Donations to approved charities and cultural institutions

Residents deriving income from abroad are entitled to a limited foreign tax credit.

Tax Administration

Tax returns must be filed until the end of April, covering the fiscal year ending the previous calendar year. Any tax due is payable in up to three equal bimonthly instalments.

For employment income, employers must withhold the income tax attributable to income from salaries, wages and other forms of remuneration (overtime, bonuses, allowances and redundancy payments) for full and part-time employees. Based on the personal annual tax return form, the taxpayer will need to pay a 100% prepayment of the current year's tax liability that is derived from their income from business activities.

Under the Greek tax system, income tax is assessed on the higher of (i) the income declared by the taxpayer and (ii) the imputed income, i.e. the minimum income that would justify the taxpayer's living standard. Imputed income as a measure of the living standard is calculated as the sum of certain actual or notional annual expenses and of the cash paid for the acquisition of high value assets, such as, indicatively, real property, cars, art etc. Imputed income is calculated at family level. Thus, a husband's income can justify the acquisition of an asset by his wife and vice versa.

Imputed income will be treated as employment income and taxed as such, provided that the individual only has income from employment or the higher proportion of the total income is from employment income. On the other hand if the individual is taxed only for income from business activities or the higher proportion of the total income does not occur from employment income, the imputed income will be treated and taxed as income from business activities. However, if the individual only has Greek agriculture income or the higher proportion of the total income is from Greek agriculture income then the imputed income will be treated and taxed as Greek agriculture income.

Shipping Taxation

Legislation

Taxation at the level of the shareholder

Tonnage tax in Greece exempts the individual and corporate ship owners from income tax liabilities on the profits derived from operating **Greek flagged registered vessels**. That is to say that ship-owners are not in any case subject to regular personal or corporate income tax on their profits derived from such vessels and that the shareholders of Greek or foreign ship-owning companies are not subject to Greek tax on the dividends earned from their participation in these companies (in as much as these dividends derive from the distribution of shipping profits of the company and no other business activities). Moreover, such resident and foreign ship-owners are exempt from Greek taxation on any capital gains realized from the disposal of their Greek registered vessels, or from the collection of an insurance indemnity in relation to such vessels or from any other comparable source.

Income received by shareholders or partners from a holding company or intermediary holding companies which exclusively hold shares in companies owning vessels with the Greek flag (or with a foreign flag provided that they are registered with NAT for social security purposes) should be exempt from any tax, duty, contribution or withholding in Greece.

In addition, tonnage tax also exempts individual and corporate ship owners from income tax on the profits derived from operating **foreign flagged registered vessels**. In specific, as described above, foreign companies owning vessels flying under foreign flag, whose management is entrusted a Greek Law 89/67 Office of a foreign company are subject to tonnage tax calculated in the same way, rates and scales as in the case of vessels flying the Greek flag. The tonnage tax exhausts the tax liability for any tax, duty, levy or withholding tax on foreign-source income of the foreign ship owner arising in connection with the management of the vessel flying the foreign flag. Moreover, the dividends or profits distributed by such companies (either directly or through a mediating holding company) are exempt from income tax at the shareholder level.

To be noted that for Greek individual shareholders, there is an imposition of solidarity tax (which can rise up to 8% as from 1 January 2015 on the taxpayer's net income) on such dividends as well (i.e. dividends received from ship owning companies operating Greek or foreign registered vessels). This practically means that a Greek individual shareholder should report any income/dividend arising from such ship owning activities in their annual income tax return.

An exemption from tax is also granted for gains on the transfer of the shares of a domestic or foreign ship owning company (flying vessels under Greek or foreign flag), as well as to the transfer of the shares of any intermediary holding entity.

Finally, it should be noted that the same treatment does not apply for income (including dividends) received by shareholders/partners of other maritime related activities i.e. not ship owning-companies, even if these companies are

established in Greece under article 25 of Law 27/1975. However, exemption from solidarity tax is granted especially for dividends received by Greek individual shareholders of shipping companies established in Greece under article 25 of Law 27/1975 and are engaged in the chartering, insurance and/or brokerage of vessels flying under Greek or foreign flags, where the gross tonnage of the vessel exceeds 500 shipping tons.

Registration Requirements

The Greek tonnage tax regime is provided for under L. 27/1975 and applies to vessels flying the Greek flag or a foreign flag irrespective of the tax residence of their individual or corporate owners.

A. Vessels flying the Greek flag

Namely, pursuant to article 4 par. 1 of L. 27/1975, the tonnage tax liability is imposed on the individual ship-owner or ship-owning company on the 1st of January of every calendar year. The individual or company that manages a vessel flying the Greek flag is jointly and severally liable for the payment of the tonnage tax due.

Vessels are divided into two categories according to their use and tonnage. Namely, Category A includes the following types of vessels:

- Bulk carriers, tankers and reefers of at least 3,000 GRT
- Steel dry or wet cargo ships, as well as reefers of between 500 and 3,000 GRT, which undertake voyages to foreign ports or navigate exclusively between foreign ports.
- Passenger ships that undertake voyages to foreign ports or navigate between foreign ports.
- Passenger ships of more than 500 GRT that have undertaken, following a public announcement, regular trips exclusively for leisure purposes for a period of at least six months during the previous year (cruise ships).
- Floating rigs of a displacement exceeding 5,000 GRT, as well as floating refineries and oil store of at least 15,000 GRT used for exploration, drilling, pumping, refining and storage of oil or natural gas.

Category B includes the remaining vessels, sailing vessels and small crafts in general.

Taxation of Vessels flying the Greek flag-Category A

The principle of the gross tonnage tax lies in the taxation of shipping profits on the basis of the taxable gross tonnage of the vessels through the application of the following rates on the vessel's actual tonnage:

Actual GRT	Taxable GRT
100 – 10,000	1,2
10,001 – 20,000	1,1
20,001 – 40,000	1
40,001 – 80,000	0,9
80,001 and above	0,8

Tonnage tax on vessels registered before 22nd April 1975

Vessels registered with a Greek vessel registry before the 22nd of April 1975 are subject to a **contribution**, which is calculated on the basis of the vessels age and taxable GRT (article 10 of L. 27/1975). The basic USD rates for the calculation of this contribution are as follows:

Vessel's Age	USD per Taxable GRT
0 – 4	0.53
5 – 9	0.95
10 – 19	0.80
20 – 29	0.75
30 and above	0.50

These rates are increased by 4% for every year from 1975 onwards. The annual 4% increase will continue to apply until 2020. Reduced rates may apply pursuant to approval decisions issued pursuant to I.2687/1953 (regulation of foreign capital). The contribution for the fiscal year 2015 is as follows:

Vessel's Age	USD per Taxable GRT
0 – 4	1.378
5 – 9	2.470
10 – 19	2.080
20 – 29	1.950
30 and above	1.300

Moreover, apart from the contribution vessels registered with a Greek flag before 22 April 1975 are subject to **tonnage tax**. The tonnage tax for these vessels is calculated on the basis of the vessels age and taxable Net Tonnage using the following scale:

Vessel's Age	USD per Taxable Net Tonnage
10 – 20	0.20
20 – 25	0.30
25 and above	0.40

These rates are set standard, without any increase. Certain exemptions are also available.

Tonnage tax on vessels flying the Greek flag after 22nd April 1975

Pursuant to article 6 of L. 27/1975, the tonnage tax on vessels registered with a Greek vessel registry after 22 April 1975 is calculated on the basis of the vessels age and taxable GRT using the following scale:

Vessel's Age	USD per Taxable GRT
0 – 4	0.53
5 – 9	0.95
10 – 19	0.93
20 – 29	0.88
30 and above	0.68

These rates are increased by 4% for every year from 1975 onwards. Based on the latest legislation, this scale continues to be increased by 4% up to 2020. For fiscal year 2015 the rates are as follows:

Vessel's Age	USD per Taxable GRT
0 – 4	1.378
5 – 9	2.470
10 – 19	2.418
20 – 29	2.288
30 and above	1.768

Tonnage tax on vessels flying the Greek flag after 22nd April 1975, whose registration with the Greek vessel registry is effected under article 13 of the Legislative Decree 2687/1953

It should be noted that the vast majority of such Category A vessels (flying the Greek flag after 22nd April 1975) are actually subject to a lower tonnage tax. Namely, the registration of vessels with the Greek vessel registry is affected under article 13 of the Legislative Decree 2687/1953 (relating to foreign capital investment incentives) through a Joint Ministerial Decision of the Greek Finance and Mercantile Marine Ministers. Each such Joint Ministerial Decision typically includes section 12A stipulating that tonnage tax would be calculated on the

basis of the original L. 27/1975 scale reduced at 40%. This reduced taxation is commonly applicable up to 31st of December 2007.

From 1st January 2008 onwards, the increase by 4% in said cases is to be calculated on the reduced scale.

According to article 12A and 12B that are inserted in the Joint Ministerial Decisions for the registration of vessels with the Greek vessel registry (and are applicable for the vast majority of Greek vessels) the tonnage tax due for vessels with taxable GRT between 40.001 – 80.000 is reduced by 50% and for vessels above 80.001 taxable GRT it is reduced at 75%.

Following the above, the GRT for the fiscal year 2015 is taxed as follows:

Vessel's Age	USD per Taxable GRT
0 – 4	0.420
5 – 9	0.752
10 – 19	0.737
20 – 29	0.697
30 and above	0.539

Taxation of Vessels flying the Greek flag-Category B

Tonnage tax for vessels of Category B is calculated annually (with a progressive scale), depending on the vessel's gross tonnage and paid in euro as follows:

Actual GRT	Taxable GRT in €	Tax	Total GRT	Total Tax in €
20	0.60	12	20	12
30	0.70	21	50	33
50	0.76	38	100	71

For over 100GRT, the tax is set at 1€ per actual tonnage.

Tax Exemptions for Vessels flying the Greek flag

Further to the above discussion with regard to the tonnage tax computation, it should be noted that L. 27/1975 provides for an array of tax exemptions relating to Greek vessels, the most important of which are the following:

- Ships that undertake regular voyages between Greek and foreign ports, or exclusively between foreign ports, as well as cruise vessels, are entitled to a 50% reduction on the tonnage tax payable.
- Ships built in Greece registering with a Greek vessel registry after 1975 are exempted from tonnage tax until the age of 6 years.

B. Vessels flying a foreign flag

As of 2013, a tonnage tax is imposed on owners of vessels flying foreign flags provided the vessels are operated/managed by offices established pursuant to article 25 of Law 27/1975.

- In principle the tax is calculated and remitted based on the same criteria, rates and scales applicable to vessels flying under a Greek flag and of article 13 of law 2687/1953, without prejudice to the provisions of the Income Tax Code providing for income taxation on profits arising in Greece as a result of the management/operation of vessels flying foreign flags and relevant tax treaties.
- The management company is jointly liable with the foreign ship owner for the payment of the tonnage tax. If the vessel is managed by more than one company, all managing companies are jointly liable. The liability of the management company is in proportion to the time it managed the vessel.
- Any foreign tonnage tax or other similar charge that has been paid abroad may be credited against the Greek tonnage tax (limited foreign tax credit).
- The tonnage tax return and payment of the tax is paid by the management company. Responsibility for filing the tonnage tax return lies with the ship owner, the ship management office and their representatives or attorneys in fact (if any). The annual return must be filed by the end of February with respect to the tonnage tax of the same calendar year (i.e. there is no distinction between the fiscal year and the calendar year). Twenty-five percent (25%) of the tonnage tax assessed must be paid at the time the return is filed, with the remaining amount paid in three equal instalments in June, September and December.
- The tonnage tax exhausts the tax liability for any tax, duty, levy or withholding tax on foreign source income of the foreign ship owner arising in connection with the management of the vessel flying the foreign flag or with distributed profits/dividends (please refer to the section above “taxation at the level of the shareholder”).
- The above apply as of 23 January 2013.
- In the case of a disposal of an affected vessel, the new owner is liable to tonnage tax as from the date of the transfer. The former owner and the management office remain jointly liable for previous taxes. Where a management office is appointed during the calendar year, an amending list must be filed within one month from the new mandate. The newly appointed management office is liable to tax starting from the day after its appointment.

Tax rates for Vessels flying a foreign flag

The tax rates for the calculation of the tonnage tax for vessels flying a foreign flag are the extra-reduced rates provided under ministerial approvals issued in accordance with article 13 of Law 2687/1953. Pursuant to the draft tonnage tax return, such rates are as follows:

Actual GRT	Taxable GRT
100 – 10.000	1,2
10.001 – 20.000	1,1
20.001 – 40.000	1
40.001 – 80.000	0,45
80.001 and above	0,2

Then, the amount of the gross taxable tonnage is multiplied by the respective tax rate corresponding to the age of the vessel.

Namely:

Vessel's Age	USD per Taxable GRT
0 – 4	0,407
5 – 9	0,730
10 – 19	0,714
20 – 29	0,676
30 and above	0,522

The calculation of the age of the vessel commences on 1 January of the year following the year the vessel is delivered for commercial use.

Exemptions for Vessels flying the foreign flag

The amount of tonnage tax for vessels flying a foreign flag may be further reduced in case of:

- Vessel's lay-up due to repair works, lack of work or any other reason for a period of at least 2 consecutive months during the previous year or the current year, by an amount corresponding to the days that the vessel ceased flying, and/or
- Vessels of any age following regular routes by 50%.

In addition to the aforementioned deductions, the tonnage tax due may be further reduced with the tonnage tax or similar charge that has evidently been paid abroad for said vessel.

Along with the tonnage tax return the following documents should be submitted:

- Certification from the shipyard stating the delivery date of the vessel for commercial use (if this certification is unavailable, the age of the ship must be verified through the nationality document issued by the competent registry);
- Nationality document of the competent registry, including the name, port, registration number, international trademark, IMO numbers, gross tonnage and age of the vessel;
- Certification by the foreign ship owner regarding the appointment of the management office;

- Affidavit by the legal representative of the management office, declaring that he accepts his appointment.
- Certification by the competent Greek or consular or other authority (duly translated) where the vessel is anchored concerning vessel lay-ups (if any); and
- Certification of the calculation made in respect of the vessel's gross tonnage.

Annual contribution of foreign shipping offices

The law 4111/2013 as amended by law 4336/2015 introduced a temporary annual contribution for eight (8) years on offices and branches of foreign shipping enterprises established in Greece under article 25 of Law 27/1975 and that engage in the chartering, insurance and/or brokerage of vessels flying Greek or foreign flags, where the gross tonnage of the vessel exceeds 500 shipping tons. The contribution, which is imposed for calendar years 2012-2015, also applies to representation of foreign ship-owning companies. Domestic and foreign companies that have an operating license that encompasses the above activities together with the management of vessels flying a Greek or a foreign flag are exempt from the contribution.

The contribution is imposed on the aggregate amount of foreign currency imported and converted to euro per annum, the minimum deemed amount of which is set at USD 50,000. For years 2012-2015, the contribution is calculated according to the following brackets:

Amount of annual imported exchange (USD)	Rate (%)	Amount of contribution	Aggregate amount of imported exchange (USD)	Aggregate amount of contribution (USD)
200,000	5	10,000	200,000	10,000
200,000	4	8,000	400,000	18,000
Excess	3			

For years 2016-2019, the contribution is calculated according to the following brackets:

Amount of annual imported exchange (USD)	Rate (%)	Amount of contribution	Aggregate amount of imported exchange (USD)	Aggregate amount of contribution (USD)
200,000	7	14,000	200,000	14,000
200,000	6	12,000	400,000	26,000
Excess	5			

Additional Voluntary Contribution

The Greek State and the Shipping Community have recently concluded a mutual agreement in relation to the payment of an additional contribution by Greek and foreign ship owning companies (i.e. companies which are established in Greece by virtue of article 25 of law 27/1975). This contribution has a “voluntary” nature and the liable entities for its payment are the ship owning companies included in the Appendix of said Agreement. Any old or new member of the Shipping Community which wishes to participate in this “Additional voluntary contribution” may declare its intentions to the Ministry of Maritime Affairs and become part of the respective agreement.

L. 89/67 Offices

Apart from the tonnage tax regime set out in L. 27/1975 which provides for a favorable tax treatment of shipping profits earned by individual ship-owners and domestic and foreign ship-owning entities, Law 89/1967 (as amended through the provisions of article 25 of L.27/1975) grants to Greek offices of ship-management companies an essentially thorough income tax exemption.

Namely, the L.89 regime is applicable to offices or branches of foreign legal entities (irrespective of their type) that are exclusively engaged either in the management, exploitation, chartering, insurance, average adjustments, or in the sales, chartering, insurance or shipbuilding brokerage of Greek or foreign vessels over 500 GRT (which are not routed in domestic voyages), as well as in the representation of foreign ship-owing companies, subject to a Ministerial Decision of the Mercantile Marine Minister. The establishment process for offices of branches of the above legal entities has recently been simplified by virtue of I. 4150/2013. The issuance of relevant circulars providing further guidance is still pending.

Foreign companies wishing to establish a Greek L.89 Office are required, among others, to:

- import into Greece a minimum amount of 50,000 USD or equivalent amount in Euros per annum for the payment of their operational expenses as well as additional currency or Euros adequate for any local payments that will be effected by the office in the course of its activities;
- furnish the Greek State with an L/G issued by a domestic or foreign bank to the sum of 5,000 USD.

The tax exemptions that are afforded to such L.89 Offices may be summarized as follows:

- Exemption from all taxes, duties, contributions or withholding tax liabilities imposed either by the Greek State or a third party on the income earned by the office or branch in the course of its qualifying activities.
- Exemption from stamp duties.
- Exemption from duties and levies imposed by third parties with the exception of retributive levies.
- Ability to keep simplified (revenues/expenses) books and not double-entry accounting books.

Australia

Australia

Individual Taxation

Income Tax

Generally, an individual is taxed on income in the year that the individual receives it. The individual will be taxed differently depending on whether they are a resident, a temporary resident (eligible to receive the temporary resident concessions) or a foreign resident for Australian income tax purposes.

Residency

An individual is a resident of Australia if they:

- Reside in Australia; or
- Have an Australian domicile, unless the Commissioner of Taxation is satisfied that their permanent place of abode is outside of Australia; or
- Have been physically present in Australia for more than 183 days of any income year, unless the Commissioner is satisfied that their usual place of abode is outside Australia and that they have no intention of taking up residency in Australia; or
- Are members of certain Commonwealth Government superannuation schemes, or they are a spouse or child under 16 of such an individual.

Residents of Australia are subject to income tax on their gross income from anywhere in the world, but if foreign tax is payable on income derived overseas, the Australian tax may be reduced by an offset for the foreign tax paid.

Temporary residents

The Australian Government introduced a new category of taxpayers from 1 July 2006 – temporary residents. This was to reduce the income tax burden on certain foreign nationals who work in Australia temporarily.

Temporary residents may be residents who meet the criteria above, but because of their personal circumstances are taxed on limited types of income. An individual may be considered a temporary resident if they satisfy all of the following criteria:

- The individual holds a temporary visa granted under the *Migration Act 1958*;
- The individual is not an Australian resident within the meaning of the *Social Security Act 1991*; and
- The individual does not have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991* (the term 'spouse' includes the person you live with on a genuine domestic basis even if you are not legally married; this includes opposite sex or same-sex partners).

An 'Australian resident', for the purposes of the *Social Security Act 1991*, is a person who resides in Australia and is an Australian citizen, the holder of a permanent visa or a protected special category visa holder (relevant to New Zealand citizens who meet additional criteria).

Temporary residents are generally liable to Australian income tax on worldwide employment income, but are only liable to tax on investment income or gains from Australian sources. Foreign investment income is generally not subject to Australian tax, and capital gains and losses (except disposals on Taxable Australian Property (TAP) and certain employee share plan gains) are also disregarded for Capital Gains Tax (CGT) purposes.

Foreign residents

A foreign resident is a person who is not a resident of Australia (i.e. a person who does not meet any of the criteria above). Foreign residents are taxable only on Australian sourced income, excluding interest, royalties and dividends, which are subject to withholding tax which is withheld at source. A CGT liability will only arise from the disposal of assets that are considered TAP.

Personal tax rates for the year ending 30 June 2015

Taxable income (A\$)	Resident tax rates		Foreign resident tax rates		
	Tax (A\$)	% on excess *	Taxable income (A\$)	Tax (A\$)	% on excess
18,200	Nil	19.0			
37,000	3,572	32.5	Nil		32.5
80,000	17,547	37.0	80,000	26,000	37.0
180,000	54,547	47.0 [#]	180,000	63,000	47.0 [#]

* Above rates do not include the 2% Medicare levy which applies to tax residents. The Medicare levy does not apply to foreign residents

Includes the 2% Temporary Budget Deficit Levy

As a resident, you will be taxed at progressive rates. A tax-free threshold on taxable income is available to you as a resident. This threshold will decrease if you are a part-year resident and is not available if you are a foreign resident.

Types of income

Employment income

Generally, employment income is sourced where the services are performed. Accordingly, a resident or temporary resident of Australia is subject to Australian tax on their earnings for services performed within and outside Australia. A foreign resident is not subject to Australian tax on their earnings for services performed wholly outside of Australia.

If an individual performs services both in and out of Australia, they will usually need to keep detailed records of all work days so that they can work out an appropriate apportionment between Australian and foreign sourced earnings, based on time spent in and out of Australia.

In certain circumstances, employment income for services in Australia may be exempt from Australian tax through the operation of a Double Taxation Agreement (DTA).

Employment income includes most cash remuneration from an individual's employment. Cash remuneration comprises salaries, wages, commissions, bonuses, and allowances. If an individual receives a bonus, paid while a temporary resident of Australia but otherwise related to foreign service before arrival into Australia, this may be considered non-assessable income and will not be taxed in Australia.

Benefits-in-kind, such as interest-free loans and motor cars, provided to an individual or their associate (e.g. a spouse) by an employer are not included in the individual's assessable income. Instead, the employer will pay Fringe Benefits Tax (FBT) on the grossed up taxable value of these benefits.

A lump sum payment that an individual receives on the termination of employment or office (which is an Employment Termination Payment (ETP)) is taxed on a concessional basis.

Genuine redundancy payments are tax-free up to certain limits. The taxable portion of an ETP (e.g. amount in excess of any genuine redundancy element and pre-1983 service element) may be subject to concessional tax rates up to certain limits.

Shipping Employment Income

A resident will generally be subject to Australian tax on employment income earned where the individual is performing services on a foreign ship in international waters, subject to the individual's particular circumstances.

Capital Gains Tax

Capital gains on the sale of assets acquired after 19 September 1985 are assessable to residents. Capital losses may be used to offset capital gains. Any excess capital loss may be carried forward indefinitely to offset any capital gains realised in future years. Where assets have been held (or are deemed to be held) for 12 months or less prior to disposal, the entire capital gain is included as taxable income. If the individual holds (or is deemed to have held), an asset for more than 12 months before disposal, either the indexation method or discount method may be used to determine the amount of the capital gain to be reported. Under the discount method, an individual may claim a discount of 50% of the nominal capital gain. This may be reduced if you are a foreign resident during the ownership period.

CGT exemptions apply if an individual is a temporary resident for Australian tax purposes. Capital gains or losses on the disposal of assets that are not TAP are disregarded. In limited circumstances, certain employee share plan gains may also be taxable.

As a foreign resident, an individual is subject to tax on gains derived from the disposal of TAP assets and the CGT discount may be reduced for the period the individual is a foreign resident after 8 May 2012.

Interest Income

As a resident, an individual is subject to Australian tax on interest received from Australian and foreign sources. A temporary resident is taxable on Australian sourced interest income only.

A resident may claim an offset for foreign taxes paid on foreign sourced interest. With interest received from DTA countries, the foreign tax offset is limited to the rate of tax specified within the relevant agreement (normally 10% but sometimes 15%). A refund claim may be made to the relevant foreign tax authority for the tax deducted in excess of the DTA rate.

Australian sourced interest derived by foreign resident is subject to withholding tax at source (i.e. withheld and remitted by the payer) at the rate of 10 per cent of the gross amount of the interest. This represents the final tax liability on such income and does not need to be reported in the income tax return. It is the individual's responsibility to advise the payer he or she is a foreign resident for withholding tax purposes.

Foreign exchange

Foreign exchange (forex) gains and losses on any foreign currency accounts, loans, or other transactions that are not private and domestic in nature may also be liable to Australian income tax depending on the individual's tax residency status and location of the foreign currency account.

Dividend income

A resident is subject to Australian income tax on dividends received, regardless of their source. A temporary resident is only subject to income tax on Australian sourced dividend income.

Australian sourced dividends may be subject to the dividend imputation system. Under the dividend imputation system a shareholder is entitled to reduce the amount of tax paid on the dividends received by the amount of the company tax paid on the underlying profits.

Dividends may be fully franked – paid out of profits on which full company tax has been paid; partly franked, where paid out of profits on which only partial company tax has been paid; or unfranked, where no company tax has been paid on the profits.

The imputation system is designed to give relief to resident individual shareholders for Australian corporate income tax on the profits out of which their dividends are paid. When received by a resident shareholder, franked dividends have attached to them a franking credit reflecting the level of corporate income tax paid.

Where a resident receives foreign sourced dividends, the gross amount is taxable (after grossing up for foreign withholding tax paid). An offset may be claimed for any foreign tax paid on the income. This offset is limited to the rate of tax specified in the relevant DTA (normally 15 per cent) even if foreign tax has been deducted in excess of this amount. A refund claim may be made to the relevant foreign tax authority for the tax deducted in excess of the DTA rate.

Australian sourced unfranked dividends that are received by a foreign resident are subject to withholding tax at source at the rate of 30 per cent of the gross dividend, unless Australia has concluded a DTA with the individual's country of residency, in which case a 15 per cent (in most cases) withholding tax rate will apply. The withholding tax is a final tax liability and does not need to be included as income in an Australian income tax return.

Franked dividends are not taxable to a foreign resident nor can the franking credits be claimed on the individual's tax return.

Rental income

A resident is assessable on Australian sourced and overseas rental income. Deductions may be claimed for expenses in renting out the property (including interest and borrowing expenses incurred). If an individual is also subject to tax on this income in the country where the property is located, a foreign tax offset may be claimed for the foreign tax paid.

Where a resident pays mortgage interest to an overseas bank or financial institution (with the exception of United States of America and United Kingdom foreign lenders), as a resident of Australia, there is a requirement to remit to the ATO interest withholding tax equal to 10 per cent of the total mortgage interest paid.

Temporary residents and foreign residents are assessable on Australian sourced rental income only. Australian sourced rental income is taxed on an assessment basis and is not generally subject to tax withholding at source. It should therefore be included in an income tax return.

Medicare levy and Medicare levy surcharge

The Medicare levy is a compulsory form of health insurance administered by the Australian Government.

If an individual is a tax resident of Australia they will generally have to pay the Medicare levy, which is collected through the tax system. No levy is payable if the individual's taxable income is below a certain level and phasing-in provisions applied to low-income earners. If an individual is liable to the Medicare levy, they may pay an additional 1 – 1.5% surcharge if they are a high-income earner and they do not have private hospital insurance with an Australian-registered health fund.

Medicare levy - threshold	
Individuals	Families [^]
20,896	35,261

[^] Family threshold increases by A\$3,238 for each dependent child.

Medicare levy surcharge - threshold				
Singles	90,000 or less	90,001 – 105,000	105,001 – 140,000	140,001 or more
Families[%]	180,000 or less	180,001 – 210,000	210,001 – 280,000	280,001 or more
MLS tax rate	0.0%	1.0%	1.25%	1.5%

[%] Plus A\$1,500 for each child after the first child.

If you are a foreign resident, you are not subject to the Medicare levy or surcharge. Part-year residents are entitled to a proportionate reduction in the levy (and surcharge, if applicable) for the period of foreign residency.

Most expatriates working in Australia on temporary resident visas are ineligible for Medicare benefits. However, contributors to government health schemes in certain countries are entitled to receive limited reciprocal rights under Medicare.

If an individual is not entitled to Medicare benefits they may apply to the Department of Human Services for a certificate of ineligibility to Medicare benefits, which will mean that they do not have to pay the Medicare levy or surcharge. This application is generally filed at the end of an income year and cannot be filed for a future period. Assignees from New Zealand may apply for this Medicare levy exemption certificate only if they are intending to stay in Australia for six months or less.

Superannuation guarantee

Employers must generally contribute 9.5% of an employee's 'ordinary time earnings' (to a maximum earnings base of A\$49,430 per quarter in 2014/15) to a complying superannuation fund.

Employer superannuation contributions are assessable at 15% in the recipient's superannuation fund, which for many employees represents a substantial tax concession when compared to their normal marginal tax rate. Fund earnings are ordinarily assessable at 15% too.

An employer is exempt from having to make superannuation contributions where an individual is a 'prescribed employee', that is the individual is in Australia on a Subclass 456 or 457 temporary resident visa, or ETA equivalent (956 and 977) and:

- Have been appointed as a company's national (or deputy national) managing executive or state manager; or
- Are a senior executive, or are otherwise establishing a business activity in Australia on behalf of the company and
 - Their position carries substantial executive responsibility;
 - They have appropriate qualifications; and
 - The role is a full-time position.

An exemption from making superannuation contributions on behalf on an employee also applies to certain employees who remain covered by their home country social security systems where Australia has a totalisation agreement with that country and the employer obtains a certificate of coverage. The countries with these agreements are Austria, Belgium, Croatia, Chile, the Czech Republic, Finland, Germany, Greece, Hungary, Ireland, Japan, Korea, Latvia, Norway, Switzerland, Poland, Portugal, the Netherlands, the Slovak Republic, the United States of America and the Former Yugoslav Republic of Macedonia.

Tax Administration

If an individual is a resident of Australia, they must lodge a separate income tax return if their taxable income exceeds the tax-free threshold for the year. They may also need to lodge a return if their income is below the threshold but they have had tax deducted from income at source (e.g. tax instalment deductions from salary).

If an individual is a foreign resident and they derive any Australian-sourced assessable income, they must lodge a return. Assessable income does not include dividend, interest, managed investment trust or royalty income that is subject to the foreign resident withholding tax provisions.

