

EUROPEAN SHIPPING POLICY 2004



A Maritime Information & Analysis Report

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EUROPEAN SHIPPING POLICY 2004

COMMUNITY GUIDELINES ON STATE AID TO MARITIME TRANSPORT AND THEIR IMPLEMENTATION IN EU COUNTRIES

Our reference:

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Preface

The report is one in a series produced on behalf of the Swedish Maritime Administration and the Swedish Shipowners' Association describing the development of shipping activities in Sweden and Northern Europe.

All reports will be available via www.sjofartsverket.se and www.sai.se.

The purpose of this report is to provide an overview and comparison of the shipping policies in the member states of the European Union and Norway.

This report has been produced by Barbro Wilén of the Institute of Shipping Analysis. Any questions on this report can be addressed to barbro.wilen@sai.se. Comments and updates of the information in the report are also most welcome.

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Lennart Nilsson

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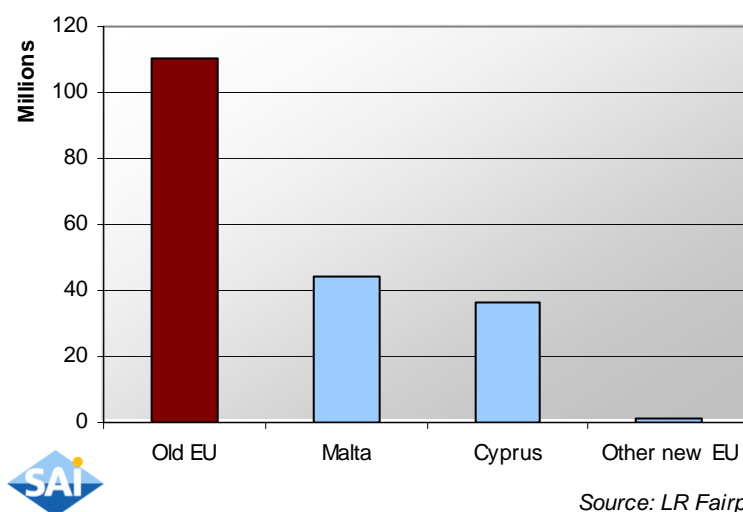
Introduction

The Institute of Shipping Analysis has produced a report monitoring the gradual implementation of Community guidelines on state aid to maritime transport for several years and mostly along the same lines. Considering the fact that new guidelines apply from January 17, 2004 and that the EU was enlarged by ten new member states on May 1, 2004, this year's report has a different disposition than the earlier ones. The detailed rules, country by country will be less important and the different ways of looking at support measures that exist in various countries will be emphasised instead.

On accession of the new member states on May 1, 2004, the EU fleet grew by 75% measured in dwt, about 45% in number of ships. It now consists of 9,436 ships and a total dwt of 192.3 million.

Of the new member states, six have any merchant fleet to speak of. Cyprus and Malta, have among the world's largest ships' registers and account for an additional 65% of gross tonnage (approximately 8% of the world fleet in gt terms). This will allow the EU to dominate the IMO in terms of tonnage and political influence, provided the EU speaks with one voice. Compared to Cyprus and Malta the other new member states' fleets are insignificant, but in four of the countries, Estonia, Latvia, Lithuania and Poland there are merchant fleets worth mentioning.

Figure 1: Fleet size, dwt



The figure shows very clearly that the Cyprus and Malta fleets are the only ones of any significance with 36.6 million dwt and 44.2 million dwt respectively. The rest of the new member states added only 1.5 million dwt together.

The age of ships in the new member states as a whole tend to be higher than in the old EU. This is illustrated by two figures.