If an individual receives income jointly with another individual, each taxpayer must each include their share of the income in their own return (e.g. net rental income from a jointly-owned property).

The tax year begins on 1 July and ends on 30 June of the following year. The tax return must generally be filed by the following 31 October.

If an individual's tax return is prepared by a registered agent, such as Deloitte Tax Services Pty Ltd, lodgement may be deferred as long as the individual is registered on the tax agent's program by the date set for that purpose by the Commissioner (usually 31 October after the end of the tax year).

The filing date extension varies depending on whether the prior year return was lodged on time and how much tax the individual paid the previous year, and can vary from the end of October to mid-May the next year.

Shortly after an individual lodges their individual tax return, a notice of assessment is issued by the ATO Commissioner. The notice shows the tax assessed and credits allowed for PAYG withholding taxes, foreign tax offsets and other tax offsets.

The individual will either have a net refund (an electronic deposit into the individual's nominated account), or a balance due for payment no earlier than 21 days from the issue date of the assessment. For tax payable, the individual can pay their tax liability by direct debit. Details of an open Australian bank account must be provided for all refunds.

If the individual does not pay their tax by the due date, or if they do not file their tax return by the due date, the individual may be subject to penalties.

If an individual has gross business or investment income (i.e. income other than wages, salaries or capital gains, such as bank interest) of A\$4,000 or more, they will generally be required to make PAYG instalments which will be credited against their income tax liability when their tax return is lodged. If an individual needs to make PAYG instalments, they will be notified by the ATO. They will receive an instalment activity statement, which will contain an instalment rate calculated by the ATO based on their latest assessed tax return.

For PAYG instalments, there are three different instalment methods for calculation of instalments and the individual may also have the option of paying quarterly or annually.

If the individual's most recent notional tax liability (i.e. an amount of tax liability based on their most recent income year for which an assessment has been made) is less than A\$8,000 and the individual is not registered, nor required to be registered, for Goods and Services Tax (GST), they should be able to make their PAYG instalments annually.

Annual payers are required to pay their instalment on 21 October after the end of the relevant year. The ATO may extend these deadlines upon request.

Individual taxpayers are usually required to make quarterly instalments 28 days after the end of each quarter (i.e. due dates are 28 October, 28 February, 28 April and 28 July).

The individual has three options when working out the amount of PAYG instalments to make, as the system allows for variations where the instalment amount calculated will result in the individual paying more (or less) than their expected tax liability. If the individual varies or recalculates the amount as determined by the ATO they may be liable to pay interest if their varied rate is less than 85 per cent.



Shipping Taxation

Legislation

The *Shipping Registration Act 1981* governs the registration of vessels. The *Navigation Act 2012* is the primary legislative means for the Australian Government to regulate international ship and seafarer safety, shipping aspects of protecting the marine environment and the actions of seafarers in Australian waters. It also gives effect to the relevant international conventions to which Australia is a signatory.

The purpose of shipping registration in Australia is to grant ships Australian nationality. It allows Australian ships to fly the Australian flag and giving a ship legally recognisable Australian nationality, providing advantages at home and abroad and protection on the high seas and in foreign ports.

Registration requirements

All Australian owned or operated commercial and demise chartered ships that meet the following requirements must be registered in Australia:

- 24 metres and over in tonnage length, and
- Capable of navigating the high seas.

All other craft can be registered if the owner/operator requests this.

There are two Commonwealth registers in Australia:

The Australian General Register – the main register that is compulsory for Australian owned commercial ships 24 metres or more in tonnage length or which are departing an Australian port for a place outside of Australia. It is primarily used for pleasure craft travelling to overseas ports, Australian vessels with international certification required to be registered and other domestic vessels. A ship may be registered on the General Register if:

The Australian International Shipping Register (AISR) – open to ships which are Australian-owned and/or operated and are predominantly engaged (more than 50% each calendar year) on international trading (i.e. carriage of goods to and from Australia).

A ship operating in Australian waters may be required to be registered under State or Territory law. Details of the requirements can be obtained from the relevant government authority in the State or Territory.

Registration procedure

General Register

You have twelve months to complete an application, which must be lodged with all relevant supporting documents and registration fee. You can obtain an extension to lodge an application with the payment of an additional fee.

The application must also be accompanied by:

- Declaration of ownership and nationality;
- Notice of appointment of registered agent;
- Document describing the ship;
- Document evidencing ownership;
- Demise charter party (if applicable);

- Tonnage certificate (if applicable);
- Call sign license (if applicable); and
- Evidence of marking of ship.

Following the submission of an application, the Shipping Registration Office will advise of any outstanding requirements and provide a Marking Note with instructions to mark your ship. On completion of the marking of the vessel, you then forward the certified and witnessed Marking Note together with any outstanding documents.

Your ship will then be registered and you will be provided with the ship's Australian Registration Certificate.

AISR

You have twelve months to complete an application, which must be lodged with all relevant supporting documents and registration fee. You can obtain an extension to lodge an application with the payment of an additional fee.

The application must also be accompanied by:

- A declaration of ownership and nationality;
- Notice of appointment of registered agent;
- Document describing the ship;
- Documents giving evidence of ownership;
- Demise charter party (if applicable);
- Tonnage certificate;
- Call sign licence (if applicable);
- Evidence of marking of ship;
- Evidence of a collective agreement;
- Compensation insurance;
- Port State and Classification Society Survey and Certification Records;
- Declaration of trading pattern and crew composition; and
- Evidence of closure of previous foreign registration.

Where necessary the Shipping Registration Office (SRO) will advise the applicant of any outstanding requirements related to the information required. In addition, the Registrar of Ships will advise the applicant if any more information is required for assessment, or if there are issues with the assessment.

The need for a pre-registration inspection will be notified. Once details of the inspection are confirmed and the required payment is received, the pre-registration inspection will be conducted by AMSA.

Where the ship meets registration requirements the "Marking Note" showing registration particulars to be marked permanently on the ship will be issued to the applicant by the SRO. You are required to mark the ship in accordance with the instructions, complete and return the Marking Note to the SRO. Any outstanding documentary requirements are to be completed by this stage.

Finally the SRO completes the registration process by entering the ship on the AISR and sending the applicant ship's Australian International Registration Certificate.

Taxation

Shipping companies are subject to the general Federal tax laws of Australia, including corporate income tax (CIT) and goods and services tax (GST). A company is also subject to State taxes such as stamp duty.

General overview – corporate income tax

The tax liability of a shipping company operating in Australia depends on its residency. Australian resident companies are taxed on their worldwide income and gains. Currently, the corporate income tax (CIT) rate is 30%. Generally, foreign income of Australian residents is exempt from Australian tax. Where such foreign income is not exempt, foreign income tax offsets are provided to reduce the effect of income being subject to taxation by more than one country.

Non-resident companies that derive income from Australian sources are also subject to tax on that income, unless that income is subject to final withholding tax or treaty protection. The source of income for Australian tax purposes is based on a consideration of the relevant facts and circumstances of each case. Relevant factors that are considered included the location of the performance of services and the place of execution of relevant contracts.

Residency is determined primarily based on place of incorporation or place of central management and control. Companies incorporated outside of Australia may still be regarded as tax resident in Australia if such companies carry on business in Australia, and either have their central management and control in Australia or if Australian-resident shareholders control their voting power.

There are special tax regimes applicable to shipping companies, as well as various concessions. These are discussed in further detail below.

Freight tax regime

The Australian freight tax regime applies to entities with a principal place of business outside Australia who own or charter a ship to carry passengers, livestock, mails or goods shipped in Australia. The freight tax is effectively a tax of 1.5% imposed on gross freight income.

The liability for payment of the freight tax rests with the ship operator who receives the freight payment.

The application of the freight tax regime can be impacted by the application of an applicable Double Tax Agreement (DTA).

DTA

Taxation Ruling TR 2014/2 specifies that for shipowners or charterers resident of DTA countries that have a standard ships and aircraft article are not liable for tax in Australia on freight received, where passengers or goods are discharged outside of Australia.

For shipowners or charterers resident of DTA countries with non-standard ships and aircraft article, the terms of each DTA must be reviewed in determining whether freight is not liable for tax in Australia.

The freight tax generally still applies to Australian coastal trade.

Shipping tax concessions

Overview

The Australian Government introduced a wide range of reforms to the Australian shipping industry from 1 July 2012, with an aim to make the Australian shipping industry more internationally competitive and facilitate Australian competition on international routes, as well as reform and revitalize coastal shipping in Australia.

The key Australian income tax elements contained in the package include:

An income tax exemption for Australian operators;

- Accelerated depreciation of vessels via a cap of 10 years to the effective life of those vessels;
- Roll-over relief from income tax on the sale of a vessel;
- An employer refundable tax offset (although the Government has announced that this offset will be removed); and
- An exemption from royalty withholding tax for payments made for the bareboat or demise charter of eligible vessels.

The reforms are designed to reduce the Australian income tax payable by corporate Australian ship owners and operators through various concessions. However, there are some important restrictions on the application of these measures – for example, they are not applicable to offshore industry vessels, inland waterways vessels, salvage vessels, tugboats or barges.

Entities should consider their ability to access any of these tax concessions and assess the potential costs and benefits arising from the various concessions made available under the regime. For example:

Additional management and training requirements must be satisfied in order to access the income tax exemption compared to the other concessions. Accordingly, the ongoing costs and benefits of satisfying these and obtaining the income tax exemption must be weighed against the costs and benefits arising from the accelerated depreciation and roll-over relief concessions;

The cost of employing and training Australian crew must be considered as part of the overall cost benefit analysis in relation to these concessions; and

Although the income tax exemption may appear to result in a substantial benefit for Australian companies, this may only represent a partial deferral of tax on the basis these exempt profits could be subject to tax when paid out to shareholders.

Access to concessions

The ability to access the tax concessions is limited to entities which have been issued with a certificate by the Department of Infrastructure and Transport for a qualifying vessel.

A certificate is issued after the end of the financial year to applicants who meet the requirements of the regime. First time applicants are required to obtain a 'notice' during the first year of entry that will indicate whether the arrangements proposed will meet the requirements.

An application must be made in the approved form after the end of the income year but at least 30 days before the entity is required to lodge its income tax return for the income year. It must specify the exemption for which the entity is applying. You cannot apply for both the

shipping exempt income and another incentive in the same year. Note the certificate will set out the days for which the certificate (and therefore the relevant tax concession) applies.

Certificate requirements

An entity is eligible to be issued with a certificate for a vessel if all of the following criteria are met in an income year:

- The entity is a foreign corporation or a trading or financial corporation formed within the limits of the Commonwealth;
- The vessel satisfies all of the following criteria:
 - Gross tonnage of at least 500; or if tonnage is at least 200 less but less than 500, the vessel has been, or will be, used wholly or predominantly for carrying shipping cargo to, from or within regional or remote Australia.
- The vessel is registered in the General Register or the AISR.
- Type of vessel: Any kind of vessel used in navigation by water, however propelled or moved, provided it is not an excluded vessel. Excluded vessels are defined to include recreational vessels, fishing vessels and fishing support vessels, offshore industry vessels, inland waterways vessels, salvage vessels, tugboats vessels operating wholly or mainly within a harbour or from a stationary position; government vessels; and vessels owned or operated by the Australian defence force or another country's defence force.
- Use of vessel: During the income year the vessel was used, or available for use, wholly or mainly for business or commercial activities involving carrying shipping cargo, or shipping passengers, on voyages. The definition of shipping cargo is intended to be broad and encompass everything carried for some form of consideration. Similarly the definition of shipping passengers includes all paying passengers.

Shipping exempt income certificate

Management and training requirements must also be met for an entity to be eligible for the exempt income incentive. For the purposes of the exempt income incentive, the Minister will set out the days in the income year for which the requirements above, together with the management and training requirements, are met.

The management and training requirements are set out in *Shipping Reform (Tax Incentives) Regulation 2012* (SRTIR).

- Training requirements
For each vessel operated by an entity (either directly or indirectly), training must be undertaken by at least one person in each of the following the 3 categories:
 - Engineer officer training
 - Deck officer training
 - Integrated rating and steward training.

Further, if there is a qualification approved by the Navigation Act 1912 for a category above, the trainee must be seeking the approved qualification for that category.

Note it is not a requirement that there are 3 trainees on each vessel – in aggregate there must be 3 trainees per vessel.

Record keeping requirements apply in respect of training. The following must be set out:

- Name and details of the entity, or if training is provided by a third party, the third party;
 - Details about the trainee including name, age, sex, qualifications and category in which the trainee is being trained;
 - Description of the training to be undertaken; and
 - Details of the how the training will be monitored by the entity.
- Management requirements

An entity must conduct in Australia:

- Crew management; and
- At least 1 of the following:
 - Strategic management
 - Commercial management
 - Technical management.

A 10 year lock-out period applies in relation to a shipping exempt income certificate to an entity (and its associates) for a vessel if the entity does not have a shipping exempt income certificate for the vessel for the previous income year and had previously been issued with a shipping exempt income certificate for the vessel for that income year or an earlier income year.

The Minister may, on application, determine a lesser lockout period.

If an entity is locked out from the shipping exempt income concession, the entity may still obtain a certificate for the other tax incentives.

Shipping exempt income

An exemption is available for ship operators which have obtained a shipping exempt income certificate and derive qualifying shipping income for eligible shipping vessels. Only certain shipping activities qualify for the income tax exemption however as outlined in the EM, a generous approach to defining qualifying activities is adopted, ensuring that a substantial part of shipping activities are included.

If an entity is issued with a shipping exempt income certificate in respect of a vessel, ordinary and statutory income derived by the entity on the days set out on the certificate is exempt to the extent that it is from shipping activities of that vessel.

Shipping activities are core shipping activities and incidental activities:

- Core shipping activities: Activities directly involved in operating a vessel to carry shipping cargo or shipping passengers for consideration e.g. carrying cargo or passengers, crewing the vessel etc.
- Incidental shipping activities: Activities incidental to core shipping activities.

An exemption is not available for all income derived from incidental shipping activities if total incidental shipping income > 0.25% of total core shipping income.

A modified loss wastage rule also replaces the existing treatment of application of losses against net exempt income. The modified loss wastage rule will disregard 90% of shipping

company's net exempt income when calculating an entity's tax losses i.e. before tax losses can be deducted, the tax losses are reduced by 10% of an entity's shipping exempt income (rather than 100%).

Accelerated depreciation

If an entity chooses to apply the Commissioner's Determination for the purposes of determining the effective life of a qualifying vessel (i.e. the entity holds a certificate for the vessel which is not a shipping exempt income certificate), the statutory capped life of the qualifying vessel is capped at 10 years for tax depreciation purposes (previously 15 – 30 years).

However, this capped life will not apply to a vessel where the entity, or any associate of the entity, derives shipping exempt income in relation to the vessel. The entity may be able to claim proportionate depreciation deductions under the normal depreciation rules where the vessel is also used for a taxable purposes.

The capped life will not apply where an entity has chosen to self-assess the effective life of the vessel.

Provisions have also been included which enable qualifying owners / operators to enter or exit the 10 year statutory capped life regime. When a company starts or ceases to apply the statutory capped life to a particular vessel, the effective life of the vessel changes accordingly; that is, a new effective life will apply.

These provisions apply to a vessel that an entity holds on or after 1 July 2012, and started to hold before that day, as if they started to hold the vessel on that date.

Balancing adjustments and roll-over relief

If a balancing adjustment event occurs in respect of a qualifying vessel (i.e. the entity holds a certificate for the vessel which is not a shipping exempt income certificate) and the certificate applies to the day upon which the balancing adjustment event occurred, any assessable income is included in the second income year after the income year in which the balancing adjustment event occurs. The tax on profit is deferred.

Where the entity replaces the qualifying vessel disposed of during the period starting 1 year before the day the entity ceased to hold the original vessel and ending 2 years after that day, the entity may choose to apply roll-over relief, provided the following conditions are met:

- No roll-over relief under section 40-340 previously applied to original vessel;
- The entity holds the new vessel on the day occurring 2 years after the day the original vessel ceased to be held;
- A choice is made in writing within 6 months after the end of the second income year after the income year in which the balancing adjustment event occurs; and
- The entity holds a certificate (other than a shipping exempt income certificate) for the new vessel that applies to the day of the choice.

If roll-over relief is chosen, the balancing adjustment amount arising from the balancing adjustment is not recognized. However:

- An amount is still included in assessable income to the extent the balancing adjustment amount exceeds the cost of the new vessel. This amount is included in the second income year after the income year in which the balancing adjustment event occurs; and
- The cost of the new vessel is reduced by the amount of the balancing adjustment but only to the extent that that cost does not fall below zero.

Capital gains tax

Capital gains tax (CGT) will not apply when an entity ceases to hold a qualifying vessel covered by a certificate to the extent that vessel was used to produce exempt income under the shipping exempt income concession (i.e. it was used other than for a taxable purpose).

Royalty withholding tax exemption

Certain lease payments will be exempted from royalty withholding tax (which previously could apply at up to 30%) and treated as non-assessable non-exempt income.

The exemption applies where:

- The lessee is an Australian resident company;
- The vessel is not an excluded vessel;
- The vessel is leased on a bareboat basis; and
- The vessel is used, or available for use, wholly or mainly for business or commercial activities that involves shipping cargo or passengers for consideration.

There is no requirement that a certificate be held by the lessee in respect of the vessel for which the lease payments are made.

Australian resident seafarer concessions

A refundable tax offset is available for withholding payments made to Australian seafarers for overseas voyages if:

- The voyage is made by a vessel for which the company, or another entity, has a certificate; and
- The company employs or engages the seafarer on such voyages for at least 91 days in the income year.

The company eligible for the seafarer tax offset is the company whose payments to the individual incur a withholding obligation under section 12-35 (employee salary, wages, commissions, bonuses or allowances) or section 12-60(1) (payment under a labour hire arrangement) of the TAA 1953.

For the withholding payments to an individual seafarer to qualify, the individual must be in qualifying employment with the same company for 91 days or more in an income year.

Qualifying employment criteria includes:

- The seafarer must be an Australian resident for tax purposes;
- employed as a master, engineer, integrated rating, steward or deck officer;
- be employed to undertake an overseas voyage; and
- the overseas voyage is undertaken on a ship for which a company holds a certificate.

The amount of the seafarer tax offset is the gross payment amounts x 30%.

The Government has introduced draft legislation proposing to remove this offset.

Research and Development (R&D) incentives

An R&D tax offset regime is in place which allows an eligible R&D entity to claim a tax offset for eligible expenditure on defined 'core' or 'supporting' R&D activities. Eligible entities incurring eligible expenditure on core or supporting R&D activities can claim a tax offset as follows:

- a 45% refundable tax offset if aggregate turnover is < A\$20 million; or
- a 40% non-refundable tax offset if aggregate turnover \geq A\$20 million.

Excess non-refundable tax offsets can be carried forward to be used in future income years, subject to certain utilisation tests similar to the loss integrity tests.

With effect from 1 July 2014, an R&D expenditure cap mechanism will apply only allowing claimants to access R&D net tax benefits on up to \$100m of eligible R&D expenditure per income year, with a proposed duration of 10 years. The \$100m threshold will be reviewed at the five year mark and expire on 1 July 2024.

The R&D expenditure cap does not limit R&D expenditure to \$100m – rather what it does is reduce the rate of the tax offset available to the corporate tax rate (currently 30%) for expenditure in excess of \$100m (instead of the current rate of 40% or 45%).

GST

GST is a broad-based consumption tax on supplies of goods or services within Australia and in some offshore areas. GST is also levied on taxable imports into Australia.

Suppliers of goods and services (residents and non-residents alike) are required to register for GST and levy GST on taxable supplies made by them. The registration for GST is subject to a minimum turnover threshold of A\$75,000 within a revolving 12-month period, although a voluntary registration may be made below the threshold.

GST is levied at each step in the supply chain at a standard rate of 10%. There are certain "GST free" supplies such as exports of goods and services to non-resident entities, and other transactions where GST is not applicable as they are "input-taxed supplies" (e.g. financial supplies). Where goods or services are exported, and a GST-free status is sought, goods must generally be exported within 60 days. Ordinarily, this would be supported by the customs documentation.

A transaction involving the sale of a project as a going concern can also be supplied on a GST-free basis, where the parties to the transaction agree to do so.

The importation of products and equipment into Australia for domestic consumption will attract GST, and is payable at the time the goods clear customs. The GST paid may then be eligible to be recovered by claiming an input tax credit. An entity operating in Australia may apply for the GST deferral scheme, which alleviates the up-front cash flow stress as the GST payable at the time of importation is deferred, and generally offset by an equivalent claim for input tax credits on the import, when the relevant GST return is filed.

A GST-registered entity may recover input tax in respect of the GST paid on certain goods or services that it acquires. These inputs would be offset against the GST on the supply of goods or services. GST is accounted for on a business activity statement (BAS), which is generally submitted every quarter. Where the turnover in a 12-month period exceeds A\$20 million, or if a taxpayer is seeking to qualify for a GST deferral, the BAS will need to be submitted electronically and on a monthly basis.

Import, export, and customs duties

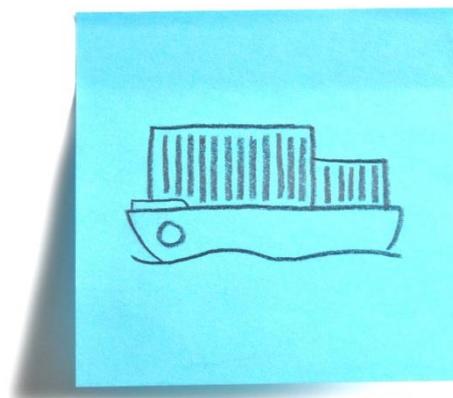
Customs duty is levied on the dutiable value of goods imported into Australia. Duty rates of up to 5% may be payable, but vary depending on the tariff classification of imported goods.

Stamp duty

Stamp duty is imposed by states and territories and varies (with rates up to 7%) on the acquisition of real property and other business property.

Payroll tax

Payroll taxes at rates of up to 6.85% on salaries and wages is payable by employers where the applicable wages threshold is exceeded. The rates vary from state to state.



Cyprus

Individual Taxation

Income Tax

Where an individual is a resident in the Republic, tax is imposed on income accruing or arising from sources both within and outside the Republic. Where an individual is not a resident in the Republic, tax is imposed on income accruing or arising only from source within the Republic.

The marginal tax rate for income equal and over €60,001 is 35%

Tax residency

Resident in the Republic is an individual who is present in the Republic for a period exceeding 183 days in a tax year.

For the purpose of calculating the days of residence in the Republic:

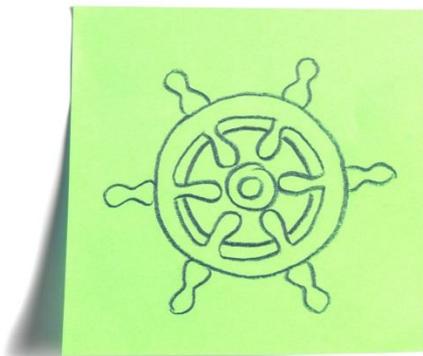
- the day of departure from the Republic is considered to be a day out of the Republic
- the day of arrival into the Republic is considered to be a day in the Republic
- the arrival into the Republic and departure from the Republic on the same day is considered to be a day in the Republic and
- the departure from the Republic and return to the Republic on the same day is considered to be a day out of the Republic.

Tax Administration

The following are **exempt** from income tax:

- Interest income (which is though taxable under special defence contribution at 30%)
- Interest income arising in the ordinary course of business, including interest closely connected with the carrying on of the business, is not considered as interest but trading profit and is taxed as trading income
- Dividend income (which is though taxable under special defence contribution at 17%)
- 20% of the remuneration or €8,530 (whichever is the lower) from any office or employment exercised in the Republic by an individual who was resident outside the Republic before commencement of the employment. The exemption applies for a period of three years from the 1st January following the year of commencement of the employment.
- 50% of the remuneration from any office or employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of his employment in the Republic. The exemption applies for a period of 5 years starting from the first year of employment provided that the above income of the employee exceeds €100,000 per annum.
- Gains from disposal of securities including units in an open-ended or amount closed-ended collective investment scheme The whole amount

- Remuneration from the rendering outside the Republic of salaried services to a non-resident employer or to a permanent establishment outside the Republic of a resident employer for a total aggregate period in the year of assessment of more than 90 days
The whole amount
- Profits from a permanent establishment maintained outside the Republic (subject to certain conditions)
The whole amount
- Rent of preserved building (subject to certain conditions)
The whole amount



Shipping Taxation

One of the main factors expected to drive the shipping industry forward in Cyprus is the country's favourable tax regime which has been maintained even after the accession to the European Union.

Registration fees in Cyprus are low and compare favourably with those in other registries. The current tax regime for shipping companies was introduced in 1963 for the first time and will expire in the year 2020 (but expected to be renewed).

No stamp duty is payable on bills of sale and mortgages on ships and related documents. No capital gains tax is payable on the sale or transfer of a ship or shares in a shipping company.

Legislation

On 29 April 2010 the Cyprus Parliament enacted **The Merchant Shipping (Fees and Taxing Provisions) Law of 2010**. The new Merchant Shipping Law, which applies retroactively from 1 January 2010, extends significantly the scope of the Tonnage Tax (TT) regime and enhances the position of Cyprus as a maritime centre. The Cypriot maritime industry is one of the largest in the EU and the 10th largest worldwide. Moreover, Cyprus is the biggest third party ship management centre in the EU.

The European Commission considers that the scheme is in line with the European Union's Guidelines on state aid to maritime transport and authorized the scheme until 31 December 2019. It is aimed at supporting the shipping sector in Cyprus and other EU countries with a strong maritime sector, providing incentives for the employment of EU seamen and registration of vessels in the EU and enhancing the competitiveness of shipowners, charterers and shipmanagers operating in the EU.

In a nutshell, the regime covers **qualifying persons** performing **qualifying activities** in relation to **qualifying vessels**.

Qualifying persons are shipowners, charterers (bareboat, demise, time and voyage) and shipmanagers providing technical and/or crewing services.

Qualifying activity for shipowners and charterers means maritime transport of goods or people between Cyprus ports and foreign ports / offshore installations, or between foreign ports or offshore installations and specifically includes towage, dredging and cable laying.

Qualifying activity when applied to **shipmanagers** means services provided to a shipowner or bareboat charterer on the basis of written agreement in relation to crew and/or technical management.

Qualifying vessel is a sea-going vessel that:

- a. has been certified in line with international principles and legislation of the flag country, and

- b. is registered in the register of a member country of the International Maritime Organisation (IMO) and International Labour Organisation (ILO).

The definition includes vessels that transport humanitarian aid but excludes the following vessels:

- boats that are primarily used for the athletic and entertaining purposes;
- boats that have been constructed exclusively for domestic navigation;
- ferry and trailer boats that are used in ports, mouth of rivers and / or rivers;
- fixed offshore constructions that are not used for maritime transport;
- non self-propelled floating cranes;
- non sea-going trailers;
- floating hotels and restaurants;
- floating or movable casinos.

A qualifying shipmanager is a legal person tax resident in Cyprus providing technical and/or crewing services in respect of qualifying vessels (Cyprus/EU/EEA/fleet). Commercial management is taxable under corporation tax.

The TT regime applies to any owner of qualifying vessels that carry out a qualifying activity:

- Cyprus flag vessels
- EU/European Economic Area (EEA) flag vessels that exercised the option to be taxed under tonnage
- Fleet of EU/EEA and non EU/EEA vessels that exercised the option to be taxed under tonnage

The new legislation introduces the definition of a **fleet**. A fleet consists of 2 or more vessels that belong directly or indirectly to the same person(s) or companies of the same group. A group is defined as at least 2 companies that are directly or indirectly in a parent/subsidiary relationship or that are directly or indirectly subsidiaries of the same parent company.

The legislation allows non EU/EEA vessels to enter the TT regime provided the fleet is composed by at least **60% EU/EEA vessels**. If this requirement is not met, the non EU/EEA vessels may still qualify if certain criteria are met.

Registration Requirements

Shipmanagers have to meet some additional requirements, namely:

- a. The shipmanager is obliged to maintain a fully-fledged office in Cyprus with personnel sufficient in number and qualification
- b. At least 51% of all onshore personnel must be EU/EEA citizens.
- c. At least 2/3 of the total tonnage under management must be managed within the EU/EEA (any excess of 1/3 taxed under 10% corporation tax).

Registration Procedure

The first step to be taken by all non-European shipowners who wish to register a vessel under the Cyprus flag is to form a Cyprus Shipping Company (hereinafter referred to as 'the company') which will acquire the vessel in its name.

The company is registered as a private company with limited liability (limited by shares) under the provisions of the Cyprus Companies Law, Chapter 113 of the Statute Laws of Cyprus, as amended.

For the incorporation of the company, the filing of the memorandum and articles of association in Greek with the Registrar of Companies is required. The incorporation of the company is evidenced by the issue of a certificate of incorporation by the Registrar of Companies.

The time required for incorporation is about 3 - 5 days from the filing of the incorporation documents. The present legislation contains provisions which facilitate the acceleration of the various procedures in urgent cases.

Taxation

Cyprus is the **only country in the EU** that has an **EU approved** shipping legislation that:

1. Provides for the payment of TT on the net tonnage of the vessels, rather than corporation tax on their actual profits, regulated completely by the Department of Merchant Shipping rather than the Tax Authorities
2. Grants total tax exemption of profits tax and distribution tax at all levels
3. Allows mixed activities (shipping subject to TT and other subject to corporation tax) within a company/group
4. Supports an open registry
5. Allows split ship management activities (crewing or technical) the legislation introduces two new TT schemes applicable to shipowners of non-Cyprus flag vessels and charterers. It also extends the application of the TT regime (and exemption from profits tax) previously enjoyed by shipowners and shipmanagers.

Where an option is exercised to enter the TT system, the shipowner must be a Cyprus tax resident and the option must remain in force for at least 10 years.

As with shipowners, the TT regime applies to qualifying vessels that carry out a qualifying activity. An option exists for **all** vessels (Cyprus/EU/EEA/fleet) chartered under bareboat, demise, time, voyage charter, provided the charterer is a legal person tax resident in Cyprus. If the choice is not made, profits are taxable under 10% corporation tax.

The fleet qualifying criteria are the same as for shipowners and so is the minimum 10 year duration.

The law provides full exemption to shipowners, charterers and shipmanagers from **all** profit taxes and imposes tonnage tax on the **net** tonnage of the vessels.

The conditions applicable to each of the three categories, as well as the taxation regime is analysed separately below.

Regarding shipowners, the tax exemption covers:

- Profits from the use of a qualifying vessel
- Profits from the disposal of a qualifying vessel and/or share and/or interest in it
- Profits from the disposal of shares in a shipowning company
- Dividends paid out of the above profits at all levels of distribution
- Interest income relating to the financing/maintenance/use of a qualifying vessel and the working capital, excluding interest on capital used for investments.

Regarding charterers, the tax exemption covers:

- Profits from the use of a qualifying vessel
- Dividends paid out of such profits at all levels of distribution
- Interest income relating to the working capital / qualifying activity provided such interest is used to pay expenses arising from the charter, excluding interest on capital used for investments.

The law grants the exemption provided a composition requirement is met. That is, at least 25% of the net tonnage of vessels subject to tonnage tax are owned or are bare boat chartered. The percentage can be reduced but not for more than 3 consecutive years.

The percentage is reduced to 10% if all the vessels of the charterer:

- carry EU/EEA flags or
- are managed (crewing and technical) in the EU/EEA.

As for shipmanagers, an option exists to pay TT at 25% of the rates applicable to shipowners and charterers, for **all** vessels under management. If the choice is not made, profits are taxable under 10% corporation tax.

The tax exemption covers:

- Profits from technical and/or crew management,
- Dividends paid out of the above profits at all levels of distribution,
- Interest income relating to the working capital / qualifying activity provided such interest is used to pay expenses relating to ship management, excluding interest on capital used for investments.

Denmark

Denmark

Individual Taxation

Income Tax

General on Danish income taxation

Individuals qualifying for Danish tax residence are subject to unlimited tax liability in Denmark, i.e. they are tax liable of their worldwide income.

A person qualifies for Danish residence taxation if:

- The person is establishing residence in Denmark or
- The person stays in Denmark (without establishing residence) for a consecutive period of six months or more. This is not particularly limited to the calendar year. Any given six-month period may trigger tax liability under this rule.

Non-residents may be limited tax liable to Denmark if they have income from Danish sources, e.g. work in Denmark, work outside Denmark for a Danish employer, have other business income from Denmark, dividend income, board member fees, own property etc.

The income is divided into three categories:

1. Personal income (salary and employment benefits, self-employment income, profit from renting out real estate, etc.)
2. Income from capital (interest income, etc.)
3. Share income (dividend, profit/loss from shares, etc.)

Most of the personal income is subject to AM tax of 8%. This income tax is deducted from the income before the other income taxes are calculated.

The income tax rates are progressive and comprise state, health, municipality and church taxes. The lowest tax rate is approx. 36% up to a marginal rate of 51.95% exclusive of church tax and AM-tax. Including AM tax, the rates are approx. 41% and 56% exclusive of church tax.

Share income is taxed according to special rules and tax rates are progressive at 27% or 42%.

Individuals are entitled to an annual personal allowance of 43,400 DKK, i.e. the first 43,400 DKK of taxable income (after payment of 8% AM tax) is tax-free. Unused personal allowance is transferable between spouses.

Most common deductions are:

- Employee contributions to approved Danish (and in some cases EU) pension schemes;
- Travel between home and work;
- Unemployment insurance and union membership subscription;
- Interest expenses (on mortgage and other debt);
- Double household;
- Charity contributions;

- Travel expenses connected to work (cost of living and lodging) and not covered by employer (maximum 25,900 DKK).

Taxation of Seamen

Favourable tax rules apply to Seamen if certain conditions are met. In some circumstances, it is both possible for seamen to obtain a special allowance and have income exempted from taxation.

Special allowance for seamen

Salary income (both cash, benefits and goods are included) deriving from work on board a vessel is, as a main rule, taxed in accordance with the ordinary tax rules, however, seamen may choose to have the income taxed in accordance with the Taxation of Seamen Act. In order to be taxed according to this Act, the terms and conditions of the employment must be equivalent to typical employment terms within this sector (compared to collective agreements).

If applying this set of rules, the individual is granted an allowance (in addition to the personal allowance), but lose the right to several deductions and allowances, i.e. expenses for unemployment insurance, union membership subscription and commuting allowance.

The allowance varies depending on the distance between harbours (if regular service) and the gross tonnage of the vessel. It does not matter whether the vessel is flying a Danish or a foreign flag.

If the salary is earned for work on board a vessel with a gross tonnage less than 500 ton not sailing regular service or on board a vessel sailing regular service between destinations of at least 50 nautical miles, the allowance is 56,900 DKK.

If the salary is earned for work on board a vessel with a gross tonnage of at least 500 ton not used for regular service between harbours in the European Union, the allowance is 105,000 DKK.

If the employee is not employed the full tax year, the allowance is reduced to a prorated amount, e.g. if the employment length is six months on a vessel with a gross tonnage of at least 500 ton, the allowance will be 52,500 DKK.

DIS taxation scheme – tax exemption of certain income

DIS-taxation may be applied for by seamen working on board Danish vessels whose business qualifies for taxation in accordance with the Danish Tonnage tax regime.

The individual's total Danish tax is reduced with an amount equal to the calculated tax on salary income deriving from work on board a vessel registered in the Danish International Ship register (Dansk Internationalt Skibsregister, from here on abbreviated DIS). E.g. if the total calculated Danish tax is 100,000 DKK, and the tax on salary income deriving from work aboard a vessel registered in DIS is 20,000 DKK, the total tax will be 80,000 DKK. If the DIS taxation scheme is applied, the individual is not allowed to take a deduction for travel expenses connected to work or receive tax-exempt remuneration for travel expenses from the employer.

As a main rule, it is possible to apply both the Taxation of Seamen Act and the DIS taxation Scheme on the same income.

In order to qualify for DIS-taxation, it is a condition that the remuneration is determined taking the tax exemption possibility into account. When determining whether this condition is met, one must look at the total remuneration of the individual.

General tax exemption when working abroad

A general tax exemption applies for individuals working abroad. The general conditions are

- Working abroad for at least six months
- Present in Denmark for less than 42 days within the first 6 months and thereafter less than 42 days within any six month period
- The presence in Denmark is solely due to vacation or time off.

The individual can apply for half tax exemption if Denmark, in accordance to a tax treaty, has the right to tax the employment income. Otherwise, the individual can apply for full tax exemption. The method of tax exemption is the same as for the DIS taxation scheme.

Taxation of seamen not being tax residents

Foreign seamen are limited taxable to Denmark of income deriving for work on board vessels

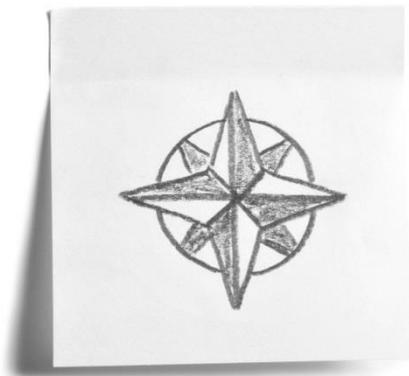
- sailing on Danish territory, if the income is paid out by a Danish employer with Danish jurisdiction or
- with a Danish port of registry

As a main rule, this income is taxed in the ordinary tax regime, but both the special allowance for seamen and the DIS taxation scheme may be applied if the conditions are met.

Tax Administration

The Danish tax year follows the calendar year. If a tax return is required, it must be filed by 1 May following the end of the tax year.

Denmark operates a system of self-assessment for individuals and it is therefore the individuals own responsibility to declare income and gains taxable in Denmark to the Danish tax authorities (SKAT) and pay any tax due.



Shipping Taxation

In addition to the ordinary corporation tax rules, Denmark operates a separate tonnage tax regime, which may be elected into by shipping companies, which are strategically and commercially managed in Denmark.

The tonnage tax regime was introduced in Denmark in 2000 and is an alternative method of calculating corporation tax on profits whereby companies, which elect into the regime pay tax based on the net tonnage of the ships operated rather than by reference to the profits earned from such operations.

Registration requirements and procedure

A Danish shipping company may opt between the ordinary corporation tax regime and the tonnage tax regime.

Opting for tonnage tax regime

A company qualifying for computing the income tax according to the tonnage tax regime shall choose whether or not to use the tonnage tax regime in connection with the filing of the tax return for the first income year in which tonnage taxation is possible. The choice will be binding for a period of 10 years. Before the expiry of the 10-year period the tax authorities must be notified if the company would like to continue to use the tonnage tax regime.

When opting for the tonnage tax regime all income/ships that qualifies for the tonnage regime should be taxed according to the tonnage tax regime. As a main rule this also means that group-related shipping companies with qualifying activities must make the same election regarding Danish tonnage taxation.

Legislation

Qualifying entities

The Danish tonnage tax regime can be applied by:

- Danish shipping companies, and
- Foreign shipping companies having their effective place of management in Denmark, and
- Companies tax domiciled within the EU having a permanent establishment in Denmark

Qualifying ships

Taxable income in connection with transportation of passengers or goods (shipping activities) between different destinations may be taxed according to the tonnage regime provided:

- the shipping activity is undertaken by ships owned by the shipping company,
- the shipping activity is undertaken by ships leased on bareboat charter,
- the shipping activity is undertaken by ships leased on time charter

Furthermore, it is a condition that:

- the ships gross tonnage amounts to 20 tons or more
- the strategic and commercial management of the ships is carried out from Denmark

Ships owned or leased by the shipping company which are leased out can only be taxed under the tonnage tax regime provided that the lessee uses the ships for qualifying shipping activity. However, with respect to ships leased out on bareboat charter the lease out period

Maybe three years at a maximum and the bareboat lease out must be due to temporary overcapacity for the shipping company.

Companies or groups, which carry out technical management of ships, can also have the income from such activities taxed according to the tonnage tax regime, provided that a number of conditions are fulfilled.

The following shipping activities may also be taxed according to the tonnage tax regime when the activities are carried out closely related with transportation services covered by the tonnage tax regime:

- Use of containers
- Operation of facilities for loading, unloading and maintenance
- Operation of ticket offices and passenger terminals
- Operation of office facilities
- On board sale of goods for consumption
- An estimated market rent of the company's on board use of own facilities
- Rental income from the lease of on board facilities.
- Disposal of ships, when the ships are acquired January 1, 2007 or later. If the ships are acquired before 1 January 2007 gain from the sale of ships is taxable. However, a loss cannot be deducted for tax purposes.

In January 2015, the Danish parliament proposed to include more activities under the Danish tonnage tax regime. The new activities that are activities to be included are hotel and support ships, ice handling ships, cable and pipe layers ships, windfarm installation ships, different types of supply and guard activities etc. If the bill is passed and approved by the EU Commission, these activities can be covered by the tonnage tax regime from the income year 2016.

Ships registered within the EU/EEA

If the ratio between owned ships tonnage registered within the EU/EEA and total owned ships tonnage as an average drops for the shipping company, compared to the level when entering the tonnage tax regime, income taxation under the ordinary Danish corporation tax rules will be triggered calculated as a the drop in EU/EEA tonnage ratio times the total EBITDA.

This flagging requirement rule was implemented in 2005. Shipping companies, which already were taxed according to the tonnage tax regime when the rule was introduced, could choose between the dates 17 January 2004 and 12 January 2005 as a standard of comparison to decide whether their vessels tonnage registered within the EU/EEA have dropped.

The requirement for owned ships tonnage registered within the EU/EEA does not apply in the following situations:

- The ratio of owned ships registered within the EU/EEA and outside the EU/EEA for Denmark as a whole on an average yearly basis in the previous year does not drop, or
- At least 60% of the company's/group's owned ships tonnage is registered within the EU/EEA on an average yearly basis.

Owned and leased ships

If the ratio of tonnage between leased ships and owned ships exceeds 4:1 on an average yearly basis, income taxation under the ordinary Danish corporation tax regime will be triggered calculated on the excess leased tonnage compared to the total tonnage times total EBITDA. Ships leased on bareboat are considered as owned tonnage. Ships which are leased on time charter may also be regarded as owned tonnage if the lease period is at least 1 year and no more than 7 years, provided that there is an option to purchase the ship at the end of the lease period at the marked value at the time when the option was obtained.

Deferred taxes when entering the tonnage tax system

Upon entry into the tonnage tax regime, tax depreciation ceases to be available.

Disposals of ships owned before entry into the tonnage tax regime may give rise to claw back of tax depreciation previously claimed.

The deferred tax at the date of entering the tonnage tax regime is not directly eliminated, but may be deferred provided there is no downscaling of the business.

When entering into the tonnage tax regime, a transition account is established consisting of the written down tax value of all the ships owned on the entrance date and which are entered into the tonnage tax regime.

Ships which are acquired after the company/group has entered into the tonnage tax regime are booked at a so called netting balance.

Subsequent costs to improvements of the ships are also added to the transition and netting accounts.

If a ship on the transition/netting account is sold the transition/netting account is reduced by the lowest of amount of the original cost price plus improvements and the sales price.

Furthermore, the transition and netting account are reduced annually with a non-deductible depreciation of 12% using the declining basis method.

If the transition account becomes negative and the negative balance is not offset by a corresponding positive balance on the netting account, the negative amount (difference) shall be taxed.

Net financial expenses

As a starting point net financial expenses are not tax deductible under the tonnage tax regime whilst net financial income is taxable.

Other activities

If a shipping company carries out other activities than shipping, the income from such other activities shall be taxed under the ordinary corporate income tax regime.

Expenses relating directly to ordinary taxed activity can be deducted against the ordinary business income. Indirect costs should be allocated proportionally between tonnage taxed and ordinary taxed activities applying the profit before depreciation of the tonnage taxed activity and the profit before depreciation of the ordinary taxed activity.

Taxation

Tonnage taxed profit is calculated by multiplying a daily profit figure by the number of days in an accounting period that each qualifying ship is operated based on the following (2015 rates, adjusted each year):

- For each 100 net tons up to 1,000 net tons DKK 9.27
- For each 100 net tons from 1,001 net tons to 10,000 net tons DKK 6.66
- For each 100 net tons from 10,001 net tons to 25,000 net tons DKK 3.98
- For each 100 net tons in excess of 25,000 net tons DKK 2.62

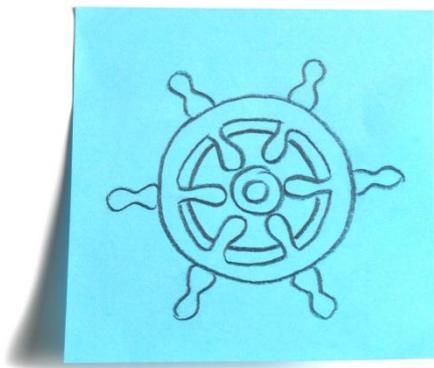
The calculated tonnage taxed income is taxed at the ordinary Danish corporate income tax rate being:

FY15	23.5%
FY16 onwards	22.0%

Tax Administration

Denmark operates a system of self-assessment for companies and it is therefore the companies own responsibility to declare income in Denmark to the Danish tax authorities (SKAT) and pay any tax due.

Tax returns must be filed digitally normally within six months of the end of the tax income year.



Indonesia

Indonesia

Individual Taxation

Taxation on individual income is regulated under Law No. 7 of 1983 regarding Income Tax as most recently amended by Law No.36 of 2008.

Income Tax

Tax Residency

Resident taxpayers are defined as any individual who is present in Indonesia:

- For more than 183 days in any 12-month period; or
- During a tax year with the intention of residing in Indonesia.

An expatriate is a tax resident until the date of final departure from Indonesia.

An Indonesian national is considered resident from birth unless he or she leaves Indonesia permanently.

The Indonesian tax regime adopts the worldwide income concept.

Resident individuals are subject to income tax on a worldwide income basis. Income is defined as any increase in economic prosperity received or accrued, originating within or outside Indonesia, used for consumption or to increase the wealth of the taxpayer, in whatever name or form. Tax is imposed on realized offshore income.

The applicable individual tax rates are as follows:

Taxable Income	Rate
Up to Rp 50,000,000	5%
Over 50,000,000 but not exceeding Rp 250,000,000	15%
Over Rp 250,000,000 but not exceeding Rp 500,000,000	25%
Over Rp 500,000,000	30%

Registration requirements

All individual tax residents (including expatriates) are obliged to register with the Tax Office and obtain a Tax ID number. An exemption from registration is available for those earning below the annual non-taxable income threshold and for those who do not qualify as individual tax residents.

Personal Deductions

Personal deductions are available for resident individual taxpayers in calculating their taxable income, depending on the taxpayer's personal circumstances. The annual personal deductions (non-taxable income) for individuals are as follows:

Basis of Deduction	Deductible Amount
Taxpayer	Rp 24,300,000
Spouse (not working)	Rp 2,025,000 (additional Rp 24,300,000 for a wife whose income is combined with her husband's)
Dependents	Rp 2,025,000 each (up to a maximum of 3 individuals related by blood or marriage)
Occupational Support	5% of gross income up to a maximum of Rp 6,000,000
Pension Cost (available to pensioners)	5% of gross income up to a maximum of Rp 2,400,000
Contribution to approved pension fund, e.g. Jamsostek	Amount of self-contribution

The above personal deductions shall be periodically adjusted in line with developments in public welfare and the economy; the Minister of Finance is the person authorised to re-determine the adjusted personal deductions.

Tax Credit

An individual tax resident can claim the following tax credits against the tax due at fiscal year-end:

- Domestic Tax Credit
- Income tax on employment income withheld by the employer (Form 1721-A1)
- Tax collected on business income
- Withholding tax on income in the form of interest, dividends, royalties, rents and other remunerations; and
- Provisional monthly income tax instalments made by the taxpayer during the fiscal year.
- Foreign Tax Credit
- Country-by-country basis; Indonesian tax due can be reduced by tax paid abroad on income received or accrued abroad on a country-by-country basis.
- The foreign tax credit claim is limited to the total Indonesian income tax due on foreign income.

Employment income

A substantial part of individual income is collected through withholding tax by third parties. Employers are required to withhold Article 21/26 income tax from salaries and other compensation paid to their employees on a monthly basis and remits the tax withheld to the state treasury. If an employee is a resident taxpayer, the tax withheld should be determined based on the progressive tax rates applicable to the individual income. The income tax rate applied shall be 20% higher if the individual who receives the salary or other compensation does not have a Tax ID Number. If he/she is a non-resident taxpayer, the withholding tax is 20% of the gross amount. However, this rate may be lower depending on the applicable tax treaty provisions.

Based on a Minister of Finance Regulation, the Tax Authority can re-determine the amount of income received by an individual taxpayer from an employer which has a special relationship with an offshore company.

The following other payments to individuals are also subject to tax withholding by the payers:

- Pension payments made by a government-approved pension fund;
- Severance payments;
- Old-age security saving payments from Jamsostek;
- Fees paid to individual professionals such as lawyers, notaries, accountants, architects, doctors, actuaries for their professional services;
- Prizes/awards.

Salaries or compensation received by members of a partnership or firm are not subject to employee withholding tax so long as their participation is not divided into shares.

Jamsostek-Social Security

Indonesia does not have a comprehensive social security system; however, there is a worker's social security program (Jamsostek).

Employers are responsible for the entire amount of contributions to the occupational accident guarantee and death guarantee programs. Contributions for accident guarantee range from 0.24% to 1.74% of an employee's wages, depending on the employer's business. The contribution for death guarantee is 0.3% of the employee's wages.

The premium for the old age guarantee is jointly borne by the employer and the employee; the employer's share is 3.7% of wages and the employee's share is 2% of wages. Employee contributions to Jamsostek are collected by the employer through payroll deductions. Expatriates do not need to be enrolled in Jamsostek if they can provide evidence that they are covered by social security programmes of the same type in their home country.

Tax Administration

Individual taxpayers are required to file annual individual income tax returns (Form SPT 1770 or 1770 S or 1770 SS). The tax return should present all of the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income as well as a summary of the individual's assets and liabilities. Where applicable, monthly tax filing is also required.

Employers are obligated to file employee income tax returns (Form 1721) on a monthly basis, and at the end of the calendar year, they must recalculate the employee tax payable and report the tax underpayment no later than 10th January of the following year. The tax return should declare all of the employment income received by the employee.

Shipping Taxation

Legislation

Based on Law No 17/2010 regarding shipping and its implementing regulations, sea transportation consists of local sea transportation, foreign sea transportation, specific sea transportation and local community based sea transportation.

Local sea transportation is carried out by domestic shipping companies using Indonesian-flagged vessels with Indonesian national crews. Local sea transportation conducts transportation and/or transfer of passengers or cargoes only between Indonesian seaports and also other sea activities using vessels within Indonesian waters. The other sea activities are forbidden to use foreign vessels. A foreign vessel operated for other sea activities will not be given service in the seaports or special terminals.

Local sea transportation is carried on under fixed and regular route as well as non-fixed and non-regular route. The government encourages domestic shipping companies to carry out local sea transportation using fixed and regular routes and provides an incentive if they have served the route for at least six months.

Transportation of imported goods owned by the Government, either the central or a local government must use Indonesian-flagged vessels operated by domestic shipping companies. However, if the number and capacity of Indonesian-flagged vessels is not adequate to transport the goods, a domestic shipping company can use a foreign vessel.

Sea transportation from and to foreign ports can be carried out either by domestic shipping companies or by foreign shipping companies using Indonesia-flagged vessels or foreign vessels. Foreign shipping companies shall only carry out sea transportation to and from Indonesian ports or specific terminals which are open for international trade. A foreign shipping company must appoint a domestic shipping company as its general agent.

Foreign shipping companies are forbidden to conduct sea transportation between islands or between seaports within Indonesian waters. A foreign shipping company that breaches the regulation will not be given service in sea ports or specific terminals.

A company, in order to support its own business, is allowed to carry out specific sea transportation using Indonesian-flagged vessels with Indonesian national crews. The business that operates the vessel must report the planning, activity and the use of specific sea transportation to the Minister of Transportation. If it does not report, the vessel will not be given services in sea ports or specific terminals.

Furthermore, in terms of taxation, the shipping business can be classified into shipping business carried out by a Domestic Shipping Company incorporated in Indonesia or by a Foreign Shipping Company incorporated outside Indonesia.

Taxation

Domestic Shipping Business

Taxation on income from the shipping business is regulated under Article 15 of Law No. 7 of 1983 regarding Income Tax as most recently amended by Law No.36 of 2008. The implementing tax regulation on shipping business conducted by domestic shipping companies incorporated in Indonesia is Minister of Finance Decree (MoF) Decree No.416/1996 and Director General of Tax (DGT) Decree No.29/1996. Domestic shipping companies are persons residing or entities established and domiciled in Indonesia that

conduct shipping business with ships/vessels which are registered either in Indonesia or abroad or ships/vessels of other parties. A Joint Venture (JV) shipping company established in Indonesia is included in the classification of a company incorporated in Indonesia.

Domestic shipping companies are subject to final income tax on all income received or obtained both from Indonesia and from outside Indonesia from the transportation of cargoes and/or passengers including ship/vessel lease from one port to another in Indonesia, from Indonesian ports to overseas ports, from ports outside Indonesia to ports in Indonesia, and from ports outside Indonesia to other ports outside Indonesia. The income tax is imposed based on deemed profit. The deemed profit is 4% of gross revenue. The effective tax rate is 1.2% of gross revenue. The gross revenue is all remuneration or the value of compensation in the form of money or the value of money received or obtained by the shipping company.

Whilst not outlined in the relevant regulations, we understand that this 1.2% is calculated by multiplying the prevailing corporate income tax rate of 30% by 4% deemed profit.

Pursuant to the prevailing transportation regulations, a domestic transportation vessel must fly an Indonesian flag. A Domestic Shipping Company which is operated within Indonesian waters must fly the Indonesian flag and is not allowed to fly an overseas flag. A JV shipping company is also a domestic shipping company incorporated in Indonesia and therefore is also not allowed to fly an overseas flag during operation of the ship/vessel within Indonesian waters.

Foreign Shipping Business

Different from domestic shipping, the implementing tax regulations for the foreign shipping business are MoF Decree No.417/1996 and DGT Decree No.32/1996.

Foreign shipping companies can only carry out sea transportation to and from seaports or specific terminals that are open for international trade.

The foreign shipping companies are subject to final income tax on compensation or reimbursement received or obtained from the transportation of passengers and/or cargoes which is loaded from one port to another port in Indonesia and/or from an Indonesian port to a foreign port. In this regard, the reimbursement or compensation received or obtained by the foreign shipping company from the transportation of passengers and/or cargoes from a foreign port to an Indonesian port shall be outside the context of foreign shipping business and therefore not subject to income tax in Indonesia.

The income tax is imposed based on deemed profit. The deemed profit is 6% of gross revenues. The effective tax rate including branch profit tax is 2.64% of gross revenues. Whilst not outlined in the relevant regulations, the 2.64% arises by multiplying the prevailing income tax rate of 44% (including the 20% income tax on branch profit tax) by 6% deemed profit.

The 2.64% income tax applies to activities of a foreign shipping company operating in Indonesia, where those activities give rise to a permanent establishment (PE). A foreign shipping company which does not create a PE in Indonesia could suffer a withholding tax at 20% of gross revenues; however, it has been Indonesian practice to treat foreign shipping companies as always having PE and always applying 2.64% income tax.

Deductibility of Costs incurred by shipping companies

Under the deemed profit and final tax regime, all costs incurred by shipping companies such as vessel depreciation and other vessel-associated costs shall be ignored and therefore would not be utilized for the purpose of calculating corporate tax payable.

If a shipping company generates non-shipping income, that income is subject to the normal tax regime under 25% income tax rate. In such a case, any costs not related to vessels are deductible against the non-shipping income.

Tax Treaty Provisions

In most tax treaties with Indonesia, profit from the operation of ships in international traffic shall be taxable in the contracting state of which the enterprise operating the ships is a resident. Accordingly, foreign ships/vessels which serve international traffic should not create a PE in Indonesia. The exceptions are available for the tax treaties with Singapore, Thailand, Switzerland and Malaysia, in which the taxing rights are shared at 50:50.

The Indonesian tax authorities, in determining the existence of a PE for a foreign shipping company operating in Indonesia, commonly look at the PE provision mentioned in Article 5 of the Tax Treaty, if they are aware that shipping provision is given protection. If, according to Article 8 (shipping provision), a PE does not exist, but the foreign shipping company is evidenced to have a dependent agent in Indonesia, a PE is considered to exist by the Tax Authorities. However, the position taken by the tax authorities is usually acceptable by the foreign shipping company because the income tax rate for a foreign shipping company having a PE is 2.64%, compared to the potential risk of 20% withholding if there were no PE created from its operation in Indonesia. It is presumed that the foreign shipping company is considered as having a PE in Indonesia due to the lower income tax rate.

VAT and Facilities

By virtue of Law No. 8/1983 regarding VAT as most recently amended by Law No.42/2009, services of charter of ships/vessels are not included in the list of services not subject to VAT, and therefore the charter of vessels shall be subject to VAT. However, public transportation in water is a non-taxable service, and therefore not subject to VAT.

To support the domestic shipping businesses in Indonesia, the Government has provided incentives in the form of VAT exemption on import of ships/vessels and their spare parts as well as shipping safety facilities or human safety devices to be used by Domestic Shipping Companies. In regard to this import, the shipping company that conducts the importation must submit an application letter to the Director General of Tax (DGT) to obtain a VAT exemption certificate. The application should enclose the import documents and documents related to the running of a domestic shipping company.

The VAT exemption is also granted on local delivery of ships/vessel and their spare parts, shipping safety facilities, or human safety devices to be used by a Domestic Shipping Company. The shipping company that receives the delivery must submit an application letter to the DGT to obtain a VAT exemption certificate. The application letter should enclose the purchase documents and documents related to the domestic shipping company. The company that makes the delivery must report its business to the DGT to be confirmed as a taxable entrepreneur because it must issue tax invoices, for which the VAT is exempted.

Based on the application for the VAT certificate, the DGT shall make a decision within five working days from receiving the complete application.

If, within the period of five years starting from the import and/or acquisition, the ship/vessel is sold or is used not in accordance with the original purpose when imported and/or acquired, the VAT payable must be paid to the State Treasury within one month from the ship/vessel being sold or used not for its original purpose. There will be interest penalty of 2% per month for a maximum of 24 months starting from the date when the exempted VAT become payable until the payment is made.

Furthermore, certain services received by a domestic shipping company shall also be exempt from VAT, as follows:

- ship/vessel leasing services;
- harbour services including tug services, pilot services, mooring services and anchorage services;
- repair and maintenance (docking) services

The company that delivers these services must report its business to the DGT to be confirmed as a taxable entrepreneur, because it must issue tax invoices, for which the VAT is exempted. The domestic shipping company that receives these services does not need to have a VAT exemption from the DGT.

Registration Requirements

Appointing general agent or representative

A foreign shipping company that operates in Indonesia shall appoint an Indonesian company as its general agent. The agent shall be a domestic shipping agency company or domestic shipping company. The general agent must report in writing regarding the planning of the foreign vessels' arrival into Indonesian ports to the Indonesian authority. The report shall contain at least:

- Name of the vessel;
- Name of seaport to be entered;
- Letter of appointment as general agent;
- Schedule of arrival and departure of vessel;
- Planning and volume of unloading/loading;
- Crew list.

If the above reporting is not done by the general agent, the foreign vessel will not be given service in seaports or specific terminals in Indonesia.

A foreign shipping company that carries out continuing sea transportation to or from seaports or specific terminals can appoint a representative in Indonesia. The representative can be an Indonesian legal entity, an individual Indonesian national, or an individual expatriate. The duties of the representative are as follows:

- Monitoring the vessels during their operation in Indonesia;
- Supervising the general agent in serving the foreign vessels in Indonesia;
- Giving suggestions to the general agent.