Figure 2: Dwt by age

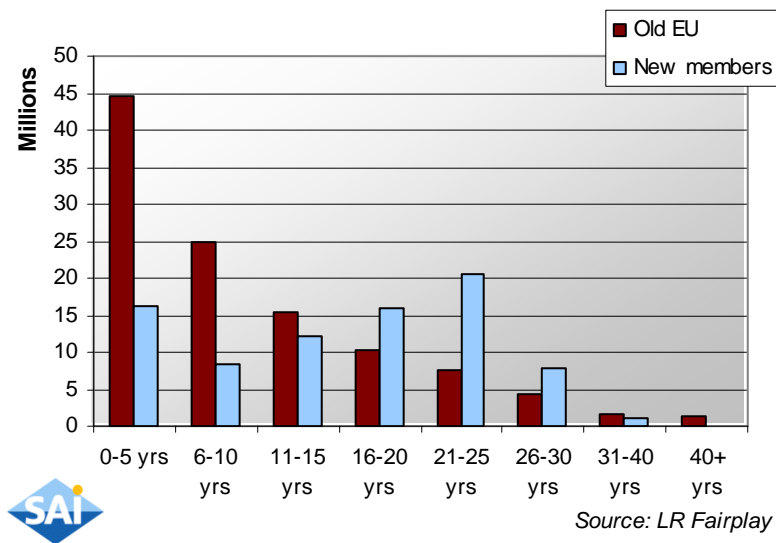
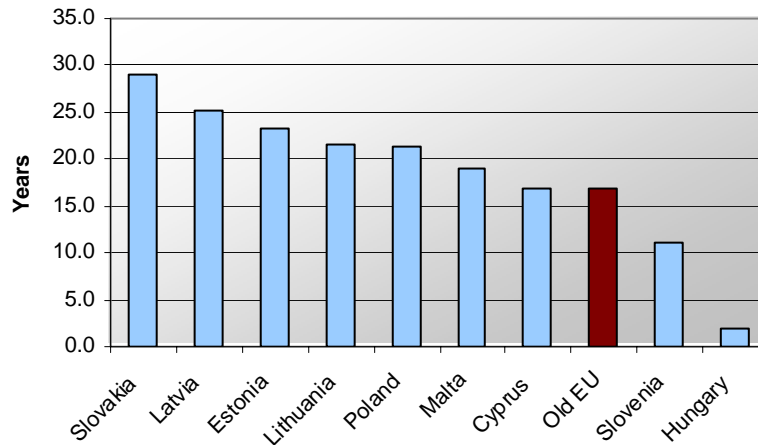


Figure 2 shows a division of dwt in the two categories of areas into age groups, where it can be clearly seen that the new member states' fleets dominate in the age brackets 16-30 years.

Figure 3: Average age, Old EU and new countries



Source: LR Fairplay

Figure 3 shows that only Cyprus has ships of an average age on par with the EU, 16.9 years whereas the three Baltic States have an average ships age of over 20 where Latvia has the oldest average fleet age of 25.3 years. Slovakia shows an extremely high value and Slovenia and Hungary very low ones. These figures can be ignored since they are based on only one or two ships per country. None of these three countries can be said to be a maritime nation, but their "fleets" are included in the figures to make them complete just as Austria with 5 ships of together 38 000 dwt is included in the EU fleet. Gibraltar has also been included under EU fleets.

The Norwegian fleet comprising 1,649 ships (926 under NOR and 723 NIS) of a total tonnage of 30 million dwt has not been included in any of the calculations. Norway is, however, included in the report because of its importance to shipping in this area and the EEA agreement.

The new member states are estimated to have about 16,000 officers and 25,000 ratings employed. This constitutes an increase of some 25% of the number of seafarers working in the EU.

In the monitoring reports on the various accession countries, the main concerns expressed were in the field of maritime safety and various quality issues such as the implementation of the Port State Control programmes and the larger than average rates of detentions compared to other EU countries. Cyprus and Malta are also on the Paris MoU (Memorandum of Understanding) black list for sub-standard quality of vessels and/or their management.

Both of these flags are furthermore considered “Flags of Convenience” (FOC). FOC is a classification made by the International Transport Workers’ Federation. Other EU flags classified as FOC are the German second register and Gibraltar.

Community guidelines on state aid to maritime transport

The European Commission has a long standing, well-developed policy on the shipping industry. A number of successive steps have been taken to enable the European shipping industry to compete on the world market.