Cabotage Principle

Based on the prevailing regulations, domestic sea transportation within Indonesian seaports shall be carried out by Domestic Shipping Companies using Indonesian-flagged vessels with Indonesian national crews. The domestic sea transportation activities are only open for

domestic shipping companies and closed to foreign shipping companies. Accordingly, foreign shipping companies are not allowed to operate their ships/vessels to transport cargoes and/or passengers within Indonesian seaports.

Other activities carried out by foreign vessels

Foreign vessels can carry out other activities other than transportation of passengers and/or cargoes which operate under domestic shipping routes within Indonesian waters as long as no Indonesian-flagged vessels are available for such activities. However, the operation of the ships/vessels shall be carried out by a domestic shipping company. The activities that are permitted for foreign vessels are as follows:

- Oil and gas survey;
- Drilling;
- Offshore construction;
- Support to offshore construction;
- Dredging;
- Salvage and subsea activities.

A foreign vessel that carries out the above activities must obtain a license from the Ministry of Communication. To obtain the license, the domestic shipping company that operates the foreign vessel for the activities must submit an application letter using the prescribed format to the Ministry of Transportation, attaching the required documents, no later than 14 working days before the foreign vessel is operated. In addition, the shipping company must also show efforts to obtain Indonesian-flagged ships/vessels for the activities, as evidenced by an auction announcement. The Ministry of Transportation will issue the license if the application letter has fulfilled the following requirements:

- Work plan completed with schedule and working site with geographical coordinates;
- Having charter party between domestic shipping company and the ship/vessel owner, working contract or letter of intent from the employer;
- Copy of the company license for shipping (SIUPAL);
- Copy of certificate of nationality/ ship/vessel registration;
- Copy of certificate of safety and security of ship/vessel;
- Copy of certificate of ship pollution prevention;
- Copy of vessel classification certificate;
- Copy of list of crew of the ship/vessel;
- Copy of safety management certificate.

The Minister of Transportation shall issue a license for using foreign ships/vessels in the form of a Minister of Transportation Decree within 14 working days from the receipt of complete documents. The license is granted for a maximum period of three months and can be extended after the Ministry of Transportation conducts an evaluation of the original license.

Tax Registration and Administration

A domestic shipping company or foreign shipping company having a PE in Indonesia is required to register with the Indonesian Tax Authorities to obtain a Tax Identification Number (NPWP). The Foreign Shipping Company as PE will have the same tax rights and obligations as a Domestic Shipping Company, which includes filing tax returns and bookkeeping.

The tax settlement on income received by a domestic shipping company or foreign shipping company shall be conducted through withholding by the chartering parties or self-payment for income other than income on a charter basis.

If the income is obtained on the basis of a lease agreement or charter, the income tax shall be settled by the chartering party at the time of payment or payable date of the proceeds. The chartering party submits withholding tax evidence to the party receiving or obtaining the income. The chartering party remits the tax withheld to the receiving bank on the 10th of the following month after the month of payment or date payable. The taxes withheld and remitted are then reported to the tax authorities no later than the 20th of the following month after the payment or date payable.

If income is obtained other than from a charter or lease, the shipping company must settle the tax payable through self-payment no later than the 15th of the following month after the month of receiving or obtaining the income, using a final tax payment slip (SSP) form. The tax reporting on the tax withheld and remitted shall be made no later than the 20th of the following month after the month of receiving or obtaining the income.



Italy

Individual Taxation

Income tax

Individuals are subject to individual income tax (imposta sul reddito delle persone fisiche, IRPEF).

The tax applies to both resident and non-resident individuals. Resident individuals are taxed on their worldwide income, and a credit is provided for taxes paid abroad. Non-residents are taxed only on income that is regarded as arising in Italy (article 3 (1) of the TUIR).

Tax residency

According to article 2 of the TUIR, for income tax purposes, residents of Italy are those persons, whether nationals or not, who for the greater part of the tax year (183 days) are registered in the Civil Registry of the Resident Population or who are resident or domiciled in Italy pursuant to article 43 of the Civil Code. Under article 43 of the Civil Code, the residence of a person is the place where he has his habitual abode, while his domicile is the place where he has established the principal centre of his business and interests (centre of vital interests).

Non-resident individuals are those persons who do not meet either of the residence criteria in article 2 of the TUIR.

Taxable income

Resident individuals are subject to individual income tax on their worldwide income, which falls under any of the following categories:

- income from immovable property;
- income from capital;
- income from employment;
- professional income;
- business income; and
- miscellaneous income, including capital gains.

Employment income

Income from employment (redditi di lavoro dipendente) consists of all compensation in money or money's worth if received in kind during the tax year. Employment income is subject to a withholding by the employer (article 23 of the DPR 600/73). This withholding is a prepayment of income tax and is withheld at progressive rates that correspond to the progressive income tax rates.

Income tax rates

The following progressive income tax rates are applicable:

Income (EUR)		Rate (%)
Up to	15,000	23
15,001 -	28,000	27
28,001 -	55,000	38
55,001 -	75,000	41
Over	75,000	43

The above progressive rates are increased by a regional surcharge (addizionale regionale) ranging from 1.23% to 3.33%. The rates may also be increased by municipal and provincial surcharges (addizionali provinciale e comunale), determined by each municipality and province at an aggregate rate of up to 0.8%.

In addition, for tax years 2014 through 2016, the above progressive rates are increased by a 3% surcharge named the solidarity contribution (contributo di solidarietà) in respect of the whole aggregate taxable income of resident taxpayers that exceeds EUR 300,000 per year.

Tax Administration

Resident taxpayers who derive income subject to individual income tax (IRPEF) are obliged to file an annual tax return. Employees with no income other than employment income are not obliged to file an annual tax return, as, in the course of the year, the employer withholds tax from the employment income and remits it to the tax authorities. If a year-end calculation indicates that excess tax has been withheld, the employee is entitled to a refund.

Italian law provides that the deadline for the submission of such income tax-return (the so called Modello UNICO) is September 30th of the following year considered in the income tax-return.

The IRPEF and the municipality and regional additional taxes should be paid by June 16th of the year of the submission of the income tax-return (therefore in the year following those in which the taxes are due).

Moreover, the tax-payers should pay an IRPEF advance payment for the current year:

- in one amount by November 30th, if the due amount is less than EUR 257,52;
- in two instalments (by June 16th and by November 30th), if the due amount is equal or more than EUR 257, 52.

Tax facilities regarding seafarers

IRPEF tax credit

According to ordinarily applicable rules, resident employers must withhold income taxes from the salaries paid to their employees. The employer must calculate the tax on the basis of the progressive rate for individual income tax (IRPEF).

Taxpayers can however benefit from a tax credit equal to 100% of the IRPEF withheld by the employer for European seafarers employed on board ships registered in the Italian International Shipping Register.

The tax credit is granted to the employer acting as withholding agent and, as expressly provided by the law, is fully exempt for IRES purposes.

Relief from social security contributions

According to generally applicable rules, a substantial part of the social security contributions for employees is normally borne by the employer. The rest is borne by the employee and must be withheld by the employer in conjunction with the withholding of tax on salaries.

Taxpayers can however benefit from a total relief from contributions for the social protection of seafarers employed on board ships registered in the Italian International Shipping Register. Social charges for seafarers are therefore reduced to zero.

These benefits are granted directly and entirely to employers and cover both the quota of social contributions borne by the seafarers and the quota of social contributions borne by the employer.



Shipping Taxation

Legislation

The Italian corporate income tax (IRES) is levied at the ordinary rate of 27,5%. Companies are subject to IRES based on their statutory income, adjusted for non-taxable revenues and/or non-deductible costs according to the provisions of the Income Tax Code and supplementary legislation.

Fiscal losses determined for IRES purposes can be used with no time limitations to offset up to 80% of each fiscal year's taxable base. The 80% limitation does not apply for losses generated in the first three years of activity.

The maximum depreciation rates applicable for tax purposes on owned vessels are the following (to be halved for the first year):

- **Passengers, tankers** 10,0%
- **Bulks** 9,0%
- **Tugs** 7,5%
- **"second hand" vessels (more than 8 years)** 15,0%

Companies must depreciate the vessels on a straight-line basis; no accelerated depreciation is allowed.

A yearly provision for dry dock maintenance can be deducted up to 5% of the cost of the vessel at the beginning of the tax year.

Companies are also subject to a regional tax on business activities (IRAP) with a standard ordinary rate of 3,9% which may slightly vary depending on regional law provisions.

Tax facilities for shipping companies in the corporate income tax system

Two different tax schemes are available for shipping companies.

Since 1998 the Italian legislation has granted specific tax benefits to shipping companies whose vessels are registered in the "Italian International Shipping Register".

Moreover, by decision of 20 October 2004, the European Commission approved the Italian tonnage tax scheme. Italy introduced the scheme in 2005, on the basis of Legislative decree 344 of 12 December 2003.

The intended prolongation of the tonnage tax scheme until 31 December 2023 has been approved with no objections by the European Commission by decision of 13 April 2015.

A. The International Register tax scheme

The registration in the Italian International Shipping Register was originally limited to ships exclusively used in international traffic, however it has been extended - up to certain limits - to ships used in short sea shipping. In particular, vessels registered in the International Register may be allowed an unlimited amount of cabotage voyages provided that the length of each voyage exceeds 100 nautical miles.

The main tax advantages, as regards corporate income tax and regional tax, deriving from the registration with the Italian International Shipping Register are the following:

- the taxable income deriving from the use of the ships registered in the International Register is 80% exempt for IRES purposes. Consequently, considering the ordinary corporate income tax rate of 27,5%, the IRES effective tax rate on shipping income is reduced to 5,5%.
- the taxable income deriving from the use of ships registered under the International Register is 100% exempt for IRAP purposes, therefore reducing to 0% the effective tax rate on shipping income.
- the above mentioned exemptions cover also capital gains realized on the sale of ships which have been registered in the International Register for at least 3 years.

The definition of qualifying shipping income is rather extensive: the exemptions are applicable also to time/voyage chartered vessels and to bareboat charters as well. Ancillary and complementary income deriving from the use of the ships is also subject to the tax exemptions.

The taxable income not deriving from the use of the ships registered in the Italian International Shipping Register is determined according to the ordinary provisions of the Italian Tax Law, as any other business.

B. The Italian tonnage tax system

The Italian tonnage tax rules are provided by articles 155 to 161 of the Income Tax Code and by the Ministerial decree of 23 June 2005. The main official guidelines by the Revenue Agency have been published with circular n. 72/E of 21 December 2007.

The tonnage tax provides for a forfeited corporate income tax (IRES) taxable base for qualifying shipping activities and certain specific ancillary activities.

The tonnage tax regime has been approved by the EU Commission on 20 October 2004 and is therefore applicable from the first tax year starting after that date, both by Italian companies and by permanent establishments of foreign subjects.

Following to the recent approval by the European Commission, the tonnage tax scheme will be prolonged until 31 December 2023. Based on the decision of the Commission of 13 April 2015, the Italian authorities have undertaken to partially amend the current regime; it is expected that the amendments to the tonnage tax scheme will be approved by the end of 2015. The main change to the existing scheme should be the extension of the flag-link rule to ships registered in EU/EEA States.

Eligible vessels

The tonnage tax applies to ships with a net tonnage exceeding 100 tons.

Based on the currently applicable “flag-link rule”, in order to be eligible ships must be registered in the Italian International Shipping Register. As anticipated, the Italian authorities have committed to amend the existing provisions in order to allow ships registered in EU/EEA States to benefit of the tax tonnage regime.

Provided that the flag-link rule is complied with, the tonnage tax applies to owned vessels, as well as to leased or bareboat chartered-in vessels.

The flag-link rule is not applicable to time/voyage chartered-in vessels. These vessels (even if not listed in the Italian International Register) are included in the tonnage tax regime provided that their tonnage does not exceed 50% of the whole tonnage of the eligible fleet

operated by the company.

Eligible activities

The tonnage tax regime is applicable on the income deriving from the following activities:

- carriage of goods;
- carriage of passengers;
- rescue at sea, towing at sea, carriage and installation of offshore facilities and marine assistance on the high seas, provided that such activities involve transport services.

Ancillary activities directly related complementary and concurrent to the above mentioned eligible activities are also covered by the tonnage tax.

The income realized from the bareboat charter-out of vessels falls out of the scope of the tonnage tax. It is however possible to apply the previously mentioned 80% IRES exemption if the bareboat chartered-out vessels are registered in the Italian International Shipping Register.

Duration and perimeter of the option

The option for the tonnage tax must be exercised within the 9th month of the year of first application (i.e. by 30th September for companies fiscal tax year aligned with the solar year).

The tonnage tax must be applied to all eligible vessels operated by the Italian companies belonging to the same group.

This regime is irrevocable applicable for 10 fiscal years from the period of election. After this period the shipping company can renew the choice. Whenever a company loses the right to tonnage taxation, the taxable income must be calculated by applying the ordinary tax rules and the “International Register” exemption where applicable.

No re-election is allowed before the end of the original period of 10 fiscal years. It has been recently anticipated that the Italian authorities intend to tighten this rule even further, by setting at 5 years the minimum period which must lapse between exiting the tonnage tax scheme and being able to enter it again; this would apply to cases where the grounds for exiting the scheme occur from the sixth year of application of the regime onwards.

The option for the tonnage tax cannot be exercised and, if exercised, ceases to have effect if, alternatively:

- more than 50% of the ships are bareboat chartered-out by an Italian group company, for more than 50% of the days of actual navigation in a tax year; this rule does not apply to bareboat charters between group companies;
- officers training obligations are not satisfied: companies applying the tonnage tax must embark at least one Italian cadet for each day of operation on every ship for which the regime is applicable. Alternatively, it is possible to fulfil such obligation by paying a sum for each day of operation without cadet on board of each ship (said sum, subject to annual revaluation, was in 2014 equal to € 68 per day, corresponding to a maximum annual amount per ship of about K€ 25).

Calculation of the tonnage tax

Under the tonnage tax scheme, the taxable base of each eligible ship is calculated on the basis of the net tonnage of the vessel and the days of operation of the same within the fiscal year.

The daily income is calculated applying the following formula:

Net Tonnage €/Ton	
0 – 1.000	0,0090
1.001 – 10.000	0,0070
10.001 – 25.000	0,0040
25.001 – onwards	0,0020

Once calculated according the formula above, the daily income must be multiplied by the number of days of actual utilization of the ship. Days when a vessel is out of service due to maintenance, ordinary or extraordinary repairs, refitting or conversion, are not counted; nor are days when a vessel is temporarily laid up.

The tonnage tax due is subsequently calculated by multiplying the tonnage tax base with the applicable corporate income tax rate.

As an example, the tonnage tax of a 15.000 net-ton vessel operated for 300 days is calculated as follows:

- Daily income: € 92
- Total income for the year: € 27.600
- Corporate income tax due under tonnage tax regime: € 7.590.

No deductions from the calculated tonnage tax base are allowed; however, it is possible to reduce the taxable base by using tax losses carried forward under the ordinary rules.

The taxable base calculated with the above mentioned rules is also comprehensive of capital gains or losses deriving from the disposal of ships bought after the option for the tonnage tax. A special tax treatment is applicable in case of sales of ships owned before the option for the tonnage tax: the difference between the sale proceeds and the tax value as at the entry into the tonnage tax system will be taxed according to the standard corporate income tax rules, benefitting under certain conditions of the 80% exemption due to the registration of the vessels in the Italian International Shipping Register. The Government is expected to tighten the rules concerning the taxation of the capital gains or losses related to ships acquired before the entry into the tonnage tax scheme.

The taxable income not deriving from tonnage tax eligible activities is determined according to the ordinary provisions of the Italian Tax Law, as any other business. Non eligible income deriving from the use of vessels which are registered in the Italian International Shipping Register is still subject to the previously mentioned 80% IRES exemption (applicable, for example, to bareboat charter-out of vessels or to income deriving from non-eligible activities such as on board casinos).

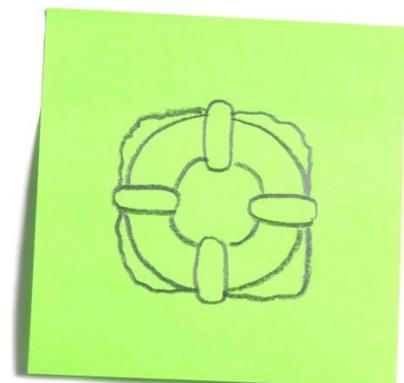
Other considerations

Transfer pricing rules are applicable between Italian companies belonging to the same group, whenever the tonnage tax regime is applied by one of the parties.

The tonnage tax scheme is alternative to the tax consolidation regime.

Although the tonnage tax does not cover IRAP (Regional Tax), the 100% IRAP exemption on the income deriving from the use of ships registered under the "International Register" is applicable also to companies which benefit from the tonnage tax.

As previously anticipated, by the end of 2015 the Italian authorities intend to partially amend the rules of the tonnage tax scheme, by setting at 5 years the minimum period which must pass between exiting the regime and being able to re-enter it. Similarly, the Government has undertaken to tighten the rules concerning the taxation of the capital gains related to ships acquired before the entry into the tonnage tax scheme. Finally, the most relevant expected innovation relates to the flag-link rule which will be extended to ships registered in EU/EEA States.



Luxembourg

Luxembourg

Individual Taxation

Income Tax

The extent of the taxation of an individual depends on its residence status. Luxembourg residents are obliged to declare their worldwide income in Luxembourg (with available treaty reliefs) whilst Luxembourg non-residents are taxable only on their Luxembourg source income.

Luxembourg residents

An individual is considered a tax resident in Luxembourg provided that he/she maintains his/her domicile or normal abode there. A domicile is deemed to exist if an individual has a permanent home available that he/she actually uses and intends to maintain. A normal place of abode is deemed to exist if an individual's stay is for more than six consecutive months (short periods of absence are not taken into account). Tax residence applies as of the first day of the individual's presence in Luxembourg.

Luxembourg Non-residents

An individual is considered a non-resident in Luxembourg provided he neither maintains his domicile nor normal abode there.

Taxable Income

Taxable income can be divided into the following different categories:

- Entrepreneurial income (i.e. income from trade or business, agriculture and forestry, self-employment);
- Income from employment;
- Income from pensions and annuities;
- Investment income (i.e. income from dividends and interest);
- Rental income (i.e. rents and royalties);
- Miscellaneous income (including income from casual services and capital gains on private assets).

The above categories of income (after deduction of related expenses) are aggregated in order to determine the net total income.

Possible losses arising from one category of income are in principle compensated with positive income from other categories. Income falling under the miscellaneous category cannot be simply compensated with remaining categories, but can be compensated internally with some limitations. Negative investment income can be offset under other types of income within certain conditions only.

This net income is then reduced by various applicable deductions. As a result, the taxable income is determined.

Progressive tax rates range from 0% to 40%. The Employment Fund surcharge increases the income tax of 7% for income not exceeding EUR 150,000 for single taxpayers and EUR 300,000 for couples taxed jointly, and of 9% for income above these amounts. As from 1st January 2015 a 0.5% temporary tax to balance the state budget is also payable. Consequently, the marginal income

tax rate is 44.10% (including both the Employment Fund surcharge and the said 0.5% temporary tax). Income tax is levied on the income of a household, i.e. a husband and wife may not file separately.

The exempt band covers the first €11,265 for single taxpayers and €22,530 for married taxpayers. The marginal rate applies above a threshold of €100,000 for single taxpayers and €200,000 for married taxpayers. The rate at which income tax is assessed depends not only on the application of the progressive rate scale, but also on marital status and age.

Children being part of the household give the right to a monthly allowance of €76.88 per child.

Special Tax Regime

Lump sum taxation regime

Remuneration earned by crew members employed by a Luxembourg shipping company who are not resident in Luxembourg may under certain conditions benefit from a lump-sum taxation regime. Gross remuneration reduced by 10% and a tax credit of €1,800 per month or €72 per day, is subject to a final tax at a rate of 10%.

Favorable tax positions

Apart from salaries and pensions, Luxembourg source income derived by non-resident taxpayers is subject to progressive tax rates with a minimum rate of 15%. However, when progressive rates applied to the taxable income increased by the tax exempt band show an average rate of less than 15%, this alternative minimum rate applies.

Non-residents deriving at least 90% of their total income from Luxembourg (and Belgian residents deriving more than 50% of their professional income from Luxembourg) are, upon request, taxed as if they were residents. They are taxed at the rate which would have applied had they been residents and were subject to tax on their entire Luxembourg and foreign income.

This regime can only apply if it provides a favourable result for the non-resident. It allows non-residents to benefit from deductions for special expenses (annuity payments and charges, debit interest, insurance premiums, donations, etc.) as well as allowances for extraordinary charges. The income of both spouses is taken into account to calculate the rate of tax applicable (progression clause). The threshold is calculated considering the income of the spouses separately.

Highly skilled workers regime

A special tax regime for highly skilled mobile employees came into effect on 1 January 2011. There are a number of conditions attached for both employer and employee.

The legislation applies to new expatriates coming to Luxembourg from 1 January 2011. The new rules do not apply to existing expatriates or contract workers, but do apply to individuals already working within a group or individuals directly recruited from abroad, although slightly different conditions are applied to each scenario.

General conditions for all expatriates:

- Provide a significant economic contribution to Luxembourg;
- Be tax resident in Luxembourg (based on domestic tax law);
- Not have been Luxembourg tax resident / subject to Luxembourg income tax on professional income for the 5 years before arrival;
- Have a degree of higher education / have acquired professional experience of at least 5 years in the sector concerned;
- Undertake the local employment as their primary employment and pass on knowledge to local personnel;
- Meet minimum salary requirements and must not replace another non-expatriate employee.

Additional conditions in case of intra-group secondment:

- Have at least 5 years of seniority in the international group / sector concerned;
- An employment relationship exists between the sending company and the employee;
- The secondee must be granted a right to return to the home company;
- A contractual arrangement exists between the home and host companies with respect to the secondment.

Additional conditions in case of recruitment have acquired a depth specialisation in a sector or profession characterised by difficulties of recruitment in Luxembourg.

Conditions relating to the employer:

- The Luxembourg entity must employ or commit to employ at least 20 full time employees in Luxembourg;
- If the entity has been established in Luxembourg for at least 10 years, they can only have a maximum of 10% expatriate employees who benefit from this regime.
- An application to benefit from the regime must be filed within two months of each starting assignment and an annual review must be submitted by the employer.

Directors' Fees

Directors' remunerations for activities of appointed directors and similar supervisory positions in corporate entities qualify as self-employed income and are usually referred to as directors' fees.

The tax regime applicable to directors' fees provides that a withholding tax of 20% applies to the directors' remuneration gross amount and is creditable against the personal income tax due by the director.

The resident taxpayers must submit a tax return whenever their income includes directors' fees whose amount exceeds EUR 1,500.

For non-resident taxpayers, the 20% withholding tax is final provided the director has no other Luxembourg source professional income and the total

directors fees earned do not exceed EUR 100,000 per annum.

However, a director may elect to file a tax return in order to profit from an average tax rate that may be less than the withholding tax rate (20%). In case of tax return filing, the taxpayer is entitled to the tax class that corresponds to his family status and to available tax deductions.

It is worth noting that whenever the directors' fees annual amount does not exceed certain thresholds (around EUR 56,000 for a single taxpayer); it is in the taxpayer's interest to submit a tax return. As a matter of fact, in these cases, the average tax rate does not reach 20%. Above these limits, it is not useful to elect for filing tax returns.

Finally, whenever directors' fees exceed EUR 100,000, it is compulsory for the non-resident taxpayer to file a tax declaration. This leads to the application of the income tax schedule. As a result, the average tax rate is increased by at least 10% comparing to the 20% withholding tax (for a single taxpayer).

Director's income related to day-to-day management duties is categorized as employment income.

Parallel board membership and employment activities are compatible; however, a director may be challenged on the basis of whether or not his daily management duties or other employment activities are not rather duties normally attached to the board function and which should be taxed accordingly.

The directors' fees are non-deductible in the hands of the paying company.

The paying company must file a withholding tax return whenever directors' fees are paid out. It must also keep a withholding tax register and deliver annual remuneration certificates to the directors.

Tax Administration

The tax year ends on December 31 in Luxembourg. Legally, a taxpayer must file a tax return by March 31 of the year following the tax year if his taxable income exceeds certain thresholds. In practice, late filing not exceeding a couple of months is usually acceptable by tax authorities without penalties. Returns may not be required from employees who are taxed at source. Self-employed persons generally must pay income tax in advance in the same way that companies do.

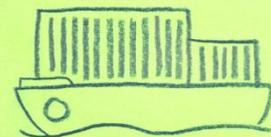
The tax authorities may charge a penalty for late filing amounting up to 10% of the taxpayer's final tax and impose fines up to EUR 1,250.

Taxes are paid quarterly in advance during a tax year (on March 10, June 10, September 10 and December 10). These payments are based on the tax due in the last assessed year after allowing a credit for taxes withheld at source. Any tax prepaid or withheld is credited against the final tax liability for that year.

A final assessment of tax is made on the basis of the return filed, and any tax payable is due within one month after that assessment. A taxpayer may appeal against this assessment within three months of its issue. Interest amounting to

0.6% per month of the final tax may be imposed on late payments.

Tax is withheld at source from employment income, pensions and dividends. Over-withholding on employment income may be refunded to taxpayers according to a special return called “décompte annuel” (year-end adjustment request). Décompte annuel request must be strictly filed by December 31 of the year following the tax year.



Shipping Taxation

A Luxembourg-based shipping company is taxable as any other Luxembourg-based company along with a specific exemption from Municipal Business Tax. In addition, shipping companies can benefit from common Luxembourg tax rules and more specifically, roll-over provision and investment tax credit.

The combination of the exemption from municipal business tax and the benefit from an investment tax credit can put Luxembourg maritime companies in a neutral position.

On top of significant tax benefits a company may avail itself; it should also appreciate the side benefits that Luxembourg may provide as a top-tier financial hub. An illustrative example could be the access to both traditional and state-of-the-art funding instruments. *Inter alia*, Luxembourg is a pioneer in Sharia-compliant instruments towards which there has been a recent surge not only from Islamic but also from non-Islamic investors¹.

Registration Requirements

Further to the Maritime Act of 1990 as amended in 1994, vessels with a tonnage of at least 25 tons used or intended for use in the transport by sea of persons or goods for any gainful seafaring activity shall be entered in the Luxembourg shipping register.

The Maritime Act provides for three types of registration: full registration, bareboat in registration and bareboat out registration. To be registered, ships must be majority-owned by European Union nationals or a corporation headquartered in an EU member state (full ownership registration). The vessels may be chartered on a bareboat basis, or operated by an authorised person, operating on behalf of the owner. Provided that all or a significant part of the management is carried out in Luxembourg, these vessels are eligible for entry into the Luxembourg vessels in Luxembourg directly from an office elsewhere in a member state, provided that an accredited marine manager is appointed in Luxembourg.

A registration certificate is valid for a maximum of two years (renewable). A provisional certificate may be issued for vessels still under construction or while in the process of supplying all necessary information required for the registration.

Vessels exceeding 15 years of age from the date when the keel was laid cannot be registered in Luxembourg. An exception applies where a waiver is specifically given by the Minister of Economy and Foreign Trade, for vessels that have been subject to a major overhaul and upgrade to compliance with the standards of the conventions ratified by Luxembourg.

In common with the majority of other maritime nations, the Grand Duchy of Luxembourg is a signatory to most of the international agreements governing seagoing vessel safety and environmental protection. The technical norms regarding safety and environmental protection stipulated in these various

¹ Deloitte Luxembourg is actively involved in initiating, structuring and implementing such instruments - For more information, please refer to our website.

regimes, including SOLAS, MARPOL and COLREG, are therefore applicable to Luxembourg vessels in accordance with their size and type.

Additionally, Luxembourg's membership of the European Union means that the relevant EU laws and regulations regarding merchant marine safety and environmental protection apply to Luxembourg-registered vessels. Indeed, some of these European laws and regulations apply to all ships, regardless of nationality operating regularly or occasionally in EU waters.

The Grand Duchy of Luxembourg has delegated to Classification Societies the authority to survey and certify compliance with technical and environmental standards.

All the companies recognised by the Luxembourg maritime authorities are members of IACS (International Association of Classification Societies), and include: the American Bureau of Shipping (ABS), Bureau Veritas (BV), Det Norske Veritas (DNV), Germanischer Lloyd (GL), Nippon Kaiji Kyokai (NKK), Lloyd's Register of Shipping (LR), and the Registro Italiano Navale (RINA).

Registration Procedure

Prior to the registration procedure of a ship under the Luxembourg flag, the ship owner must select the structure to be used for the ship. Where possible, this decision must be made before the registration of the ship. The help of a local, specialised company could result in substantial savings.

The procedure for the registration of a ship under the Luxembourg flag does not differ greatly from that of other maritime administrations. The documents to submit to the Luxembourg maritime authorities are: the registration application forms and the relevant ship's certificates. This is a specific type of mutual insurance coverage, called "Protection and Indemnity", which ship-owners usually take out.

The technical certificates required, certify that the ship complies with the maritime conventions ratified by Luxembourg. For certain types of ships or in certain cases, a preliminary inspection may be required. It will usually be done by a recognised Classification Society acting on behalf of the Luxembourg maritime authorities or the inspectors of a national inspectorate.

Luxembourg was one of the first countries to offer a legal framework adapted for commercial yachts.

The registration fees are paid to the Registration of Mortgages (see Annex 2). The actual registration procedure can be simple and quick if the file is carefully and scrupulously completed. For efficiency and speed, it is highly recommended that a local company specialised in the maritime sector be used to carry out this procedure.

A request to renew the registration certificate must be filed each year or every two years on the anniversary of the first registration. Specific documents certifying that the ship is compliant with the provisions enacted since its first registration must also be supplied.

Taxation

In general, double tax treaties or specific maritime agreements between countries grant the right to tax a maritime company in the country where it has its fiscal residence.

Luxembourg has signed more than 74 double tax treaties which are currently in force. The treaties signed by Luxembourg contain the provisions for the taxation of maritime company profits. In general, the provisions are similar to Article 8 of the OECD Model, which grants the right to tax, exclusively to the country where the seat of management is located. Consequently the profits from the operation of ships in international traffic shall be taxed only in the Contracting state in which the place of effective management of the enterprise is located.

These profits include those earned from participating in a pool, joint-venture or international entity.

The profits related to the lease of a ship, equipment and crew must be handled in the same manner as the profits from transporting passengers or merchandise.

The criterion of place of effective management that determines the taxation right, on which the double tax treaties are based, is clearly essential. Such criteria refer to the place from which the company is actually managed, based on factual elements, not a legal situation.

The current tax rate in Luxembourg applicable to Luxembourg resident entities on worldwide income amounts to 29.22%. Such rate consists of both Corporate Income Tax (CIT) amounting to 22.47% including the contribution to the employment fund as well as the Municipal Business Tax (MBT), which varies depending on the commune in which the company holds its registered address, currently 6.75% for Luxembourg City.

Luxembourg resident companies are also subject to Net Wealth Tax (NWT), applied at a rate of 0.5% of the net asset value of the company, determined according to specific valuation rules, at year end. Yet, the NWT charge may be reduced by booking a 5-year special reserve up to the amount of the Corporate Income Tax due before the use of the investment tax credit (see below).

Exemption from municipal business tax for maritime companies

Luxembourg MBT is levied based on the municipality where the company is located. Due to the fact that the business of a Luxembourg shipping company is carried out mainly outside the commune where it holds its registered address, shipping companies are exempt from MBT on income in relation to the use and lease of ships operating in international traffic.

The effective tax rate applied on shipping companies is therefore currently **22.47%**.

Determination of the taxable basis

The taxable basis of a Luxembourg shipping company is computed in the same manner as for all Luxembourg- resident entities on the financial statements prepared under Lux GAAP but may be subject to tax adjustments such as the

non-deductibility of expenses in relation to exempt income. In addition, depreciation expenses and provisions for large-scale repair and maintenance work are considered as deductible expenses for shipping companies.

Minimum income tax

A minimum tax has been put in place in 2013 and this tax applies today as follows:

- Collective entities (irrespective whether they are regulated or not) that have (i) qualifying holding and financing assets, exceeding 90% of their total balance sheet and (ii) a total balance sheet exceeding €350,000, are liable to a minimum flat income tax of €3,210 including the Employment Fund surcharge;
- The other Luxembourg collective entities are subject to a progressive minimum income tax depending on the total of their balance sheet. Such tax shall range from €535 (for a total balance sheet up to €350,000) to €21,400 (for total balance sheet exceeding €20,000,000), including the Employment Fund surcharge.

Depreciation rules

Two types of depreciation are available under Luxembourg law, linear depreciation and accelerated depreciation.

Linear depreciation: Vessels held by a Luxembourg shipping company, are depreciated over their useful life. For example, a vessel with a useful life of 12 years (minimum depreciation period for a vessel) will be depreciated at a rate of 8.33% of its purchase price, every year.

Accelerated depreciation: Shipping companies may accelerate the linear depreciation by up to three times the linear depreciation rate, however, without exceeding 30%. Applied to a vessel with a useful life of 12 years, the depreciation may be increased to 25% of the purchase price in a year.

Provisions for large-scale repair and maintenance work

Luxembourg companies may establish provisions based on charges in relation to the business performed. The general rules state that the company is required to determine the charge precisely, and that it must refer to the year in which the provision is booked. A more flexible approach is available for maritime companies where the company is allowed to book a more general provision based on reasonable charges that can be expected due to large-scale repair or maintenance work being undertaken. The Luxembourg tax authorities will then allow the company to deduct the provision in the year that it is booked.

Carried forward losses

There is no specific tonnage tax regime applicable in Luxembourg (fixed allowance). In case of decrease of the activity, the company will incur losses. These losses, as determined tax-wise, may be carried forward indefinitely and offset future positive tax results.

Investment tax credit

In addition to the beneficial rules regarding depreciation and provisions booked

for large-scale repair work available for maritime companies, Luxembourg law offers the opportunity to resident companies to apply for two types of tax credits on investments made: the global investment tax credit and the complementary investment tax credit which applies generally for all Luxembourg companies, in the case of capital expenditure made for investments to be used on Luxembourg national territory or within the European Economic Area.

However, the application of this investment tax credit has been extended to include the Luxembourg shipping companies, as the investment tax credit applies also to vessels which are operating in international traffic and that form part of the net invested assets (Article 152bis Income Tax Law). The investment tax credit is granted for investments in both new and previously used ships, when demonstrated that an old vessel has not benefited from the investment tax credit in the past.

With the application of the Investment tax credit, the exemption of municipal business tax and the booking of the NWT special reserve (as previously mentioned).

The investment tax credits apply in the following manner and are calculated on the following basis:

- **Credit for complementary investment:** The rate applicable for the complementary investment is maximum 12% and applies by comparing the net book value of the qualifying assets for the current year with the average net book value of these assets over the last five years as a reference basis.
- **Credit for global investment:** The credit for global investment is applied with a rate of 7% for the first €150,000 of the investment and with another 2% on the part of the investment exceeding this amount. This credit only applies to new investments made during the financial year. Any part of the investment tax credit which cannot be used by the company during the financial year in which the acquisition took place, may be carried forward and used within the next ten years.

Furthermore, the draft law n° 6847 proposed that this tax credit for investment is expanded to lessors of international maritime vessels as from tax year 2015, provided the other conditions are fulfilled.

Net wealth tax (NWT) reduction

Under the Luxembourg net wealth tax law, Luxembourg companies may reduce the net wealth tax due in a year, through the booking of a special reserve. In order to benefit from a reduction of NWT due for a given tax year, the company must allocate part of the profits to a special reserve, referred to as the NWT reserve, and such reserve must be kept in place for five years. The actual reduction of the NWT obtained is equal to one fifth of the reserve created however capped to the amount of the CIT charge of the same year.

The net wealth tax reduction is applicable at any time. When the company shows profits accounting wise and is not influenced by any possible reductions

made through other tax credits. Through its application, companies may reduce the NWT liability to zero.

Roll-over provision

Luxembourg shipping companies may, under certain conditions, transfer capital gains arising from the sale of a ship to fixed assets purchased or established by the company through a roll-over provision based on the sale price. This allows maritime companies to renew the fleet on a regular basis, and offers the opportunity to opt for an ecological and environmentally-friendly approach for the business.

This possibility allows maritime companies, apart from reinvesting in another ship used for international traffic, to diversify their assets so that the reinvestment does not necessarily involve an asset of the same kind as the one sold.

Fixed assets for which the capital gain can be notably used include real estate (located in Luxembourg), amortisable fixed assets and equity holdings in other companies.

The shares in which the sale proceeds are reinvested can be either in a resident or a non-resident company.

It must be noted that the capital gain transferred to the purchased or established fixed asset reduces the purchase price or income of this fixed asset.

Fiscal consolidation regime

Under the rules of the Luxembourg Income Tax Law, Luxembourg resident entities have the possibility of entering into a fiscal consolidation, where the profits or losses of one company may be set off against the profits or losses of another company that is part of the tax entity. The regime has been developed over the years and is now applicable to Luxembourg resident companies and also to Luxembourg permanent establishments of non-resident entities.

The criteria for companies to enter into a tax consolidation are firstly the requirement of a holding of at least 95% in the subsidiary entity (75% in certain cases, with approval from the Luxembourg Ministry of Economy, but subject to more severe conditions). Secondly, the tax entity must be kept in place for at least five years, and is entered into by application to the Luxembourg direct tax authorities before the end of the first year during which the tax entity is applied.

Repatriation of company profits and the taxation of investors

Dividend

The distribution of profits from a Luxembourg company in the form of dividends is subject to withholding tax in Luxembourg of 15%².

However, the Luxembourg participation exemption regime allows the distribution of dividends to investors, free of Luxembourg withholding tax. The exemption

² The double tax treaty between Greece and Luxembourg provides for a reduced rate of 7.5% to the extent that certain requirements are met.

applies in circumstances where the following criteria are fulfilled:

- The distributing company is a Luxembourg-resident, fully taxable entity with a collective character or a Luxembourg-resident fully taxable capital company*
- The receiving company has one of the following characteristics:
 - A collective entity falling under the scope the Parent-Subsidiary Directive (2011/96/EU)
 - A capital company resident in Luxembourg and liable to tax not listed in the annex of Article 166, 10 of the Luxembourg Income Tax Law
 - The state, municipalities or other national public entities
 - A permanent establishment of any of the entities referred above
 - A collective entity liable to a tax corresponding to Luxembourg Corporate Income Tax and which is resident in a tax treaty country, as well as its Luxembourg permanent establishment
 - A capital company resident in Switzerland, subject to and not exempt from corporate income tax in Switzerland
 - A capital company or cooperative resident in a member state of the European Economic Area (EEA) other than an EU member state (i.e. Norway, Liechtenstein and Iceland) which is liable to a tax corresponding to Luxembourg Corporate Income Tax
 - A permanent establishment (either in Luxembourg or outside) of a capital company or of a cooperative resident in an EEA member state other than an EU member state
- The recipient entity must have a shareholding of at least 10% or an acquisition price of €1,200,000 for no less than 12 months, in the Luxembourg resident distributing entity

Interest

Interest paid by a Luxembourg company to a foreign investor is not subject to withholding tax in Luxembourg. Exceptions apply for certain profit participating instruments where withholding tax may be levied in specific cases. The same applies for the payment of interest to individuals not resident in an EU or EU-affiliated country.

Interest paid to an individual resident for tax purposes in the European Union comes under the EU Savings Directive 2003/48/EEC and is thus subject to withholding tax.

Royalty

No withholding tax is due in Luxembourg on royalties paid by a Luxembourg company. An exception applies to royalties paid to artists or sportsmen and sportswomen for any performances in Luxembourg.

Malta

Malta

Individual Taxation

Income Tax

Individuals may be liable to pay tax in Malta, depending on whether they are deemed to be ordinary residents, temporary residents, non-residents and/or domiciled in Malta.

Individuals are considered to be a resident in Malta by the mere fact that they reside (physically) in Malta. An individual is considered to be a resident in Malta if such individual “resides in Malta except for such temporary absences as to the Director General (of Inland Revenue) may seem reasonable and not inconsistent with the claim of such an individual to be a resident in Malta”, as defined by the Malta Income Tax Act, Chapter 123 of the Laws of Malta (hereinafter referred to as “ITA”).

Ordinary residence broadly refers to “resident in the ordinary or regular course of one’s life”, as for example when one resides in Malta due to reasons of employment, retirement or study in Malta.

Temporary residence refers to those individuals who are in Malta for a temporary purpose only, who derive some form of income in Malta and reside in Malta for a period not exceeding in the aggregate of 6 months in a year and who have no intention of establishing their residence in Malta.

Where, none of the above conditions of residence applies, an individual may generally be deemed to be non-resident for tax purposes in Malta.

The term **domicile** refers to a concept in Common law, interpreted to refer to “residence in a particular country with the intention of residing permanently in that country”. The term domicile is not defined in the ITA. The principle of domicile goes beyond residence and refers to an intention to reside in a particular country rather than merely a physical presence in a country. One’s domicile is acquired at birth and is generally referred to as domicile of origin. While it is relatively easy to shift one’s residence, this cannot be said to be applicable to domicile. Having said that, a person may shift his domicile during his lifetime by moving from a domicile of origin to a domicile of choice by opting to establish himself permanently in another country. Individuals who are not Maltese nationals but are resident in Malta and who do not intend to establish a permanent home for themselves in Malta, do not generally acquire a Maltese domicile for Malta income tax purposes.

The ITA allows limited deductions against taxable income in the case of resident individuals. Individuals who are non-resident in Malta benefit from no particular deductions. Contributions made by the employee to the Maltese social security (whether under a state or private insurance) are not deductible against one’s employment income.

- Individuals who are both resident and domiciled in Malta are subject to tax in Malta on their worldwide income.
- Individuals who are either not ordinarily resident or not domiciled in Malta are subject to tax in Malta on:
 - Any income arising in Malta;
 - Any foreign income remitted to Malta (i.e.: remittance basis of taxation); and,
 - Any capital gains arising in Malta.

The marginal tax rate applicable to these individuals for basis year 2015 is typically at progressive rates from 0% to a maximum 35%, unless they opt for one of the special residence programmes mentioned below.

Special Residence Programmes

The Residence Programme

One special residence scheme available in Malta is The Residence Programme (hereinafter referred to as “the TRP”). The Programme is only available to EU/EEA/Swiss nationals.

In terms of this Programme, the individual is subject to the following conditions:

- Is subject to tax on all foreign source income remitted to Malta at a special flat rate of tax of 15%, subject to a minimum of €15,000 per annum. There is no additional minimum tax in respect of dependents;
- Is subject to tax on Malta source income including employment income at a flat rate of tax of 35%.

The basis of taxation (subject to the above rules) applicable to individuals benefitting from the programme is outlined in the section **Basis of Taxation**, following this section.

An individual who is eligible to apply under the TRP must prove to the satisfaction of the Director General (Inland Revenue) (hereinafter referred to as “Director General”) that such individual satisfies all of the conditions set out below:

- The applicant holds a 'Qualifying Property Holding' which is defined as immovable property situated in Malta which was either (i) purchased after 1 July 2013 for a consideration of not less than €275,000 (€220,000 if the immovable property is situated in the south of Malta or Gozo); or, (ii) rented for not less than €9,600 per annum (€8,750 if the rented immovable property is situated in south of Malta or Gozo) and in all cases, the applicant and his/her family members have their habitual residence in such property as their principal place of residence worldwide (A list of properties forming part of the south of Malta has been published in the guidelines issued by the Authorities);
- The applicant is not a person who benefits under any other special residence programme available in Malta;
- The applicant is not a Maltese national;

- The applicant is in receipt of stable and regular resources which are sufficient to maintain himself and his dependents without recourse to the social assistance system in Malta;
- The applicant is in possession of a valid travel document;
- The applicant is in possession of sickness insurance which covers himself and his dependents in respect of all risks across the whole of the EU normally covered for Maltese nationals;
- The applicant is not domiciled in Malta and does not intend to establish his domicile in Malta within 5 years from the date of the application;
- The applicant is a fit and proper person: The application by the individual is required to cover the dependents of the said individual; and,
- There is no minimum residence period in Malta. The individual should ensure that he is not resident in any other jurisdiction for more than 183 days in any calendar year.

An application for special tax status together with a 'fit and proper person' questionnaire, may only be submitted to the Director General through the services of a person that qualifies as an Authorised Registered Mandatory (hereinafter "the ARM") and on the prescribed application form. A non-refundable fee of €6,000 is payable to the Director General on application (the application fee is reduced to €5,500 if the immovable property is purchased and is situated in the south of Malta).

Where the Director General is satisfied that the individual qualifies for special tax status in terms of the TRP, the Director General will notify the ARM in writing. Where the applicant would not have, at the time of application, acquired a 'Qualifying Property Holding' as referred to above, the Director General will provide the applicant with a *letter of intent* and will issue a certificate of special tax status upon receipt of evidence that the applicant holds a 'Qualifying Property Holding'.

It is important to note that under the TRP, the individual and his spouse cannot opt for a separate tax computation.

Retirement Programme for Foreign Retirees

Another special residence programme available in Malta is the Retirement Programme for foreign retirees (hereinafter referred to as "the Retirement Programme"). This programme is only available to EU/EEA/Swiss nationals.

In terms of this programme, the individual is subject to the following conditions:

- Is subject to tax on all foreign source income remitted to Malta at a special flat rate of tax of 15%, subject to a minimum of €7,500 per annum with a further €500 per annum per dependent and special carer;
- Is subject to tax on Malta source income at a flat rate of tax of 35%.

The basis of taxation (subject to the above rules) applicable to individuals benefitting from the Retirement Programme is outlined in the section **Basis of Taxation**, following this section.

An individual who is eligible to apply under the Retirement Programme must prove to the satisfaction of the Director General that such individual satisfies all of the conditions set out below:

- The applicant holds a 'Qualifying Property Holding' which is defined as immovable property situated in Malta which was either (i) purchased after 1 July 2013 for a consideration of not less than €275,000 (€220,000 if the immovable property is situated in the south of Malta or Gozo); or, (ii) rented for not less than €9,600 (€8,750 if the rented property is situated in the south of Malta or Gozo); and in all cases, the applicant and his/her family members and special carer have their habitual residence in such property as their principal place of residence worldwide (A list of properties forming part of the south of Malta has been published in the guidelines issued by the Authorities);
- The applicant is not a person who benefits under other special residence programme available in Malta;
- The applicant is not a Maltese national;
- The applicant is in receipt of a pension (excluding lump-sum payments without periodic pension payment or commutation of pension) all of which is received in Malta. The pension income should constitute at least 75% of the income brought to charge for tax purposes in Malta;
- The applicant is in possession of a valid travel document;
- The applicant is not in an employment relationship (excluding non-executive posts);
- The applicant is in possession of sickness insurance which covers himself and his dependents in respect of all risks across the whole of the EU;
- The applicant is not domiciled in Malta and does not intend to establish his domicile in Malta within 5 years from the date of the application;
- The applicant is a fit and proper person: The application by the individual is required to cover the dependents of the said individual; and,
- The applicant is required to reside in Malta for at least 90 days in any calendar year averaged over a five-year period, and to have not resided in any other jurisdiction for more than 183 days in any calendar year.

An application for special tax status together with a 'fit and proper person' questionnaire may only be submitted to the Director General through the services of a person that qualifies as an ARM and on the prescribed application form. A non-refundable fee of €2,500 is payable to the Director General on application.

Where the Director General is satisfied that the individual qualifies for special tax status in terms of the Retirement Programme, the Director General will notify the ARM in writing. Where the applicant would not have, at the time of application, acquired a 'Qualifying Property Holding' as referred to above, the Director General shall provide the applicant with a *letter of intent* and will issue

a certificate of special tax status upon receipt of evidence that the applicant holds a 'Qualifying Property Holding'.

It is important to note that under the Retirement Programme, the individual and his spouse cannot opt for a separate tax computation.

Global Residence Programme

Another special residence programme available in Malta is the Global Residence Programme (hereinafter referred to as “the GRP”). This programme is only available to non-EU/non-EEA/non-Swiss nationals.

In terms of this programme, the individual is subject to the following conditions:

- Is subject to tax on all foreign source income remitted to Malta at a special flat rate of tax of 15%, subject to a minimum of €15,000 per annum. There is no additional minimum tax in respect of the dependents;
- Is subject to tax on Malta source income including employment income at a flat rate of tax of 35%.

The basis of taxation (subject to the above rules) applicable to individuals benefitting from this programme is outlined in the section **Basis of Taxation**, following this section.

An individual who is eligible to apply for the GRP must prove, to the satisfaction of the Director General, that all of the conditions set out below are met:

- The applicant holds a 'Qualifying Property Holding' which is defined as immovable property situated in Malta which was either (i) acquired after 6 July 2013 for a consideration of not less than €275,000 (€220,000 if the immovable property is situated in the south of Malta or in Gozo); or, (ii) rented for not less than €9,600 per annum if the property is in Malta (€8,750 if the rented immovable property is situated in the south of Malta or Gozo); and in all cases, the applicant and his/her family members have their habitual residence in such property as their principal place of residence worldwide; (A list of properties forming part of the south of Malta has been published in the guidelines issued by the Authorities);
- The applicant is not a person who benefits under other special residence programme available in Malta;
- The applicant is not a Maltese national;
- The applicant is in receipt of stable and regular resources which are sufficient to maintain himself and his dependents without recourse to the social assistance system in Malta;
- The applicant is in possession of a valid travel document;
- The applicant is in possession of sickness insurance which covers himself and his dependents in respect of all risks across the whole of the EU normally covered for Maltese nationals;
- The applicant is not domiciled in Malta and does not intend to establish his domicile in Malta within 5 years from the date of the application;

- The applicant must not be a “long-term resident” of Malta and consequently must not have long-term resident status under the status of Long-Term Residents (Third Country Nationals) Regulations:
- The applicant is a fit and proper person:
- The application by the individual is required to cover the dependents of the said individual;
- The applicant is fluent in English or Maltese; and,
- There is no minimum residence period in Malta. The individual should ensure that he is not resident in any other jurisdiction for more than 183 days in any calendar year.

An application for special tax status together with a 'fit and proper person' questionnaire may only be submitted to the Director General through the services of a person that qualifies as an ARM and on the prescribed application form. A non-refundable fee of €6,000 (€5,500 if the individual has already acquired property in the south of Malta at the time of application) is payable to the Director General on application.

Where the Director General is satisfied that the individual qualifies for special tax status in terms of the GRP, the Director General will notify the ARM in writing. Where the applicant would not have, at the time of application, acquired a 'Qualifying Property Holding' as referred to above, the Director General shall provide the applicant with a *letter of intent* and will issue a certificate of special tax status upon receipt of evidence that the applicant holds a 'Qualifying Property Holding'.

It is important to note that under the GRP, the individual and his spouse cannot opt for a separate tax computation.

Basis of Taxation (applicable to all special schemes mentioned above)

An individual in possession of a special tax status certificate in terms of any of the special residence programmes mentioned above is subject to the following tax treatment in Malta:

- Income remitted to Malta from foreign sources would be chargeable to Malta income tax at a flat rate of 15% but subject to the minimum tax in terms of each programme. Relief for double taxation in terms of double tax treaty relief and unilateral relief is available. No Malta income tax liability arises to the extent that such foreign source income is not remitted to Malta in view of the non-Malta domicile status of the individual;
- Any income arising in Malta including any realised capital gains arising in Malta on the transfer of a capital asset (other than immovable property situated in Malta) would be chargeable to Malta income tax at a flat rate of tax of 35%;
- Any realised capital gain arising in Malta on the transfer of immovable property situated in Malta would be subject to a final withholding tax of 8% of the transfer value (an exemption applies in special circumstances, including the disposal of immovable property occupied as an individual's "own residence" for a period of 3 years), subject to

various terms and conditions. Any realised capital gain arising outside of Malta is outside the scope of Malta taxation in view of the non-Malta domicile of the individual (a non-Malta domicile is, in fact, a condition for eligibility in terms of the above mentioned schemes).



Shipping Taxation

Legislation

The registration and the operation of vessels under the Malta flag is regulated by the Merchant Shipping Act Chapter 234 of the laws of Malta, which is a law based mainly on the merchant shipping legislation of the United Kingdom but subsequently revised and amended over the years.

All types of vessels from pleasure yachts to oil rigs may be registered under the Malta flag. It is in fact the policy of the Maltese authorities to encourage interest in shipping and to promote the whole range of maritime services Malta has to offer. The latest figures available indicate that the Malta ship register had over 6,667 vessels of 57.9 million GT. Through the on-going efforts of the Merchant Shipping Directorate, Malta has maintained its position as the largest register in Europe and 6th largest register worldwide in terms of gross tonnage.

Registration of ships and all matters ancillary thereto is the responsibility of the Merchant Shipping Directorate of the Authority for Transport in Malta.

A Maltese flagged ship can be owned by:

- Citizens of Malta;
 - Bodies corporate established under, and subject to the laws of, Malta;
 - Citizens of EU Member States residing in Malta;
 - Bodies corporate or entities established outside Malta and which enjoy, to the satisfaction of the Registrar-General of Shipping, legal personality in terms of the law under which they have been established or constituted, and satisfy the Registrar-General that they can and will ensure due observance of the laws of Malta relating to merchant shipping. For this purpose, a local registered agent must be appointed;
- Or
- Citizens of EU Member States not residing in Malta. For this purpose, a local registered agent must be appointed.

For the purposes of these provisions of law, residing in Malta means holding a valid registration certificate as issued under the provisions of the European Union Act (Chapter 460 Laws of Malta).

The registration of a body corporate in Malta to own or operate a ship is a relatively straightforward operation enjoying low company formation costs and Maltese ship-owning companies operate in a relatively restriction-free environment. For example:

- There are no restrictions on the sale of ships registered in Malta to foreign nationals, nor are there any restrictions on the mortgaging of ships registered in Malta in favour of foreign nationals.
- There are no restrictions on the nationality of the shareholders and directors of Maltese companies;
- In addition there are no restrictions on the sale or transfer of shares, or stock of a company owning a Maltese ship.
- There are also no restrictions on the nationality of the master, officers and crew.

There are no trading restrictions and there is preferential treatment to Maltese Ships in certain ports.

There is a complete tax exemption to owners, charterers, and financiers of Maltese or Community (including EEA) ships of over 1,000 net tons (exempted ships). Furthermore, no tax is payable on dividends paid to the shareholders.

Registration Requirements

A vessel is first registered provisionally under the Malta flag for a period of six months (extendible to one year) during which all documentation must be finalised. The requirements for **provisional registration** are simply:

- An application for registration by the owner or an authorised representative accompanied by an application for a change of name (where applicable).
- Proof of qualification to own a Maltese ship, in the case of a body corporate, its Memorandum and Articles of Association and in the case of non-Maltese owners, the appointment of a resident agent.
- A Declaration of Ownership made before the Registrar by the owner or an authorised representative.
- Payment of initial and annual registration fees, for the assignment of the Official Identification number of the vessel.
- In the case of vessels of over **24 meters** in length there is also the requirement of a copy of the International Tonnage Certificate or if unavailable, a simplified tonnage calculation issued by an approved classification society (hereinafter referred to as ACS).
- Application for a Provisional Ship Radio Station License document by which the vessel was transferred to the applicant for registry.
- Evidence of seaworthiness of the vessel, i.e. confirmation that the vessel is classed with an approved classification society (not applicable to pleasure yachts). In the case of **product tankers and commercial vessels** with a high tonnage (usually over 500 Gross Tons), the following are also required:
 - Evidence that the vessel is classed and that the statutory certificates are valid. The Merchant Shipping Directorate (hereinafter referred to as MSD) require communication direct from an Approved Classification Society confirming that the vessel is classed together with the expiry dates of the following statutory certificates, namely:
 1. Load Line Certificate;
 2. Safety Construction Certificate;
 3. Safety Equipment Certificate;
 4. Safety Radio Certificate;
 5. International Oil Pollution Prevention Certificate (IOPP)
 6. International Air Pollution Prevention Certificate(IAPP)
 7. International Sewage Pollution Prevention Certificate(ISPP)
 8. Antifouling Declaration

- A Minimum Safe Manning Certificate to be issued by MSD at a cost of €100. Guidelines to the Minimum Safe Manning can be found on the Transport Malta website under Ship Registration-STCW-MSM guidelines. Malta ratified the Maritime Labour Convention, 2006 (MLC) on 18 January 2013, and the convention came into force on 20 August 2013, same can be accessed through this link <http://www.transport.gov.mt/ship-registration/mlc-2006-stcw/mlc-2006>
- Since Malta acceded to the Nairobi International Convention on the Removal of Wrecks 2007, as at 14th April 2015, registered owners of seagoing ships, including fishing vessels, private and commercial yachts of 300GT and above are required to maintain an insurance cover or other financial security, such as a guarantee of a bank or similar institution, to cover liability under this Convention.

Registration Procedure

The following documents must be submitted during provisional registration in order to obtain **permanent registration** which is renewable annually:

- Where there was previous ownership, a bill of sale or any other document by which the vessel was transferred to the applicant for registry; otherwise a builder's certificate in the name of the applicant.
- Application for a Permanent Ship Radio Station License document by which the vessel was transferred to the applicant for registry.
- Where applicable, an original Cancellation of Registry Certificate from the last country of registry, showing the vessel as free from encumbrances upon deletion.
- An original Certificate of Survey and, in the case of vessels exceeding 24 meters in length, a copy of the Tonnage Certificate certifying that the vessel has been surveyed by an Approved Classification Society or Approved Surveyor on behalf of the Government of Malta.
- Signed and stamped Carving and Marking Note (provided at provisional registration) by an Approved Class or Surveyor proving that the vessel is marked with the official number, registered tonnage, name and home port in accordance with the law.
- In the case of SOLAS Ships, a copy of the last updated Continuous Synopsis Record issued by the Administration where the ship was last documented.
- Before issuing the permanent registration certificate, the authorities require a "provisional undertaking" namely an undertaking by the directors/managers to return the provisional certificate of Malta registry within 30 days from the date of issue of the permanent certificate of Malta registry.
- Where valid appropriate convention certificates are not in place the ship will be issued with a non-operational certificate of registry.

Ships of fifteen years and over but under twenty years are required to pass an inspection by an authorised flag state inspector at an agreed port acceptable to the MSD before or within one month of provisional

registration. Expenses for the inspection are borne by the ship owner.

It is no longer possible to register vessels of more than twenty five years of age under the Malta Flag.

In addition to the above requirements for provisional and permanent registration a foreign corporate body or entity wishing to register a vessel under the Malta Flag as an international owner must produce the under-mentioned documentation in order to become eligible to register a ship.

- A declaration to appoint a local agent, duly notarised and apostilled. The duty of this resident agent is to act as a channel of communication between the international owner and the Maltese government departments and authorities, as well as to sign and file with the Maltese government department and authorities all the necessary forms and declarations, on behalf of the international owner. The local agent also acts as the judicial representative of the international owner for judicial proceedings in Malta. It is important to note that any official notices sent to the resident agent at his last registered address shall be deemed to have been duly received by and notified to the international owner.
- A formal notification by the local representative agent to the Registrar General signifying his consent to act as a resident representative.
- For foreign corporate bodies, an official copy of the Memorandum & Articles of the entity and good standing certificate, duly notarised and apostilled.
- A legal opinion duly notarised and apostilled confirming that corporate records of the foreign corporate body have been examined and, giving details of the directors and holders of office and confirming the persons authorised to represent it and bind it with their signature and to appoint agents and representatives.
- Payment of €250 would be charged by the MSD for the approval of the international owner. The sum of €125 would also be payable to the MSD on an annual basis by the international ship owner. Guidelines to the Minimum Safe Manning can be found on the Transport Malta website under Ship Registration-STCW-MSM guidelines.

Ships under Construction

Maltese law provides for the registration of vessels that are being built or equipped. The requirements relating, inter alia, to survey and safety of ships already built and, to the declaration of ownership where the builders have not yet effected delivery to owners will be suspended until construction is completed or until delivery has been made. Vessels to be classed as trading ships are to be built under the supervision of a recognised organisation.

Commercial Yachts

Yachts in commercial use which do not carry cargo and do not carry more than 12 passengers can be registered as commercial yachts. Maltese law is very

Advantageous for the operation of commercial yachts. A Commercial Yacht Code setting the required standards of safety and pollution prevention can be downloaded from <http://www.transport.gov.mt/superyacht-registration>

International Conventions

Malta has adopted all the major international maritime conventions including: CLC 92, Tonnage 69, COLREG 72, Fund 92, INMARSAT, LLMC 1996 Protocol, Load Lines 66 (including 1988 Protocol), London Convention 72, MARPOL 73/78, SOLAS 74/78 (including 1988 Protocol), STCW 78 (including 95 amendments), Bunkers 01, AFS 01, SUA 88 (including SUA Protocol 1988), SAR 79, FAL 65, OPRC 90 and OPRC-HNS Protocol 00 and ILO Conventions Nos. 8, 16, 22, 53, 73, 74, 87, 98, 108, 138, 147 (including 1996 Protocol), 180 and MLC2006.

For a ship to operate under the Malta flag it must carry at all times valid statutory certificates issued on behalf of the Malta government by a recognised organisation.

Closure of Registry

The registry of a Maltese ship may be closed at the request of the owners provided that all liabilities and obligations in respect of the ship towards the State of Malta have been fulfilled and the consent of all registered mortgagees is produced (if any).

Cancellation of registry by the Administration for non-compliance with the provisions of the law may also be effected after adequate time has been given to owners to regularize their position and for the financiers to take the necessary action to protect their interests.

Taxation

Income Tax Exemptions

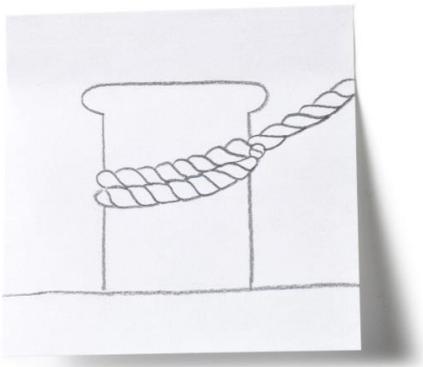
- A shipping organisation is exempt from tax on any income derived from shipping activities and any income or gains derived from the sale or other transfer of a tonnage tax ship or from the disposal of any rights to acquire a ship which when delivered or completed would qualify as a tonnage tax ship.
"Shipping activities" comprises the international carriage of goods or passengers by sea or the provision of other services to or by a ship as may be ancillary thereto or associated therewith including the ownership, chartering or any other operation of a ship and includes also ship management activities of a ship manager.
- Any gains arising upon the liquidation, redemption, cancellation, or any other disposal of shares, securities or any other interest, including goodwill, held in any licensed shipping organisation owning, operating, administering or managing a tonnage tax ship while she was a tonnage tax ship are exempt from tax in Malta.
- No Malta tax is charged upon any payments of interest or other income in relation to the financing of the operations of shipping organisations or the financing of any tonnage tax ship.

- No tax is chargeable upon dividends distributed by a shipping organisation to its shareholders, out of profits derived from shipping activities.

*An organisation shall qualify as a “shipping organisation” as ascribed in Article 84Z of Chapter 234 of the Laws of Malta.

Duty Exemptions

- No duty is payable in respect of any instrument connected with or involving the registration of a tonnage tax ship, the sale or other transfer of a tonnage tax ship or any share thereof, the assignment of any rights and interests or the assumption of obligations in respect of any ship or share thereof.
- No duty is payable in respect of any instrument connected with or involving the issue or allotment of any security or interest of a licensed shipping organisation or the purchase, transfer, assignment or negotiation of any security or interest of any licensed shipping organisation;
- No duty is payable in respect of any instrument connected with or involving the registration of any mortgage or other charge over or in relation to any ship or licensed shipping organisation, any transfer or discharge thereof, any receipt relative thereto and any assignments granted in connection therewith.



Philippines

Philippines

Individual Taxation

Income Tax

Tax Residency rules

A resident citizen is a citizen of the Philippines who is residing therein.

A non-resident citizen includes:

- A citizen of the Philippines who establishes, to the satisfaction of the Commissioner, the fact of his physical presence abroad with a definite intention to reside therein.
- A citizen of the Philippines who leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis.
- A citizen of the Philippines who works and derives income from abroad and whose employment thereat requires him to be physically present abroad most of the time during the taxable year.
- A citizen who has been previously considered as non-resident citizen and who arrives in the Philippines at any time during the taxable year to reside permanently in the Philippines shall likewise be treated as non-resident citizen for the taxable year in which he arrives in the Philippines with respect to his income derived from sources abroad until the date of his arrival in the Philippines.

Resident Aliens – A resident alien is an individual whose residence is within the Philippines and who is not a citizen thereof.

Non-Resident Aliens – A non-resident alien is an individual whose residence is not within the Philippines and who is not a citizen thereof.

Non-resident aliens may be further classified into:

- Non-resident alien engaged in trade or business – A non-resident alien engaged in trade or business in the Philippines is an individual who comes to the Philippines and stays there for more than 180 days during any calendar year.
- Non-resident alien not engaged in trade or business – A non-resident alien not engaged in trade or business in the Philippines is an individual whose stay in the Philippines is less than 180 days.

Scope of taxation

Resident citizens are taxed on income derived from sources within and outside the Philippines.

Non-resident citizens, including a seaman who is a citizen of the Philippines and who receives compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade, are taxed only on income derived from sources within the Philippines.

Foreign nationals, whether residents or non-residents, are taxed only on income derived from sources within the Philippines.

Salaries, allowances, benefits and other forms of compensation for labour or personal services performed in the Philippines is treated as Philippine-sourced income, regardless of where the payment is made.

Tax rates

Income taxes for citizens and aliens are levied at the following rates:

Resident and non-resident citizens – graduated rates of 5% to 32% of taxable income. Please refer to Appendix A for the schedule of the rates of tax.

Resident aliens and non-resident aliens engaged in trade or business – graduated rates of 5% to 32% of taxable income. Please refer to Appendix A for the schedule of the rates of tax;

Non-resident aliens not engaged in trade or business – flat rate of 25% of gross income;

Expatriates employed by regional or area headquarters of multinational companies, by offshore banking units; petroleum service contractors and subcontracts – final tax rate of 15% of gross income.

Categories of income

Income from employment

- Employee gross income subject to individual income tax – Compensation income earned from services rendered in the Philippines regardless of where the payment is made shall be considered as taxable in the Philippines. This includes, but is not limited to, salaries, wages, emoluments and honoraria, allowances; commissions; fees including director's fees, if the director is also an employee of the corporation; bonuses and fringe benefits except those which are subject to fringe benefits tax; taxable pensions and retirement pays; and other income of a similar nature.
- Fringe benefits subject to fringe benefits tax – Fringe benefits furnished by employers to employees who are in the managerial and supervisory levels are subject to fringe benefits tax (FBT). The FBT rate is generally 32%, but lower rates are imposed on benefits granted by special entities. The tax is applied on the grossed-up value of the benefit which is computed by dividing the monetary value of the fringe benefit by the factor (100% - FBT rate).

The FBT is a final tax on the income received by the employee, but the tax is borne by the employer. It is a direct liability of the employer and is required to be paid on a calendar quarter basis. Fringe benefits subject to FBT include, but are not limited to, the following:

- Housing;
- Reimbursed personal expenses;
- Motor vehicle;
- Household expenses;
- Interest on loan at less than market rate;
- Membership fees, dues and similar expenses, except for professional organizations;
- Expenses for foreign travels, except on official business;
- Holiday and vacation expenses;
- Educational assistance to the employee or his dependents, with exception subject to certain conditions; and

- Life or health insurance and other non-life insurance premiums, except under employee group insurance, or similar amounts in excess of what the law allows.

In general, expenses incurred by the employee but which are paid for or reimbursed by the employer will be treated as taxable benefits. However, expenditures incurred in the pursuit of the employer's business are not subject to FBT provided that these are supported by receipts in the name of the employer.

Personal expenses of the employee paid for or reimbursed by the employer, regardless of whether or not the same are duly receipted in the name of the employer, are considered as taxable fringe benefits.

Passive income shall include dividend income, royalties and certain interests which are subject to final tax. Tax is withheld at source and is no longer subject to graduated rates.

Business income is aggregated with taxable compensation.

Share Option Schemes

Any income realized by an alien from exercise of stock options is taxable to the extent that it relates to services performed in the Philippines. Such income is taxable at the time of exercise of the option and is determined as the difference between the fair market value of the shares at the time of exercise and the option price.

Exempt Benefits

Benefits which are of relatively small value or "de minimis" benefits are not subject to FBT. Likewise, benefits which are granted to employees because they are necessary to the trade or business of the employer, or provided for the convenience of the employer, are not subject to FBT.

Fringe benefits given to rank-and-file employees are not subject to FBT. Instead, the value of these benefits is required to be reported as part of compensation subject to the regular graduated tax rates.

Personal allowances

Resident aliens and, subject to certain conditions, non-resident aliens engaged in trade or business in the Philippines are allowed a personal exemption of PHP50,000. An additional exemption of PHP25,000 for each qualified dependent child (not to exceed four dependents) is allowed to married individuals.

A family with gross income of not more than PHP250,000 for the year may deduct premium payments for health/hospitalization insurance up to a maximum of PHP2,400.

Expatriates subject to the final tax rate of 25% or 15% are not entitled to any exemption or deduction.

Business deductions

Business expenses are allowed as deduction from gross income of individuals engaged in business or the practice of a profession.

Social security taxes

Social security coverage is compulsory for all individuals employed in the Philippines except for those who are citizens of countries to which the Philippines have existing social security treaty. Please refer to Appendix B for the list of these countries.

Offences and penalties

A surcharge of 25% for each of the following violations:

- failure to file a return and pay the tax on the due date
- filing a return with a wrong district
- failure to pay the full amount of tax as shown on the return
- failure to pay the deficiency tax in the notice of assessment within the due date

If there is wilful neglect to file the return within the prescribed period or if a false or fraudulent return is wilfully made, a surcharge of 50% will be imposed. Compromise penalties and interest at the rate of 20% per annum on any unpaid tax from the date prescribed for the payment until the amount is fully paid shall also be imposed.

Tax Credit

A citizen of the Philippines can claim as a deduction from his gross income or credit from his Philippine income tax the amount of income taxes paid or incurred during the taxable year to any foreign country. The claim for credit shall be subject to the following limitations:

- The amount of the credit in respect to the tax paid or incurred to any country shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's taxable income from sources within such country under this Title bears to his entire taxable income for the same taxable year; and
- The total amount of the credit shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's taxable income from sources without the Philippines taxable under this Title bears to his entire taxable income for the same taxable year.

Tax Administration

Tax return and compliance

Generally, individuals who are subject to Philippine taxation are required to file an annual income tax return, unless otherwise provided in the Tax Code.

Philippine tax year runs from 1st of January to 31st of December and annual income tax returns are due for filing on or before 15th of April following the close of the year. Taxes withheld during the year from the expatriate's compensation are creditable against his income tax due; the balance shall be payable at the time the return is filed.

There is no extension for filing but individuals whose tax payable is in excess of PHP2,000 has the option to pay their taxes on two (2) equal instalments with 15th of April as the first instalment due date and 15th of July as the second instalment due date.

Shipping Taxation

Legislation

Taxation

Philippine Shipping Enterprise

Pursuant to Republic Act (RA) No. 9301 (approved on 27 July 2004) amending RA No. 7471, otherwise known as the Philippine Overseas Shipping Development Act, a Philippine shipping enterprise is exempt from payment of income tax on income derived from Philippine overseas shipping for a period of 10 years from the date of approval of RA No. 9301 or until 27 July 2014, provided that:

- The entire net income, after deduction of not more than 15% thereof for distribution of profits or declaration of dividends, is reinvested in the construction, purchase or acquisition of vessels and related equipment and/or in the improvement or modernization of vessels and related equipment.
- The cumulative amount so reinvested shall not be withdrawn for a period of seven years after the expiration of the period of income tax exemption or until the vessel or related equipment so acquired has been paid for in full, whichever date comes earlier.

Any amount not so invested or withdrawn prior to the expiration of the period stipulated above shall be subject to the corresponding corporate income tax of 30%, including penalties, surcharges and interests.

“Philippine shipping enterprise” means a citizen of the Philippines or an association or corporation organized under the laws of the Philippines, at least 60% of the capital of which is owned by citizens of the Philippines and engaged exclusively in Philippine overseas shipping.

“Philippine overseas shipping” means the operation of a Philippine shipping enterprise in the overseas trade of any type of Philippine-registered ship for any kind of shipping operation, which shall include, but shall not be limited to, the transport of goods and/or passengers, the purchase of ships for operation and the sale of ships after operation, except when the ship is operated solely between ports in the Philippines.

International Sea Carrier

An international sea carriers having voyages originating from any port or point in the Philippines, irrespective of the place where passage documents are sold or issued, is subject to the Gross Philippine Billings Tax of 2.5% imposed under Section 28(A)(3)(a) and (b) of the National Internal Revenue Code (NIRC), as amended, unless it is subject to a preferential rate or exemption on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of ‘reciprocity.’

In computing for “Gross Philippine Billings”(GPB) of international sea carriers, there shall be included the total amount of gross revenue whether for passenger, cargo, and/or mail originating from the Philippines up to final destination, regardless of the place of sale or payments of the passage or freight documents.

Non-revenue passengers shall not be given value for purposes of computing the taxable base subject to tax. Refunded tickets shall likewise not be included in the computation of GPB.

Under Section 28(A)(3) of the NIRC, as amended by RA No. 10378, international carriers doing business in the Philippines may avail of a preferential income tax rate or income tax exemption on their gross revenues derived from the carriage of persons and their excess baggage on the basis of the following:

- **Applicable tax treaty to which the Philippines is a signatory** – Tax Treaties generally allow the Philippines to impose preferential income tax rates on profits from the operation of ships or aircrafts in international traffic by residents of the other contracting states. There are Tax Treaties which provide that the tax shall not exceed the lesser of 1.5 % of the gross revenues derived from sources in the Philippines, or the lowest rate of the Philippine tax that may be imposed on profits of the same kind derived under similar circumstances by a resident of a third State. In order to avail of the preferential income tax rates under Tax Treaties, international carriers shall observe the procedures stated in Revenue Memorandum Order (RMO) No. 72-2010 on the Guidelines on the Processing of Tax Treaty Relief Applications (TTRA) Pursuant to Existing Philippine Tax Treaties. Accordingly, a tax treaty relief application (TTRA) is required to be filed with the International Tax Affairs Division (ITAD) of the BIR and duly approved by the Commissioner of Internal Revenue or his/her duly authorized representative, before an international carrier may be entitled to avail of the preferential rate. A TTRA filed by and/or granted to an international carrier prior to the effective date of RR No. 15-2013 shall remain valid and binding, thus dispensing with the need for such international carrier to file a new TTRA.
- **Reciprocity** – This may be invoked by an international carrier as basis for GPB Tax exemption when its Home Country grants income tax exemption to Philippine carriers. The domestic law of the Home Country granting exemption shall cover income taxes and shall not refer to other types of taxes that may be imposed by the relevant taxing jurisdiction. The fact that the tax laws of the Home Country provide for exemption from business tax, such as gross sales tax, in respect of the operations of Philippine carriers shall not be considered as valid and sufficient basis for exempting an international carrier from Philippine income tax on account of reciprocity. Reciprocity requires that Philippine carriers operating in the Home Country of an international carrier are actually enjoying the income tax exemption.

An off-line international sea carrier having a branch/office or a sales agent in the Philippines which sells passage documents for compensation or commission to cover off-line voyages of its principal or head office, or for other sea carriers covering voyages originating from Philippine ports or off-line voyages, is not considered engaged in business as an international carrier in the Philippines and is, therefore, not subject to GPB Tax provided for in Section 28(A)(3) of the NIRC, as amended. Nevertheless, an off-line international sea carrier shall be subject to the regular rate of 30% income tax under Section 28(A) (1) of the NIRC, as amended, based on its taxable income from sources within the Philippines.

All items of income derived by international sea carriers that do not form part of GPB shall be subject to tax under the pertinent provisions of the NIRC, as amended.

Demurrage fees, which are in the nature of rent for the use of property of the carrier in the Philippines, is considered income from Philippine source and is subject to income tax under

the regular rate as the other types of income of the on-line carrier.

Detention fees and other charges relating to outbound cargoes and inbound cargoes are all considered Philippine-sourced income of international sea carriers they being collected for the use of property or rendition of services in the Philippines, and are subject to the Philippine income tax under the regular rate.

Value-Added Tax

Domestic sea carriers are subject to 12% value-added tax (VAT) on their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines. Transport of passengers and cargo from the Philippines to a foreign country by a Philippine shipping enterprise is subject to 0% VAT while the income derived from their transport operations from a foreign country to the Philippines is VAT exempt. Any other income incidental to their operations shall be subject to 12% VAT (Section 108 [B][6] of the NIRC, as amended and Revenue Memorandum Circular [RMC] No. 31-2008).

The transport of passengers by international sea carriers doing business in the Philippines shall be exempt from VAT pursuant to Sections 109(1)(S) of the NIRC, as amended by RA No. 10378. The transport of cargo by international carriers doing business in the Philippines shall be exempt from VAT pursuant to Sections 109(1)(E) of the NIRC, as amended by RA No. 10378, as the same is subject to Common Carrier's Tax (Percentage Tax on International Carriers) under Section 118 of the NIRC, as amended. International sea carriers exempt under Sections 109(1)(S) and 109(1)(E) of the NIRC, as amended, shall not be allowed to register for VAT purposes.

The sale, importation or lease of passenger or cargo vessels, including engine, equipment and spare parts for domestic or international transport operations, are exempt from VAT (Section 109 [S] of the NIRC, as amended). To avail of these VAT exemptions, the requirements set forth in Republic Act No. 9295 must be met. Said requirements include, among others: 1) that the importation and local purchase of passenger and/or cargo vessels shall be limited to those of 150 tons and above, including engine and spare parts of said vessels, and 2) that the vessels to be imported shall comply with the age limit requirement, at the time of acquisition counted from the date of the vessel's original commissioning, as follows: (i) for passenger and/or cargo vessels, the age limit is 15 years; (ii) for tankers, the age limit is 10 years; and (iii) for high-speed passenger crafts, the age limit is 5 years (Section 4, RA No. 9295 and RMC No. 031-08). Importation of fuel, goods and supplies for use by persons engaged in international shipping is VAT-exempt provided that said fuel, goods and supplies shall be used exclusively in or shall pertain to the transport of goods and/or passengers from a port in the Philippines directly to a foreign port without stopping at any other port in the Philippines to unload passengers and/or cargoes loaded in and from another domestic port. Should any portion of such fuel, goods or supplies be used for purposes other than the foregoing, such portion of fuel, goods and supplies shall be subject to 12% VAT (Section 109 [T] of the NIRC, as amended, and RMC No. 31-2008).

The sale of goods, supplies, equipment, fuel and services (including leases of property) to a common carrier to be used in its international sea transport operations is subject to 0% VAT. It is required however, that the same be limited to goods, supplies, equipment, fuel and services pertaining to or attributable to the transport of goods and passengers from a port in the Philippines directly to a foreign port without docking or stopping at any other port in the Philippines to unload passengers and/or cargoes loaded in and from another domestic port. Thus, if any portion of such fuel, equipment, goods or supplies and services be used for

purposes other than those mentioned, such portion of fuel, equipment, goods, supplies, and services shall be subject to 12% VAT (Sections 108 [B] [4] and 109 [S] of the NIRC, as amended and RMC No. 31-2008).

Import Duties and Taxes

Importation by a Philippine shipping enterprise operating or to operate ocean-going vessels which are registered or to be registered under the Philippine flag is exempt from import duties and taxes. Spare parts for the repair and/or overhaul of vessels are likewise exempt from import duties and taxes, provided that such items are destined for or consigned to either: (a) a Philippine dry-docking or repair facility that is accredited by the Maritime Industry Authority (MARINA) and registered as a customs-bonded warehouse and will undertake the necessary repairs and work on the vessel, or (b) the vessel in which the items are to be installed. If such items are found in locations other than the two aforementioned ones or in places not authorized by customs, the person or entity in possession of such items will be subject to full duties and taxes, including surcharges and penalties.

Local manufacturers or dealers who sell machinery, equipment, materials and spare parts to a Philippine shipping enterprise are entitled to tax credits for the full amount of import duties and taxes actually paid, or on parts or components thereof, subject to the approval of the Secretary of Finance, upon the recommendation of the MARINA.

Freight Taxes (Common Carriers Tax)

International shipping carriers doing business in the Philippines on their gross receipts derived from the transport of cargo from the Philippines to another country shall pay a Common Carrier's Tax (Percentage Tax on International Carriers) equivalent to 3% of their quarterly gross receipts pursuant to Section 118 of the NIRC, as amended by RA No. 10378.

For purposes of determining the Common Carrier's Tax liability of international carriers pursuant to Section 118 of the NIRC, as amended, "gross receipts" shall include, but shall not be limited to, the total amount of money or its equivalent representing the contract, freight/cargo fees, mail fees, deposits applied as payments, advance payments and other service charges and fees actually or constructively received during the taxable quarter from cargo and/or mail, originating from the Philippines in a continuous and uninterrupted flight, irrespective of the place of sale or issue and the place of payment of the passage documents.

In cases when the GPB Tax provided for in Section 28(A)(3) of the NIRC, as amended, is not applicable, the Common Carrier's Tax herein imposed under Section 118 of the NIRC, as amended, shall still apply. Provided that, an off-line international carrier having a branch/office or a sales agent in the Philippines which sells passage documents for compensation or commission to cover off-line voyages of its principal or head office, or for other sea carriers covering or voyages originating from Philippine ports or off-line voyages, is not considered engaged in business as an international carrier in the Philippines and is, therefore, not subject to the 3% Common Carrier's Tax under Section 118(A) of the NIRC, as amended. This provision is without prejudice to classifying such taxpayer under a different category pursuant to a separate provision of the NIRC.

Corporate Structure

Most Commonly Used Legal Structures for Shipping Activities

Most shipping companies operate as corporations and/or partnerships and accordingly are

subject to applicable tax rates.

Philippine Overseas Employment Administration (POEA)-licensed manning agencies may be Filipino single proprietorships, partnerships or corporations at least 75% of the authorized and voting capital stock of which is owned and controlled by Filipino citizens. POEA rules and regulations require a minimum capitalization of PHP2 million in the case of a single proprietorship or partnership and a minimum paid-up capital of PHP2 million in the case of a corporation.

Taxation of Profit Distribution

Profit distribution will be taxed based on the following tax rates:

- For corporations: 0% for domestic and resident foreign corporate stockholders and 15% for non-resident foreign corporations, subject to the condition that the country in which the non-resident foreign corporation is domiciled allow a credit against the tax due from the non-resident foreign corporation, equivalent to 15% of the taxes deemed to have been paid in the Philippines, beginning 1 January 2009 (Section 28 [B][5] [b] of the NIRC, as amended). Non-resident foreign corporations may avail of the preferential rates under certain tax treaties.
- For individuals, the tax rate is 10% for citizens and resident foreigners. However, for non-resident foreigners, the tax rate is 20% if they are engaged in trade or business in the Philippines and 25% if they are not engaged in trade or business in the Philippines.
- Branch remittances, on the other hand, are taxed at 15%, based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof (except those activities that are registered with the Philippine Economic Zone Authority) (Section 28 [A][5] of the NIRC, as amended). Moreover, preferential rates may be availed of under certain tax treaty provisions.

Grants and incentives

Investment incentives under RA No. 9295 (Domestic Shipping Development Act of 2004)

Investment incentives are granted to qualified domestic shipowners/operators and for shipbuilding and ship repair:

VAT exemption

- Importation of passenger and/or cargo ships of 150 tons and above including engine spare parts of the imported ship– Importation of life-saving equipment, fire-fighting systems and safety and rescue equipment
- Importation of cargo-handling equipment that is reasonably needed and to be used exclusively by the registered domestic shipowner/operator in his transport operations
- Sale, transfer and disposition of the above-mentioned articles

Net operating loss carryover

- A net operating loss in any taxable year immediately preceding the current taxable year which had not been previously offset as a deduction from gross income shall be carried over for the next three consecutive taxable years immediately following the year of such loss.

Accelerated depreciation

- “Qualified domestic shipowner/operator” shall mean a citizen of the Philippines, a commercial partnership wholly owned by Filipinos or a corporation at least 60% of the capital of which is owned by Filipinos that is duly authorized by the MARINA to engage in the business of domestic shipping.

Investment incentives granted by the BOI for shipping companies and the shipbuilding industry under the Investments Priority Plan (IPP)**Fiscal incentives**

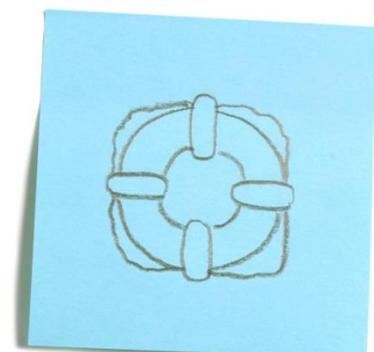
- Income tax holidays:
 - New projects with pioneer status for six years
 - New projects with a non-pioneer status for four years
 - Expansion projects for three years
 - New or expansion projects in less-developed areas for six years
 - Modernization projects for three years
- Exemption from taxes and duties on imported spare parts
- Exemption from wharfage dues and export tax, duty, impost and fee
- Tax credits
- Additional deductions from taxable income

Non-fiscal incentives

- Employment of foreign nationals
- Simplification of customs procedures
- Importation of consigned equipment for a period of 10 years
- The right to operate a bonded manufacturing/trading warehouse

Special incentives for environmental awareness

No special incentives are provided for environmental awareness in the Philippine shipping industry.



Singapore

Singapore

Individual Taxation

Income Tax

The taxable income of a Singapore tax resident (resident) individual includes all income accruing in or derived from Singapore, and foreign (non-Singapore) sourced income that is received in Singapore through a partnership in Singapore. "Received" includes remittance and deemed remittance into Singapore. The taxable income is net of any personal reliefs and allowances that are available to the resident individual.

Resident individuals are taxed at progressive rates ranging from 2% to 20% (increased to 22% from Year of Assessment (YA) 2017 onwards) with effect from the YA 2012 (income for the year 2011) after deduction of personal reliefs and allowances.

For a non-resident individual, taxable income includes all income accruing in or derived from Singapore. A non-resident individual, other than a director, exercising a short term employment in Singapore for less than 60 days may be exempt from Singapore income tax under Section 13(6) of the Singapore Income Tax Act (SITA).

A non-resident individual is exempt from Singapore income tax on remittances from sources outside Singapore.

A non-resident individual is not eligible for any personal reliefs or allowances.

A non-resident individual is taxed on employment income at the higher of a flat rate of 15% (without any deduction of personal reliefs and allowances) or at graduated resident tax rates as if a resident individual.

All other income with a Singapore source, including director's fees and consultant's fees, is taxed at a flat rate of 20% (increased to 22% from YA 2017 onwards).

Special Tax Regime

Singapore adopts a territorial basis of taxation where income sourced in Singapore is subject to Singapore income tax. Foreign sourced income is subject to Singapore income tax when it is remitted or deemed remitted into Singapore. With effect from YA 2005 (income for the year 2004), foreign sourced income received or deemed received by a resident individual is not taxable (except for income received or deemed received through a partnership).

Income from employment is considered derived from Singapore if the employment is exercised in Singapore. The place where the employment contract is signed or the place where the remuneration is paid is not relevant in determining the source of the employment income. Where the employment is exercised outside Singapore, the income from the employment should not be considered Singapore sourced and should not be taxable in Singapore. However, where an individual is based in Singapore and his/her duties require him/her to travel outside Singapore, the time spent outside Singapore would be considered incidental to his/her Singapore employment and the remuneration derived therefrom would be considered Singapore sourced and taxable in Singapore.

Employment income includes wages, salary, leave pay, fees, commissions, bonuses, gratuities, perquisites, and allowances, etc. Certain items of compensation may be afforded concessionary treatment in Singapore, for e.g. home leave, housing, provision of motor vehicle/leased car, relocation benefits, etc.

In addition, the start and end dates of an assignment will be an important factor in the computation of the total tax liability of an employee working in Singapore or leaving for overseas assignment.

Interest income derived by an individual from the deposit of money (regardless of the amount and currency) in a standard savings, current or fixed deposit account with an approved bank or finance company in Singapore is exempt from tax. Dividend income from a Singapore resident company paid under the one-tier corporate tax system will also be tax exempt.

Net rental income derived from real property situated in Singapore is taxable.

There is no income tax on **capital gains** in Singapore. Taxable income can be reduced by, inter-alia, losses incurred in a trade, unreimbursed business-related expenses, and approved donations.

The tax residency status of the employee in Singapore would not necessarily impact the taxability of the income. It will, however, determine the rate of tax applicable on the Singapore sourced income chargeable to tax.

A resident individual is one who normally resides in Singapore except for temporary absences that are consistent with a claim by such person to be a resident in Singapore. A Singapore citizen is generally considered a resident notwithstanding the duration of his/her overseas assignment. The absences from Singapore will be considered temporary as he/she will have the intention to return to Singapore after the assignment.

A foreigner will be considered a resident if he/she is physically present, or exercises employment (other than as a director of a company) in Singapore for 183 days or more during the calendar year preceding the YA. Presence for a lesser period may still constitute tax residency if the intention is to establish permanent residence in Singapore or where the 2 year or 3 year administrative concession is applicable.

Where the individual has exercised an employment in Singapore for less than 183 days during the calendar year, the Inland Revenue Authority of Singapore (IRAS) may, on concessionary basis, assess him/her to tax as a resident in that year if his/her employment in Singapore is expected to cover a continuous period of at least 183 days straddling over 2 calendar years (2-year administrative concession) or if he/she is expected to exercise an employment in Singapore for 3 consecutive YAs (3-year administrative concession).

A non-resident is any individual who is not resident according to the preceding rules.

A Singapore citizen employee who is on an overseas assignment for more than 6 months within a calendar year can elect to be treated as a non-resident on an annual basis.

An individual can qualify for the Not Ordinarily Resident (NOR) status from any YA commencing from the YA 2003 (2002 calendar year) when he/she first meets the following qualifying criteria: - (i) the individual is a resident for the YA; and (ii) he/she is a non-resident for 3 consecutive YA immediately prior to that YA.

Once approved, the individual will be granted the NOR status for 5 years. There are 2 tax concessions for such individuals who qualify for the NOR scheme, namely:

- a) time apportionment of income;
- b) tax exemption (subject to NOR cap) of the employer's contribution to non-mandatory overseas pension fund or social security system (employer's pension exemption).

The conditions to qualify for **the tax concessions** annually are:

For time apportionment of income

- a) the individual spends at least 90 business days outside Singapore pursuant to Singapore employment,
- b) the individual's employment income is at least SGD160,000, and
- c) the individual is employed by a Singapore entity.
(Please note that where tax on the apportioned income is lower than 10% of the individual's total employment income, the individual's tax liability will be 10% of his/her total employment income.)

For employer's pension exemption:

- a) the individual is neither a Singapore citizen nor a Singapore Permanent Resident (SPR) under immigration rules,
- b) the individual's employment income is at least SGD160,000, and
- c) the employer does not claim a corporate tax deduction of the contribution that will be tax exempt.

For certain types of companies like investment holding companies, tax exempt bodies, service companies, etc., additional conditions apply.

Separately, please note that employment income derived by crew who are employed on Singapore-registered ships which ply in international waters are exempted from Singapore income tax. This exemption applies to seafarers/crew, regardless of whether they are Singapore citizens, SPRs or foreigners.

The exemption, however, does not apply to employees who are based onshore but may be periodically required to board/ sail with the ships for inspection work or for other purposes.

It may also not be applicable to crew members who are employed on foreign-registered ships that are owned by Singapore companies.

Tax Administration

The assessment year or the YA in Singapore is based on the calendar year. An individual's assessable income for the YA is based on income from the preceding calendar year. That is, income earned in 2014 would be assessable to tax in the YA 2015. The individual is required to complete his/her tax return and file it to the IRAS by April 15 each year (15 April 2015 in this example). That is, unless an extension has been granted by the IRAS to the individual to file by a later date.

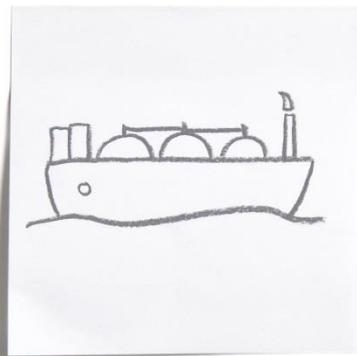
The tax assessed must be settled within one month from the date of issue of the Notice of Assessment (NOA).

Penalties are imposed on late payment of the tax assessed. An individual may elect to pay his/her tax by interest free instalments (maximum of 12 instalments) beginning from April to

March: with the amount deducted from May to April of the following year. The instalment plan will automatically cancel when a foreigner ceases employment in Singapore and a tax clearance return is filed with the IRAS.

There is generally no requirement to withhold tax on monthly remuneration except in the connection with the payment of remuneration to non-resident directors or in connection with the filing of a tax clearance returns for non-Singapore citizen employees on cessation of Singapore employment. Withholding will also apply on payments made to non-resident professionals.

A tax clearance return (Form IR21) needs to be filed with the IRAS by the employer of any employee who is not a Singapore citizen, or SPR employee (including SPR who will be on overseas assignment for a period of 3 months or more), on cessation of their employment in Singapore. It must be filed, at least one month prior to the date of cessation/departure from Singapore. The employer is also required to withhold all monies due and payable to that employee until the tax clearance is obtained from the IRAS or after 30 days from the date of receipt by the IRAS of the Form IR21. The tax assessed is payable immediately upon the IRAS issuance of the NOA on the tax clearance return. The IRAS will corollary issue a directive to the employer to pay the tax on the NOA from monies withheld by the employer from the employee.



Shipping Taxation

Income derived by a company, subject to certain exceptions, is taxable in Singapore at the corporate income tax (CIT) rate of 17%. A company's assessable income includes all income accruing in or derived from Singapore, and foreign (non-Singapore) sourced income that is received (including remitted or deemed remitted) in Singapore from outside Singapore. The company's taxable or chargeable income is reduced by partial exemption equal to the sum of (a) 75% of the first SGD10,000 of chargeable income and (b) 50% of the next SGD290,000 of chargeable income – to arrive at the net chargeable income to calculate the CIT.

A qualifying newly incorporated company subject to meeting certain conditions may be exempted from CIT on the first SGD100,000 and on 50% of the next SGD200,000 of chargeable income for its first 3 consecutive YA.

Companies are automatically exempted from CIT on qualifying shipping income from Singapore registered ships that are plying in international waters under Section 13A of the Singapore Income Tax Act (SITA).

Maritime Sector Incentives (MSI)

All tax incentives for the maritime sector requiring application to the Maritime and Port Authority of Singapore, such incentives are streamlined and consolidated into three categories under the Maritime Sector Incentive (MSI) scheme-award.

1. International Shipping Operations

MSI-Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS) Scheme

Entities under this category will enjoy tax exemption on certain prescribed shipping income (see more details below), as well as automatic withholding tax exemption on qualifying payments made in respect of qualifying foreign loans entered into on or before 31 May 2021 to finance the purchase or construction of Singapore-flagged ships, subject to conditions.

- Income of a shipping enterprise derived from the operation of a Singapore registered ship (other than within the limits of the port of Singapore) for the carriage of passengers, mails, livestock or goods, towing or salvage operations, charter of ships or use of the ship as a dredger, seismic ship or vessel used for offshore oil or gas activity; is exempt from Singapore tax.
- Income of a shipping enterprise derived (other than within the limits of the port of Singapore) from the carriage of passengers, mails, livestock or goods shipped in Singapore by a foreign (registered) ship are also exempt from Singapore tax.
- Income from the provision of specified ship management services to any qualifying subsidiary.

Approved International Shipping Enterprise (MSI-AIS) Scheme

A resident shipping company can also apply for the AIS Scheme: it permits the income derived from the operation/charter of the shipping company's fleet of foreign ships as well as the provision of specified ship management services to qualifying special purpose vehicles to be tax exempt.

Entities under this category will also enjoy automatic withholding tax exemption on qualifying payments made in respect of qualifying foreign loans entered into on or before 31 May 2021 to finance the purchase or construction of foreign-flagged ships, subject to conditions.

2. Maritime (Ship or Container) Leasing (MSI-ML) Scheme

Entities under this category will qualify for the following concessionary tax rates for a period of 5 years:

1. 0% for ship lessors including income derived from finance leasing of qualifying ships for use outside the port limits of Singapore; and
2. 5% or 10% on certain prescribed qualifying income (e.g. approved shipping investment management activities, approved container leasing activities etc.), as well as automatic withholding tax exemption on qualifying payments made in respect of qualifying financing arrangements entered into on or before 31 May 2021 to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships and acquisition of sea containers and intermodal equipment, subject to conditions.

3. Shipping-related Support Services (MSI-SSS) Scheme

Entities under this category will qualify for concessionary tax rate of 10%, for a 5-year renewable period, on its incremental qualifying income derived from the provision of the following qualifying supporting shipping services:-

1. Ship management, ship agency, and freight forwarding / logistic services;
2. Ship broking and forward freight agreement trading; and
3. Qualifying corporate services (such services should be rendered to qualifying approved related parties who are carrying on business of shipping-related activities).

Tax exemption of vessel disposal gains

Qualifying ship operators and ship lessors under the MSI schemes will automatically be granted tax exemption on the following provided that the eligible entities are not in the business of trading in ships:

1. Gains from the disposals of vessels;
2. Gains from the disposals of vessels under construction (including new building contracts); and
3. Gains from the disposals of foreign vessels for ship lessors under the MSI-ML (Ship) scheme.

The above tax exemption also extends to gains from disposals of all the issued ordinary shares in a special purpose company that owns qualifying vessels, subject to conditions.

Withholding tax exemption for charter fees

Since 17 February 2012, all bareboat, voyage and time charter payments to non-residents (excluding permanent establishments in Singapore) for the use of ships have been exempted from Singapore withholding tax.

Registration Requirements

The Singapore Registry of Ships (“SRS”) enables quick and easy registration of ships under the Singapore flag. There are several benefits of registering your vessel under the Singapore flag. A ship can be registered within two hours upon the complete submission of all relevant documents. Advance registration facilities are also available to facilitate delivery of a ship in a foreign port.

Only the following may be registered as owners of Singapore vessels:

- Singapore citizens or Singapore permanent residents.
- Companies incorporated in Singapore – foreign or locally owned:
 - A foreign-owned company is defined as a company incorporated in Singapore and has more than 50% of its equity owned by non-Singapore citizens.
 - A locally owned company is defined as a company incorporated in Singapore and has more than 50% of its equity owned by Singapore citizens or another locally owned company
- If owned by a foreign-owned company, the vessel may be registered in Singapore under the following conditions:
 - The company must have a minimum paid-up capital of SGD50,000.
- The vessel must be at least 1,600 GT and be self-propelled. If owned by a local-owned company, the vessel may be registered in Singapore if the company satisfies the minimum paid-up capital requirement of SGD50,000. The Registrar may waive the minimum paid up capital requirement provided that the owner applies to register specified numbers of vessels of certain aggregate tonnage – in satisfaction of the Block Transfer Scheme abovementioned.
- An exemption from the gross tonnage requirement may be granted by the Registrar in his absolute discretion on a case-by-case basis, if the vessel is operated from or based in Singapore. Owners must apply to the Registrar for this exemption.
- For tug- and barge-owning local companies and their holding companies, the paid-up capital will be pegged to 10% of the value of the first tug or barge registered or SGD50,000, whichever is the lesser, subject to a minimum of SGD10,000.

Ships less than 17 years will be considered for registration. The age here takes reference from the Year of Keel Laid of the ship.

Registration Procedure

Provisional registration

The Provisional Certificate is valid for a maximum period of one year with no possibility of any extension. The vessel must be transferred to the permanent register before the end of this period. The transfer will be affected when all the outstanding documents for permanent registration are submitted.

No fee is charged for this transfer.

Documents to be submitted for Provisional Registration are the:

- Completed application form
- Company's business profile

Appointment of an agent

An agent may be appointed to sign the declaration in the provisional registration application form. To appoint an agent, the owner must complete the Appointment of Agent form.

- Where the owner is an individual, he may appoint an agent. The owner must sign the appointment form in the presence of a witness.
- Where the owner is a company and if the provisional registration application form is not signed by a Director or the Secretary of the company, then a person must be

appointed as an agent for the purpose of signing the form. The appointment of the agent must be executed under the common seal of the company.

Appointment of a manager

The vessel manager is responsible for the operations of the vessel, in particular, for all matters related to the crew, safety and prevention of pollution. All communication relating to the vessel will be directed to the manager.

To appoint a manager, the owner must complete the Appointment of Manager form.

For every Singapore vessel, the owner must appoint a manager, whose residence is in Singapore.

- Where the owner is an individual, he may appoint himself as the manager.
- Where the owner is a company, it may appoint an employee of the company to be the manager.
- Where a company is appointed manager, the name of the person in the company with the ultimate responsibility for the vessel and his designation in the company must be clearly indicated.

If there is a change in the manager, the vessel owner must complete a new form and submit it to the Registrar of Ships within 7 days of the change.

Evidence of ownership

The following are required as proof of ownership:

- For a new vessel, a photocopy of the Builder's Certificate is required.
- For an existing vessel, a copy of the Bill of Sale is required
- For existing vessel without change in ownership, a transcript of its former registry is required.

Builder Certificate or Bill of Sale is to be submitted together with a copy of the Power of Attorney if it is executed under the Power of Attorney.

Evidence that Vessel is Free from Registered Encumbrances

- A clean transcript from former Registry.
- A copy is to be submitted. In the absence of a clean transcript, a letter evidencing that application has been made to the former Registry to close the Registry of the vessel, or a letter from the outgoing mortgagee/owner indicating the intended date of discharge of the mortgage over the vessel in the former Registry, will be considered.
- The date of issuance of the clean transcript must not be more than 3 days before the date of the change of flag.

Value of the vessel

The owner must declare the value of the vessel in Singapore currency (SGD) on the company's letterhead if this is not reflected in other documents submitted (the Bill of Sale).

Tonnage certificate

All vessels must have their tonnage determined in accordance with the provisions of the Merchant Shipping (Tonnage) Regulations which gives effect to the International Convention on Tonnage Measurement of Ships, 1969 (TM 69).

- A tonnage certificate may be issued by the Maritime and Port Authority of Singapore (MPA) Shipping Division or any of the classification societies authorised by the MPA.
- A TM 69 Tonnage Certificate issued by the government of a contracting state to TM 69 may be accepted for provisional registration only. The vessel must have its tonnage certificate re-issued by the MPA's Shipping Division or any one of the authorised classification societies not later than one year after its initial registration. Should there be any difference in the net tonnage, the registration fee and the annual tonnage tax payable will be adjusted accordingly.
- The tonnage of a Singapore vessel may not be re-determined except in accordance with the provisions of the Regulations mentioned above and re-registration / registration anew may be required. If the intention is to convert or modify the vessel after registration before it is put into service, it should be clearly stated in the application form that the tonnage given is an interim figure.
- In the case of a new construction (new build), an interim tonnage certificate issued by the MPA's shipping division or one of the authorised classification societies is required.

Class certificate

A copy of the vessel's classification certificate issued by any of the authorised classification societies may be accepted as evidence of seaworthiness.

- For a new vessel, an interim class certificate or statement of entry is required.
- For an existing vessel, a statement of class maintained is required.

Acceptance of provisional registration

Upon satisfying the requirements stated above, the Certificate of Registry and a Carving and Marking Note will be issued.

The Carving and Marking Note has to be certified by a surveyor from the MPA's Shipping Division or one of the authorized classification societies and returned to the Registry within 30 days of its issuance date.

Permanent registration

In addition to the documents required for a provisional registration, a vessel may be permanently registered or transferred to the permanent registry with the submission of the following documents.

Evidence of ownership

- An original copy of the evidence of ownership is required:
 - For a new vessel, the Builder's Certificate is required.
 - For an existing vessel, the Bill of Sale and a certified transcript of its former registry or any other similar document showing previous ownership are required
- If there are any intervening changes in ownership, all the intermediate Bills of Sale must also be submitted. There must be continuity of title.
- Any Builder's Certificate or Bill of Sale that is executed outside Singapore must be notarised and legalised. If executor is not a local and documents are executed in Singapore, a letter of confirmation from the executor or notarisation of the documents is required.
- It is the vessel owners' responsibility to ensure that the Bill of Sale or Builder's Certificate is properly executed and conveys good title to them.

- A copy of the original document of title to ownership must be submitted together with a copy. The original document will be returned with an endorsement after completion of the registration formalities.

Tonnage certificate

A copy of the full-term tonnage certificate issued by the MPA's Shipping Division or one of the authorised classification societies is required. All vessels must have their tonnage determined in accordance with the provisions of the Merchant Shipping (Tonnage) Regulations (which gives effect to the International Convention on Tonnage Measurement of Ships, 1969 (TM 69)).

Class certificate

A copy of the full-term classification certificate issued by one of the authorised classification societies may be accepted as evidence of seaworthiness.

Statutory certificate

Where applicable, the owner must produce copies of the vessel's valid statutory certificates such as:

- Passenger Ship Safety, Cargo Ship Safety Construction, Cargo Ship Safety Equipment, Cargo Ship Safety Radiotelegraphy/ Radiotelephony;
- International Load Line/Local Freeboard;
- International/Singapore Oil Pollution Prevention;
- Noxious Liquid Substance;
- Certificate of Fitness;
- Thirty Mile/Port Limit Passenger Ship Safety Certificates;
- Document of Compliance;
- Safety Management Certificate; and
- International Ship Security (ISS) Certificate.

These certificates must be issued by the MPA's Shipping Division or one of the authorised classification societies.

Evidence of cancellation of the former registry

Where the vessel has, at any point in time, been registered in another country, evidence of cancellation of the former registry is required.

- The evidence may be in the form of a Deletion Certificate or a 'closed' transcript of the former registry.
- The original document is required.

A vessel that has been struck off the former registry for non-compliance with mandatory requirements will not be accepted for registration.

Certified Carving and Marking Note

The Carving and Marking Note certified by a surveyor from the MPA's Shipping Division or one of the authorised classification societies must be returned to the Registry within 30 days of its issue.

Acceptance of registration

- Upon completion of all the formalities, the vessel will be transferred to the Permanent Register and the Certificate of Registry will be issued.
- No fee is charged for this transfer.

- Ship managers will be informed by fax to collect their Permanent Certificate of Registry in exchange for their Provisional Certificate of Registry.
- If they are unable to produce the Provisional Certificate upon collection, they may produce an official letter undertaking the return of the Provisional Certificate within the next 30 days.

Taxation

Tonnage tax

The annual tonnage tax is SGD0.20 per NT to the nearest tonne subject to a minimum of SGD100 (500 NT) and a maximum of SGD10,000 (50,000 NT).

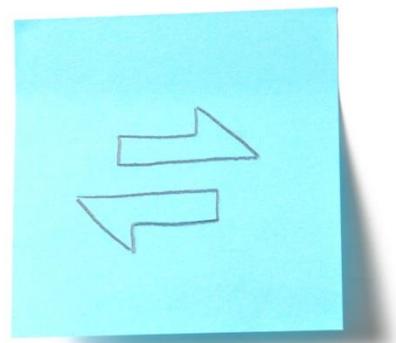
The annual tonnage tax must be paid at the time of initial registration or re-registration and thereafter every year on or before the anniversary date on which the vessel was registered or re-registered, as the case may be.

No refund of the tax will be made if during the year for which the tax has been paid, the registry of the vessel is closed for any reason.

Goods and Services Tax (GST) on the sale of ships

The sale of ships executed outside Singapore ought to be out of scope of the Singapore GST. There should not be any import duty.

The sale of ships executed in Singapore should be zero-rated for Singapore GST purposes. One can apply to the IRAS for a waiver of GST filing.



Thailand

Thailand

Individual Taxation

Income Tax

An individual who is responsible for tax is a person presenting in Thailand for a cumulative 180 days or more in a calendar year and he/she shall be deemed to be a Thai resident for tax purposes.

The assessable income under Thai tax code is an income arising in Thailand whether obtaining from outside the country or actually paid. For a non-resident is subject to tax only on Thailand-source income.

The taxable income includes employment income, business income and investment income, as well as income from a broad range of activities which can be categorized in accordance with Section 40 (1)-(8) of Thai tax code as follows:

- Income from personal services rendered to an employer;
- Income by virtue of jobs, positions, commission fees or services rendered;
- Income from goodwill, copyrights, franchises, other rights, annuities or income in the nature of annual payments derived from a will or court judgment;
- Income from dividends, interest on deposits with banks in Thailand, income from shares of profits or other benefits from a company, partnership or mutual fund, payments received as a result of a reduction of capital, bonuses, increased capital holdings, gains from the amalgamation, acquisition or dissolution of companies or partnerships and gains from the transfer of shares or partnership holdings;
- Income from the letting out of property under hire or hire-purchase contracts;
- Income from liberal professions (e.g. lawyer, physician, engineer, architecture, auditor, etc.);
- Income from construction and other work contracts; and
- Income from business, commerce, agriculture, industry, transport or other activities not specified above.

Personal income tax is normally withheld by means of the flat rate and progressive rate applied. The examples of income withheld by using the flat rate are: payments of dividends to resident and non-resident are withheld at a rate of 10%, payments of interest to individuals withheld at 15% if the payer is a bank or financial institution, and so on.

The progressive rate method is applied to withhold on salary or hire of work payment. The regular tax rates range from 0% to 37%. Nonetheless, Thai Revenue Department has recently announced the new rates in December 2013 which entered into force between the fiscal year of 2013 and 2014. The new marginal tax is subdivided into 8 portions and ranged from 0% to 35% as scheduled below.

Net Income (THB)	Rates		Cumulative Tax Payable (THB)		
	Old Rate	New Rate	Old	New	Difference
0 – 150,000	Exempt	Exempt	-	-	
150,001 – 300,000	10%	5%	15,000	7,500	7,500
300,001 – 500,000	10%	10%	35,000	27,500	7,500
500,001 – 750,000	20%	15%	85,000	65,000	20,000
750,001 – 1,000,000	20%	20%	135,000	115,000	20,000
1,000,001 – 2,000,000	30%	25%	435,000	365,000	70,000
2,000,001 – 4,000,000	30%	30%	1,035,000	965,000	70,000
4,000,001 upwards	37%	35%	N/A	N/A	N/A

The purpose of this new rate is to reduce the tax burden of individuals boosting up the economic growth and lessening the gap between the rich and the poor. In this regards, please note that the rate is imposed merely on the period of 2013 and 2014. For the year of 2015 and beyond, there are still unclear whether the new rates shall continue.

Special Tax Regime

A reduction in the progressive income tax rates to a 15% flat rate is applicable to assessable income an expatriate receives through the employment by a qualifying ROH in Thailand that provides management, technical or support services to its branches or associated enterprises in Thailand and abroad. Expatriates are entitled to these benefits while working in Thailand for a period not exceeding four consecutive years or up to eight years in certain cases.

Tax Administration

The tax year for individuals is the calendar year. Personal income tax returns must be filed by 31 March of the following the taxable year (the tax year is the calendar year).

An employer has the duty to withhold tax on employment income based on monthly basis and pays it to the Revenue Department. The tax paid would be regarded as tax credit of the employee.

Shipping Taxation

Corporate Income Tax (CIT)

Generally, CIT is levied on net profit calculated based on accrual basis in an accounting period. The normal tax rate is 30%; nevertheless, this is currently relaxed to 20% in the year of 2013 and 2014.

For international transportation, CIT is levied at the rate of 3% of freight charges, fees and other benefits, whether chargeable in Thailand or not, before deducting any expense from such carriage of goods out of Thailand.

Please note that CIT is only applied in the carriage of goods out of Thailand.

There is an exemption provided to a Thai company for income received from international transportation, provided that the Thai company must:

1. Use a ship registered as Thai ships under Thai vessel B.E. 2481 for the purpose of transportation; and
2. Have crews with Thai nationality greater than 50 percent in the Vessel.

In this regard, certain types of income from international transportation would be exempt:

1. Income specified in the bill of lading or freight manifest;
2. Income derived from a voyage charter or a time charter;
3. Income received from the slot exchange;
4. Other incomes that has a nature as freight;
 - a. Terminal Handling Charge (THC),
 - b. Cost Recovery Charge (CRC),
 - c. Currency Adjustment Factor (CAF),
 - d. Bunker Adjustment Factor (BAF),
 - e. Crane Charge, and
 - f. Rebate on ability to provide high volume on transportation services.
5. Income or profits derived from converting value or price of Thai currency of assets or liabilities; and
6. Income from interests on savings arising from the shipping services for the amount not exceeding 2 percent of the revenue derived from the shipping services.

Withholding Tax (WHT)

WHT is a tax collectible on the payment paid to the payee. The payer is liable to submit WHT collected from the payee to Revenue Department on behalf of the payee and issue WHT certificate for the payee record. In addition, WHT paid shall become tax credit that will apply against the income tax. Generally, the applicable WHT rates relies on the categories of assessable income, for example, transport fees is withheld 1% WHT, service fee is withheld 3% WHT etc.

Income arisen from shipping business which is freights, fees or other charges from providing service of international carriage of goods by sea-going vessels are considered as income under Section 40(8) of the Revenue Code.

In the case of paying the remuneration for the international carriage of goods in connection with carrying goods out of Thailand to whether a Thai shipping company or a foreign shipping company is subject to 1%WHT.

The following expenditures relating to the international carriage of goods under the container system are also subject to 1% withhold tax:

1. Container Freight Station or (CFS);
2. Delivery Order Fee (D/O);
3. B/L Fee (B/L fee);
4. Status Fee;
5. Terminal Handling Charge (THC); and
6. Container Yard (C/Y).

It is necessary to note that in case that is a handling charge (H/D), a user of service has a duty to 3% WHT as it is not recognized as transportation or shipping service.

Value Added Tax (VAT)

VAT on the Revenue Code has imposed sale of goods, a provision of services in Thailand, and import of goods into Thailand. Currently, the applicable VAT rate is 7%.

International transportation via sea and air going vessel operating by a company are entitled 0% VAT.

The VAT base for international transportation is the value of freight charges, fees, and any benefits collected in or outside Thailand prior to deduction of any expenses arisen from such transport of goods out of Thailand as indicated in a bill of lading.

There are certain cases of international transport that exempt from VAT which are:

1. An international transport service provided by a person under an agreement of VAT exemption or under a contract of a similar nature that entered into or to be entered into between a Thai government and a foreign government.
2. A foreign shipping company is entitled to be exempt VAT in case of the country of the company grants VAT or similar tax exemption or does not impose VAT or similar tax to a Thai shipping company.

Thai Vessel Registration

As mentioned above, Thai vessel could enjoy for tax benefits on exemption of CIT on the types of aforementioned income in CIT part. To be qualified as a Thai vessel under Thai Vessel B.E.2481, the owner of Thai vessel engaging in international maritime transport is only the following persons:

1. A limited company having not less than fifty-one percent of its registered capital shares owned by a non-foreigner and having no regulation to issue a certificate of share to a bearer; and
2. A public limited having not less than fifty-one percent of its paid capital shares owned by persons who are not foreigners.

The process of registration is to submit all the documents required by Thai Marine Department to the registrar at Ship Registration Division or at Provisional Marine Department or Marine Department branch office where the owner of ship is residing at.

UK

Individual Taxation

Income Tax and Capital Gains Tax

The UK offers a favourable tax regime for individuals moving to the UK. This is because both an individual's residence and domicile status determine the extent to which they are taxed in the UK (as opposed to just their residence position). Unlike most jurisdictions, worldwide income and gains will not immediately be subject to UK tax once an individual has established UK tax residence, provided that individual is and remains domiciled outside of the UK.

Domicile

Domicile is a common law concept and is not defined in the tax statute. Broadly, it is the place where an individual's long term permanent home is situated and with which an individual has the closest personal, family, economic and social ties. Domicile is distinct from citizenship and residence, and is normally inherited from a parent (usually the individual's father) at birth. An individual can only have one domicile at any one time; to acquire a new domicile an individual needs to be resident in that new country and make a decision to remain there permanently or indefinitely. The onus of proof on determining a new domicile is on the taxpayer.

Residence

A new statutory residence test (SRT) was introduced with effect from 6 April 2013 in order to assess an individual's tax residence status. Prior to the SRT, UK residence was determined by case law, practice and HMRC guidance, which often provided little clarity for an individual aiming to determine their residency position. The SRT has therefore given greater certainty in this area.

The SRT is divided into three separate 'tests' that potentially apply to determine an individual's residence status for a tax year. The tests are:

- The automatic overseas test – a test to conclude if an individual will be treated as conclusively not resident in the UK.
- The automatic UK test – a test to conclude if an individual is conclusively resident in the UK.
- The sufficient ties test – this test looks at the number of connections an individual has with the UK and then assigns a number of days that individual must spend in the UK in that tax year to be regarded as UK resident, on a sliding scale. The fewer connections one has with the UK, the more days one can spend in the UK without becoming UK resident.

An individual is resident in the UK in a particular tax year if they do not meet the criteria for the automatic overseas test but they do meet either the automatic UK test or the sufficient ties test for that year. If neither of these tests is met for the year, the individual is not resident in the UK. If the automatic overseas test is met, the individual is automatically non-UK resident for that year. An individual should therefore consider the automatic overseas test first as if they meet that test, they will not need to consider any other tests.

Whilst the enactment of the SRT provides more clarity, determining an individual's residency status often remains far from straightforward, due to the tests outlined above typically being complex, so professional advice may be needed to determine an individual's residency status.

Tax rates

The UK has a progressive system of income taxation. For most types of income, the basic rate is 20%, increasing to a higher rate of 40% for individuals with annual taxable income of between £31,786 - £150,000 (in 2015/16), and rising to an additional tax rate of 45% for those with annual taxable income of over £150,000.

Dividends are taxed at slightly different rates. The income tax rates for dividends are 10% for basic rate, 32.5% for higher rate taxpayers and 42.5% for additional rate taxpayers. The effective rates can be reduced depending on whether a notional 10% tax credit is available (it is available on UK dividends which reduces the effective income tax rates). From 6 April 2016, these are changing to 7.5%, 32.5% and 38.1% respectively.

Dividends taxable on the remittance basis are taxed at the normal rates (20%/40%/45%) rather than the special dividend rates.

Capital gains tax is charged at a flat rate of either 18% or 28% depending on the individual's overall level of income and gains.

Unlike some European countries, the UK does not levy wealth tax or real property wealth tax (except in the case of certain residential property held by 'non-natural persons', which includes companies, collective investment schemes and certain partnerships with corporate members).

Special Tax Regime

The UK tax system can still be seen as attractive to UK resident but non-UK domiciled individuals as they are eligible for what is known as the 'remittance basis' of taxation under which their non-UK income and gains are only subject to UK tax to the extent they are remitted to the UK. This means UK income and capital gains tax exposure can often be limited to UK sourced income and gains only. Whilst the definition of a remittance is broad, remittances of non-UK income and gains can be mitigated through careful planning and structuring, particularly if undertaken in advance of becoming UK resident.

A relief was recently introduced for remittance basis users that allows for non-UK income and capital gains to be remitted to the UK free from UK income and capital gains tax, provided the remitted funds are used to make a qualifying investment in a qualifying UK business (broadly unlisted trading companies, but property investment companies will generally also qualify).

The taxpayer must decide whether or not to elect for the remittance basis of taxation to apply each tax year by filing a UK tax return. Unremitted non-UK income and gains do not need to be disclosed on the tax return, with only those amounts which are taxable (UK income and gains and taxable remittances) being reportable.

When an individual first arrives in the UK, there is no charge made in respect of claiming the remittance basis, although it will mean the loss of the modest tax-free personal allowance for income tax purposes (£10,600 in 2015/16), which is not available to higher earners anyway, and the tax-free capital gains allowance (£11,100 in 2015/16).

Once an individual has been resident in the UK for 7 out of the previous 9 tax years then a remittance basis charge is levied - a payment to continue to benefit from the remittance basis of taxation. This is currently £30,000 per annum and increases to £60,000 per annum after 12 years of UK residence. It was recently announced that, from April 2017, non-domiciled individuals who have been UK resident for more than 15 out of the previous 20 tax years will no longer be eligible for the remittance basis.

Tax Administration

The UK tax year runs from 6 April to the following 5 April. If a tax return is required it needs to be filed by 31 October following the end of the tax year if it is being submitted in hard copy (paper filing) or by 31 January following the end of the tax year if filing is done electronically (online filing).

The UK operates a system of self-assessment for individuals and it is therefore an individual's responsibility to declare their taxable income and gains to the UK tax authorities and pay any tax liability due by the deadline. Individuals who are chargeable to income tax or capital gains tax for any tax year and who have not received a notice from HMRC to file a tax return should notify their chargeability to HMRC within 6 months from the end of the tax year. Any tax due that has not been collected at source is generally payable in two equal instalments on 31 January during the tax year and 31 July following the tax year, with any balance becoming payable on the following 31 January. Tax instalments do not need to be made for the tax year of arrival.



Shipping Taxation

In addition to the standard corporation tax rules, the UK operates a separate tonnage tax regime which may be elected into by companies and groups which operate qualifying ships that are strategically and commercially managed in the UK.

Tonnage tax is an alternative method of calculating corporation tax on profits whereby companies which elect into the regime pay tax based on the net tonnage of the ships operated rather than by reference to the profits earned from such operations, resulting in a very low effective rate of tax.

To prevent non-shipping income benefiting from the tonnage tax regime, the regime is tightly "ring-fenced", with profits from non-shipping activities computed by reference to normal rules. Arm's length prices will be imputed for tax purposes where there are transactions across the ring-fence between connected parties and between the tonnage tax and non-tonnage tax activities of a company. The regime exempts shipping income but equally denies tax relief for all expenditure incurred in generating such income.

Legislation

A UK shipping company may opt between the 'ordinary' corporation tax regime and the tonnage tax regime.

An election to enter the tonnage tax regime has a minimum duration of ten years, but may be extended. Tonnage tax companies pay tax based on the net tonnage of the ship operated rather than by reference to the profits earned from such operations.

In this way, the UK tonnage tax regime provides a low effective rate of tax on shipping profits of qualifying shipping companies. It offers shipping companies greater certainty, simplicity and commercial flexibility.

A UK shipping company has a limited period of 12 months in which to opt between the "ordinary" corporation tax regime and the tonnage tax regime, starting from the date on which it began to qualify per the criteria outlined in the next section. If such an election is not made within this time limit, the opportunity to enter tonnage tax is permanently lost unless and until a new "window" is announced by H M Treasury.

Once an election has been made, this lasts for ten years and all qualifying vessels of the company or group must enter the regime together. Note that a "group" for tonnage tax purposes is defined solely in terms of common control, and as such overseas companies can be considered part of a UK tonnage tax group. Once in the regime a company or group can make a renewal election at any time, always for another period of ten years from the date of the renewal.

Definitions and criteria

In order to qualify for tonnage tax, a company or group must meet all of the following criteria:

- They must be in the charge to UK corporation tax;
- They must operate qualifying ships; and
- The qualifying ships must be strategically and commercially managed in the UK.

Charge to UK corporation tax

Broadly, companies are in the charge to UK corporation tax if they are considered tax resident in the UK, either by virtue of incorporation or by central management and control being exercised in the UK.

Qualifying ships

A company is regarded as operating a ship if it is used by the company itself, time or voyage chartered out, or bareboat chartered out to another UK tonnage tax group company. Qualifying ships are those of at least 100 gross tons which are used for carriage by sea of passengers or cargo, marine assistance, or transport in connection with other services "of a kind necessarily provided at sea".

The last of these items covers the transport element of a variety of vessel types including cable layers, diving support vessels, remote operated vehicle support, cable repair, firefighting vessels, and pipe laying vessels.

Strategic and commercial management

There is no statutory definition of 'strategic and commercial management'. However, according to guidance issued by HMRC, a common-sense interpretation will be adopted, taking into account the various strands of activity carried out in the UK, including:

Strategic:

- Location of headquarters, including senior management;
- Decision-making of the company board of directors;
- Decision-making of operational board; and
- UK stock exchange listing.

Commercial:

- Route planning;
- Taking bookings for cargo or passengers;
- Personnel management;
- Organising training;
- Technical management including making decisions on the repair and maintenance of vessels;
- Extent to which foreign offices / branches work under the direction of UK-based personnel; and
- Support facilities in the UK (e.g. training centre, terminals, etc).

Other factors taken into account include the extent to which the work is carried out in the UK compared to elsewhere, the residence of key staff (including directors) in the UK, and number of employees in the UK.

An additional 75% test

In order to be eligible to effectively elect into the regime, the net tonnage chartered in otherwise than on bareboat charter terms must not exceed 75% of total net tonnage of the qualifying ships in a tonnage tax company or group. Once in the regime, if 75% or more of the net tonnage of the fleet operated by a tonnage tax company or group is time chartered in for two or more consecutive periods, then the company or group is ejected from the tonnage tax regime thereafter, i.e. beginning with the third year in which the 75% test is breached.

The 75% figure is calculated as an average over the relevant two year period, and once ejected from the regime, the company or group is excluded from re-entry into tonnage tax. If a company or group breaches the 75% rule, then all of its activities will be excluded from tonnage tax and will be subject to standard UK corporation tax.

Registration Requirements

A company entering into the tonnage tax regime must meet a minimum training obligation, requiring companies to agree and uphold training plans in respect of ships benefiting from the tonnage tax regime. There are penalties which can be levied in the case of non-compliance including, ultimately, the refusal of a renewal election made by a company which has been issued with a certificate of non-compliance in this respect.

The UK tonnage tax regime contains a flagging requirement which in some circumstances requires companies electing into the regime to have a certain proportion of its ships flagged in an EU member state. However, there is no specific requirement for vessels in the regime to be UK or EU flagged.

The effect of this is that where the overall proportion of vessels in the entire UK tonnage tax regime that are registered in EU member states is not decreasing over a three year period, the Treasury is allowed to designate a year as an "excepted year". In this case, the flagging requirement is not applied on a company by company basis.

In non-excepted years companies and groups have to apply a test when they start to operate a vessel for the first time. If certain conditions are all met, the additional vessel is not a qualifying ship for tonnage tax purposes. However, the company can choose to re-register a ship in a member state or elect to register a substitute qualifying vessel in a member state, in order to change its eligibility.

The conditions to be met are as follows:

- Is the company or group operating the ship for the first time?
- Is the average proportion of the company's total tonnage that is EU flagged less than 60% over a period beginning with the start of that financial year and ending on the day the company begins to operate the new ship?
- Is the average percentage of the company's total tonnage which is registered in a member state in the period in condition 2 less than the percentage that was registered in a member state on the later of 17 January 2004 or the date at the end of the accounting period in which the company became a tonnage tax company?

- Is the ship that is operated for the first time registered on a register other than that of a member state?

From the above it follows that, dependent on facts, a tonnage tax company could actually have and add to an entirely non-EU flagged fleet. This is the case if the figure on 17 January 2004 was zero, in which case it cannot have declined. The last three years have been declared to be non-expected years, and therefore the detailed company by company rules are currently in operation.

Taxation

Computation of tonnage tax profits

A company's relevant shipping profits are replaced by tonnage tax profits, which are then subject to UK corporation tax at the standard rates. The standard corporation tax rates are as follows:

Year ended 31 March:	Main rate of corporation tax
2014	23%
2015	21%
2016 onwards	20%

Tonnage tax profits are calculated by multiplying a daily profit figure by the number of days in an accounting period that each qualifying ship is operated based on the following:

- For each 100 tons up to 1,000 tons - £0.60
- For each 100 tons between 1,000 tons and 10,000 tons - £0.45
- For each 100 tons between 10,000 tons and 25,000 tons - £0.30
- For each 100 tons in excess of 25,000 tons - £0.15

Interruptions to normal qualifying shipping activities due to maintenance and repair, or poor market conditions, cannot be deducted from the number of days upon which the tonnage based profit is calculated. A company operating only part of a seagoing vessel (i.e. part of a joint operation agreement) will be taxed only on the tonnage attributable to that company.

The net tonnage of the vessel will be rounded down to the order of 100 net tons (e.g. 2,774 NT = 2,700 NT), and as highlighted above, profits earned on activities directly related to the qualifying operation of seagoing vessels also come within the scope of the tonnage based profit calculation.

To illustrate, a 30,000 ton vessel used every day would generate taxable profits of just over £36,000 a year, regardless of commercial profits generated.

Tax depreciation

Upon entry into the tonnage tax regime, tax depreciation ceases to be available. There is, however, no claw back of tax depreciation previously claimed unlike in some other tonnage tax systems.

While vessels acquired after entry into the regime do not give rise to taxable profits on disposal, subsequent disposals of vessels owned before entry into tonnage tax can have two capital impacts.

- A normal chargeable gain can arise if sales proceeds are in excess of original tax base (cost) plus inflation indexation. The chargeable gain is apportioned according to the duration of ownership of the asset for which the company has been in the tonnage tax regime.
- A balancing charge (a tax depreciation "claw back") may also arise, resulting in the proceeds from the disposal of assets held at the date of entry being deducted from the frozen tax pool (i.e. the tax value of the asset at the point of entry into the regime) and potentially giving rise to a balancing charge subject to normal UK corporation tax (if in excess of that frozen value). The claw back mechanism means that any balancing charge is reduced by 15% for each completed year within the regime, up to a maximum of 90%. After seven years in the regime, the balancing charge disappears in its entirety, thus after that date there is no possibility for any claw back of tax depreciation claimed on the vessel prior to entry into the regime.

Practically, since a tonnage tax company or group must elect into the tonnage tax regime within 12 months of qualifying, the amount of any tax depreciation that may have claimed prior to entry into the regime is likely to be small (with the exception of groups who entered the regime when it was first introduced).

To the extent that ships operated by companies which have elected into the tonnage tax regime are used for non-tonnage tax activities, tax depreciation will still be available in respect of the ship's total tax written down value but the allowances which can be claimed will be restricted to the proportion of the ship's use in respect of non-tonnage tax activities. No separate tax pool is created for this, but rather a notional tax pool based on the original values for the assets will be used to calculate what a notional total tax depreciation allowance would be. This situation is quite rare, and is normally restricted to construction vessels used on the UK Continental Shelf.

Exit from tonnage tax

The tonnage tax regime applies from the start of the accounting period in which the election is made and runs for ten years from the date the election first has effect. An election can be made for a further ten years at any time.

Exits from the regime can be voluntary (including when an election expires, a withdrawal notice takes effect, a company ceases to be qualifying, or, in certain cases, where a merger takes place) or forced (because of tax avoidance, failing to meet the 75% test on charters in, or, in certain cases, where a merger takes place).

Where a qualifying company or group exit the tonnage tax regime, they are permanently excluded from re-electing into the regime. However, the exception to this is if HM Treasury provided for a further window of opportunity for entry into the regime, and a period of ten years had passed since a company or group previously exited the regime.

In addition, in certain circumstances, where a qualifying group had left the tonnage tax regime, it may be possible to re-elect into the tonnage tax regime if

it is not substantially the same as when it was last in the tonnage tax regime. However, there is uncertainty about when a group could be considered 'substantially' different from when it was last in the regime.

Where an exit is for reasons relating wholly or mainly to tax, there is a specific "exit charge". Capital gains on tonnage tax assets disposed of during the six years preceding the exit from the tonnage tax regime are recomputed and subject to tax; in the instance of capital losses having been incurred, no relief is available. If balancing charges arose on disposals in the six years preceding the exit from the regime that were mitigated by the claw back provisions described above, the total of the reductions also becomes taxable.



Vietnam

Vietnam

Individual Taxation

Income Tax

Vietnamese Personal Income Tax ("PIT") is regulated under Law No. 04/2007/QH12 dated November 21, 2007 and the most recently amended Law No. 26/2012/QH13, dated November 22, 2013 which took effects since 1 July 2013.

Registration

Individuals who incur taxable income need to register for their tax code. The registration dossier can be submitted to the tax authorities by the employer on behalf of its employees; or can be submitted directly to the tax authorities at their location of the residents, should they not have employment income source.

Tax Residency

Tax residents are defined as any individual who meets one of the following conditions:

- Being present in Vietnam for 183 days or more in a tax assessment year; or
- Having a regular residence in Vietnam per one of the following cases:
 - The regular residence is registered as the permanent residence where the tax resident lives regularly, indefinitely for Vietnamese citizens, or is registered on the residence card for foreigners;
 - The individual is without a regular residence in Vietnam, but rents one or more properties for 183 days or more cumulatively in a tax year. Rented properties include hotels, guest houses, motels, offices, etc., whether they are rented by the individual, or the employer.

In the event that an individual has a regular residence in Vietnam, but is actually present in Vietnam for less than 183 days in the tax assessment year, and is not able to prove residency in any other countries, that individual shall be considered a resident of Vietnam.

An individual who does not meet the criteria as a tax resident of Vietnam is treated as a non-tax resident of Vietnam, and is subject to Vietnamese PIT at a flat tax rate of 20% on the Vietnam-sourced employment income.

Worldwide income

Tax residents are subject to Vietnamese PIT at progressive tax rates on their worldwide income, irrespective of where such income was paid, earned or charged, detailed as follows:

Portion of Monthly Assessable Income (million dong)	Tax Rates
Up to 5	5%
Over 5 to 10	10%
Over 10 to 18	15%
Over 18 to 32	20%
Over 32 to 52	25%
Over 52 to 80	30%
Over 80	35%

Personal Deductions

Tax residents of Vietnam who have income being salaries and business are entitled to the following deductions from taxable income:

Types of deduction	Deductible Amount
Personal deduction	VND 9,000,000 per month
Dependent	VND 3,600,000 per person per month
Eligible donations	Amount of eligible donations
Compulsory insurances paid by the taxpayer^(*)	Amount of contribution
Private pension funds as regulated under Vietnamese laws	Capped at VND 1,000,000 per month

^(*)Under the current Vietnam regulations, overseas social insurance and health insurance can be deductible/ excluded from Vietnam taxable income being employment income if all of the following conditions are met:

- a) Contributions are statutorily required in the home country;
- b) Obligations in relation to these contributions by the employer/employee are clearly stated in the labour contract/agreement between the employer and employee; and
- c) Availability of evidence proving actual contributions/payment made, i.e. receipt vouchers of the insurance agencies, or confirmation of the income paying bodies on the withheld/paid amount.

Please note that all related documents (i.e. copy of relevant laws on home country, copy of labour contracts/assignment letters and evidence proving actual contributions) should be submitted to the tax authorities upon their request.

Employment income

In accordance with PIT regulations, employers in Vietnam are responsible for withholding PIT from their employees' remuneration and remit such amount to the State Treasury. If an employee is a resident taxpayer, the tax withheld should be determined based on the progressive tax rates applicable to the employment income. If the employee is a non-resident taxpayer, the withholding tax is calculated at a flat rate of 20% of the gross amount. Double Tax Treaties can be applied by the non-tax residents to not pay tax in Vietnam if being qualified.

Based on Vietnam PIT regulations, all remunerations or benefits (utilities, golf fees, etc.) paid by the employer in cash or in kind for employees shall be fully taxable.

Exempted employment income

Under the current regulations, the following typical benefits received by an employee are specifically exempted from PIT:

- a) Premium paid to an employee for overtime purposes, i.e. the difference between the overtime salary and the standard day shift or normal working hours salary;
- b) Stationery, telephone, meal allowance and clothing allowances paid to employees as stipulated by laws;

- c) Per-diem for domestic and overseas business trips paid under the Company's policy (no cap);
- d) One time relocation allowances for foreign employees moving to Vietnam, for Vietnamese employees moving overseas and for Vietnamese residing overseas returning to work in Vietnam;
- e) Transportation expenditures for employees to commute from home to work and vice versa under the Company's policy;
- f) Wedding and funeral allowances paid under the Company's policy and the current Corporate Income Tax regulations;
- g) Employer's contribution to local and overseas non-mandatory insurance schemes which do not pay based on accumulated contributions (such as medical insurance, accident insurance, etc.);
- h) Annual round trip air-tickets one time a year for employees to return to his/her home country or a country where his/her family resides;
- i) School fees paid by the employer for children of foreign employees to attend school in Vietnam or for children of Vietnamese employees to attend school overseas, from kindergarten to high school level;
- j) Benefits paid by an employer (e.g. access to golf clubs, tennis courts, fitness centre, etc.) which cannot be allocated to any specific employee as the beneficiary of the provided benefits;
- k) Pensions received from voluntary pension fund; and
- l) The payments paid by the employer for dispatching, reassigning foreign employees in Vietnam in accordance with labour contracts and international work schedules of some industries such as petroleum, mineral extraction (e.g. air tickets from Vietnam to the home country of the foreign employees and vice versa for every time of changing shift, helicopter expenses from the mainland to the oil rig and vice versa, residence expense, etc.).

Foreign Tax Credit (FTC)

An individual tax resident of Vietnam having overseas sourced income and having paid tax overseas can claim tax credits against the tax due in Vietnam. However, the tax credit for the overseas tax paid cannot exceed the Vietnam tax payable on that income.

In order to claim for the FTC, sufficient proof is required by the Vietnam tax authorities as below:

- Copies of overseas income tax returns;
- Copies of the overseas tax payment vouchers; and
- An original of the overseas tax agency's certification of the tax paid amount.

Compulsory Social Insurance, Health Insurance and Unemployment Insurance in Vietnam

Pursuant to current regulations in Vietnam, there are three compulsory insurances for Vietnamese employees, namely: Social Insurance (SI), Health Insurance (HI), and Unemployment Insurance (UI), contributed in parts by the employees, and the remaining parts by the employers.

Specifically, pursuant to Decree No. 152/2006/ND-CP dated 22 December 2006, from

January 01, 2014, the social insurance contribution rate is 26%, in which employer contribution and employee contribution are 18% and 8%, respectively.

Thus, the SIHIUI contributions for eligible employees are currently based on the following prescribed rates:

Type of insurance	Employee contribution	Employer contribution	Total
SI	8%	18%	26%
HI	1.5%	3%	4.5%
UI	1%	1%	2%
Total	10.5%	22%	32.5%

Under Decree No. 66/2013/ND-CP dated 27 June 2013, the common minimum salary being the basis for the contribution has been increased from VND 1,050,000 to VND 1,150,000 effective from 01 July 2013.

Under the current regulation, SIHIUI contribution will be computed at the lower of the contracted gross income or 20 times of monthly common minimum salary, currently capped at VND23,000,000.

While SIHIUI are not compulsory for expatriates, if they can provide evidence that they are covered by compulsory insurances programmes of the same type in their home countries, the amount paid are income tax deductible as well.

Tax Administration

Regarding the employment income, the income-paying employers are responsible for withholding, declaring the PIT amount and submitting the tax returns on a monthly or quarterly basis, with the deadlines being the 20th of the next month, or the 30th of the next quarter, respectively.

An annual PIT finalization where a year-end tax liability is reconciled must be submitted; with the deadline is the 90th day of the following year. Please also note that expatriates are required to submit a PIT finalization upon the termination of their assignment in Vietnam, and prior to their departure from Vietnam.

The amended Law on Tax Administration, effective from 01 January 2015, will impose significantly high tax penalty schemes, particularly:

- Late submission of tax returns: Up to VND5million/ return;
- Late tax payment: 0.05%/day;
- Penalties on under declared tax amount: 20% and penalties on tax evasion: 1-3 times of the evaded tax amount.

Shipping Taxation

Legislation

According to Maritime Code No. 40/2005/QH11 of the National Assembly dated 14 June 2005, object of application consists of Vietnamese organizations and individuals and foreign organizations and individuals involved in maritime shipping activities in Vietnam. Also, maritime shipping activities are defined including seagoing vessels, crew, seaports, marine navigable channels, sea transportation, marine navigation safety, marine navigation security, prevention of environmental pollution and other activities related to the use of seagoing vessels for economic, cultural, social, sport, public service and scientific research purposes.

Local shipping activities mean transport of cargo, passengers and luggage by seagoing ship and locations of delivery and receipt within the sea area or internal water of Vietnam. Vietnamese seagoing vessels shall enjoy priority to conduct domestic carriage of cargoes, passengers and luggage. Only when Vietnamese seagoing vessels are incapable of domestic carriage, foreign seagoing vessels may take their part in the following specific cases:

1. Carrying extra-long and extra-heavy cargoes or other kinds of cargoes by seagoing vessels exclusively used for this purpose;
2. Preventing, controlling, remedying the consequences of, natural disasters, epidemics or rendering emergency relief;
3. Transporting passengers and luggage from tourist passenger vessels to the land and vice versa.

The Ministry of Transport is responsible for reviewing and granting the license for foreign seagoing vessel to conduct these above activities.

As to activities of international goods transportation (import export goods), currently there is no market entry limitation technically applicable to foreign seagoing companies. Specifically, under WTO commitment, foreign seagoing companies have been allowed to establish a wholly owned company in Vietnam since 11 Jan 2012 but their scope of activities are still limited in line with regulations including marketing and sales of sea transportation services; representative for goods owners; business information supply; transportation documents handling; supply of sea transportation; shipping agency services and agency services for seagoing transportation.

Taxation

Shipping Business performed by Vietnam registered companies

Corporate Income Tax (CIT): There is no special treatment from CIT perspective for shipping business in Vietnam. Like Vietnamese registered companies, shipping company should be subject to Vietnamese CIT at the standard rate of 22% from 01 Jan 2014 and 20% from 01 Jan 2016 on business taxable income. CIT-able income is determined as revenue from goods and services less (-) deductible expenses plus (+) other income. Of which, taxable revenue from transport activities is the total revenue of passenger, cargo and luggage transportation arising in the tax period. Deductible expenses eligible for CIT purposes are those actually incurred, directly relating to business operation and supported by proper documents.

Shipping activities are not listed as an encouraged business sector for tax incentive purposes. However, if the enterprises qualify for criteria on geographical area, tax incentive may still be available.

Value Added Tax (VAT): Under current VAT regulations, VAT is imposed upon goods and services manufactured, traded and consumed within the border gate of Vietnam. Revenue from shipping activities is consequently subject to VAT in Vietnam.

VAT-able prices applicable to transportation, loading/unloading activities are transport freights and loading/unloading charges excluding VAT, regardless of the establishments directly transporting/loading/unloading or hiring others to perform.

In terms of tax rate, international transportation activities enjoy VAT rate of 0%. Particularly, international transportation is determined including transportation of passengers, luggage and cargo along international routes from Vietnam abroad or vice versa, or both destination and departure are in foreign countries. If international transportation contracts cover domestic transportation routes, international transportation also covers domestic routes. VAT rate of 10% triggers other shipping activities.

In terms of VAT calculation, credit method is broadly applied to registered company. Accordingly, VAT payable equals to VAT output (-) less VAT input). Under this method, input VAT (from purchase invoices) can be credited against output VAT (from sale invoices) to determine the VAT payable or refundable.

Shipping Business performed by foreign registered companies

Income from shipping business of foreign registered companies shall be taxed in Vietnam under a mechanism namely Foreign Contractor Withholding Tax (FCWT). Specifically, under prevailing Circular No. 103/2014/TT-BTC of the Ministry of Finance, FCWT governs the Vietnamese tax obligations of foreign organizations and individuals (Foreign Contractors) producing or trading in Vietnam or having income arising in Vietnam on the basis of a contract or agreement with a Vietnamese party. FCWT mechanism mainly covers Corporate Income Tax (CIT) and Value Added Tax (VAT) and shall be imposed regardless of the FCs have PE in Vietnam or not.

In terms of FCWT declaration method: In almost cases, FCs choose deemed method to calculate, declare and make payment for FCWT (i.e. VAT and CIT portion paid at a percentage (%) of the contract turnover), Vietnamese parties shall have to withhold and pay FCWT liability to the State Budget on behalf of the FCs. As to income received via shipping agencies, it is the shipping agency to withhold and then declare on behalf of the foreign shipping companies.

For other methodologies namely credit method (i.e. act as Vietnam registered company) and hybrid method (i.e. VAT paid under credit method and CIT paid at a deemed rate), an office setup and Vietnamese Accounting System (VAS) adoption shall be required.

In terms of taxable revenue: Regarding CIT-able revenue of foreign shipping firms, this is calculated as the whole freights for transport of passengers and goods, and other surcharges earning from the loading port in Vietnam to the final unloading port (including the freights of the consignments being transshipped via intermediary ports) and/or the freights from transport of goods among Vietnamese ports.

In terms of tax deemed rate:

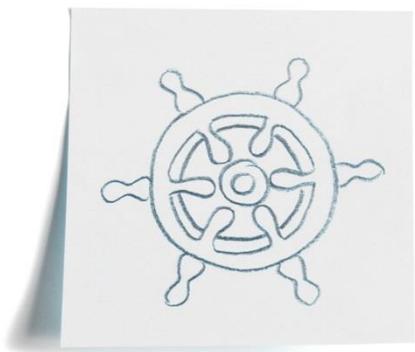
No.	Tasks	FCWT deemed rate CIT	VAT
1	Outbound transportation	2%	30% x 0%
2	Inland transportation	2%	30% x 10%

Tax mitigation via DTA

It should be noted that tax treaties shall only help waive CIT portion under Vietnamese FCWT mechanism. In most tax treaties with Vietnam, profit from the operation of ships in international traffic shall be taxed in the contracting state of which the enterprise operating the ships is a resident. Exceptional cases are seen in such treaties as with Myanmar, Bangladesh, Thailand, the Philippines and Sri Lanka, in which the taxing mechanism are shared accordingly.

Also, DTA shall not be automatically applied but be subject to administrative procedures with tax authorities in Vietnam for further review and approve. Details of administrative application dossier are currently set out in Circular 156/2013/TT-BTC of the Ministry of Finance guiding implementation of Tax Management Law dated 06 Nov 2013.

Still, according to Circular 205/2013/TT-BTC of the Ministry of Finance taking effect from 06 Feb 2014 guiding implementation of fundamental contents of the Agreements on double taxation avoidance, application scope of Article 8 on ships and aircrafts operation profit income shall only covers income from international traffic by transport means of **directly managed** by enterprises and from auxiliary activities attaching to such international traffic. In practice, enterprises commonly encounter difficulties on demonstration of criteria of direct management to local tax authorities in order to claim DTA benefits.



Contacts

For more information please contact a Shipping & Ports professional from a Deloitte member firm.

Global Shipping & Ports

George D. Cambanis

Global Leader
Shipping & Ports
+30 210 678 1103
gcambanis@deloitte.gr

Greece

Dina Karsas

Partner
Shipping
+30 210 678 1128
dkarsas@deloitte.gr

Thomas Leventis

Partner
Tax
+30 210 678 1262
tleventis@deloitte.gr

Australia

Janelle O'Hare

Partner
Taxation
+ 61 733 087 242
janelleohare@deloitte.com.au

Jonathan Schneider

Partner
Business Tax
+ 61 089 365 7315
joschneider@deloitte.com.au

Cyprus

Antonis Taliotis

Partner
Tax
+35 725 868 820
ataliotis@deloitte.com

Denmark

Kim Mücke

Partner
Shipping
+ 45 222 027 36
kmucke@deloitte.dk

Jesper Skriver-Simony

Partner
Tax
+ 45 309 348 42
jeskriver@deloitte.dk

Indonesia

Heru Supriyanto

Partner
Business Tax
+62 212 992 3100
hsupriyanto@deloitte.com

Italy

Alessandro Lualdi

Partner
Tax
+ 39 010 531 7811
alualdi@sts.deloitte.it

Stefano Basso

Director
Tax
+ 39 010 531 7811
sbasso@sts.deloitte.it

Luxembourg

Henri Prijot

Partner
Cross-Border Tax
+ 35 245 145 2878
hprijot@deloitte.lu

Malta

Mark Grech

Director
Tax & Shipping
+ 35 621 345 000
mgrech@deloitte.com.mt

James Bonavia

Senior Manager
Personal Taxation
+ 35 621 345 000
jbonavia@deloitte.com.mt

Philippines

Imelda Tapay

Partner

Tax

+ 63 258 190 00

itapay@deloitte.com

Singapore

Daniel Ho

Partner

Tax

+65 621 631 89

danho@deloitte.com

Thailand

Simons Stuart

Partner

Tax

+ 66 267 657 00

ssimons@deloitte.com

UK

Ian Brown

Partner

Tax

+ 44 207 007 0836

ianxbrown@deloitte.co.uk

Nicola Roberts

Partner

Personal Taxation

+ 44 207 007 3763

nicolaroberts@deloitte.co.uk

Vietnam

Thomas McClelland

Partner

Tax

+ 84 839 100 751

tmcclelland@deloitte.com

About Deloitte Shipping & Ports Group

Deloitte's Shipping & Ports Group provides professional services to the international deep sea transportation industry which includes oil & gas carriers, dry bulk carriers, containerships, reefers, offshore drill ships and support vessels, marine fuel logistics companies, shipyards, ports, terminals and harbor authorities. We work with clients to develop solutions to complex business issues, enhancing their effectiveness in a dynamic industry. The group's network of more than 1,000 industry professionals in more than 70 countries is prepared to serve you, wherever and whenever you may need us.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 220,000 professionals are committed to making an impact that matters.

Disclaimer

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.