The general policy objectives are:

- to safeguard EU employment (on board and ashore)
- to preserve maritime know-how and develop maritime skills in the Community, and
- to improve safety

The first Guidelines on state aid to maritime transport date from 1989. The idea behind them was to, on an annual basis, bridge the cost gap that arose between vessels operated under Flags of Convenience and those operated under EU flags. The system devised was very complicated and never fully utilised.

Following Commissioner Kinnock’s strategy paper “Towards a New Maritime Strategy” in 1996, the guidelines were revised. The new guidelines were established in 1997. They set the parameters within which state aid to maritime transport will be approved. The guidelines cover any aid granted to maritime transport including any financial advantage funded by public authorities.

The Guidelines basically allow Member States to create a tax-free environment for Community shipowners. Since the aid should enhance the competitiveness of Community fleets, state aid may in principle be granted only in respect of ships entered in Member States’ registers. Reduced rates of corporation tax for shipping companies may, however, be allowed for earnings from vessels flying a non-EU flag. The control of such companies must be within the EU. Tax breaks linked to seafarer income tax and social costs are strictly EU flag linked.

Most of the EU member states have made use of the 1997 guidelines. The lead was taken by the Netherlands, which implemented a totally new shipping policy as early as 1996. The policy takes full advantage of the aid measures allowed by the guidelines. The Dutch initiative was followed by Norway, which introduced a more limited accommodation to the guidelines. Most EU member states have since introduced tonnage tax systems and/or schemes to reduce crew costs along the lines of the guidelines.

During 2003 the Commission finalised a revision of the 1997 state aid guidelines and the revised guidelines apply from January 17, 2004 and are valid through 2011.

The new guidelines define the aim of aid measures somewhat differently. Aid schemes should support the Community maritime interest with the aim of:

- improving a safe, efficient, secure and environment friendly maritime transport,
- encouraging the flagging or re-flagging to member states' registers,
- contributing to the consolidation of the maritime cluster established in the member states while maintaining an overall competitive fleet on world markets,
- maintaining and improving maritime know-how and protecting and promoting employment for European seafarers, and
- contributing to the promotion of new services in the field of short sea shipping following the White Paper on Community transport policy.

The White Paper "European transport policy for 2010: time to decide" recognises the importance of maritime transport to the European transport system. It establishes that 90% of all trade between the Community and the rest of the world is transported by sea. Short sea shipping accounts for 69% of the volume of goods transported between the member states. The paper has several suggestions as to how to move traffic from road to rail and sea.

Maritime transport must be encouraged to relieve road congestion. It against this background that the last point above should be seen.

The new guidelines contain some new provisions.

The possibility to use state aid to promote short sea shipping is new. In this connection short sea shipping is defined as “transport between ports in the territory of the Member States”. Aid can be given up to 30% of operating costs for a new service that will enable road transport to be diverted to sea. Aid can be given for a maximum of three years. The service may not divert maritime transport contrary to the common interest and can only be given in respect of ships flying the flag of a member state. The measures must be notified.

The provisions for seafarers’ tax exemptions/reductions have been made clearer. The new guidelines allow such exemptions for all seafarers, irrespective of their nationality or residence except for those serving on board ships providing regular passenger services between ports of the EU. For these seafarers, tax exemptions/reductions apply only to EU/EEA citizens.

A more strict flag link principle for taxation measures is applied. Although tonnage taxation is basically flag neutral, shipping companies operating less than 60% of their tonnage under an EU flag will have to maintain at least the same tonnage under an EU flag as they have in January 2004. If not, any non-EU-flagged vessel added to their fleet will have to be taxed under normal corporate tax rules.

Member states also have to report on various issues regularly to the Commission. For the application of tax relief schemes to non EU-flagged vessels, evidence should be furnished that the Community maritime sector benefits from such a scheme. It must also be shown that all vessels operated by companies benefiting from aid measures comply with the relevant international and Community safety standards, including onboard working conditions.

A number of ship management companies established in the EU may qualify for the schemes. This would be in respect of vessels for which they have assumed the full responsibility for the vessel’s operation as well as the duties and responsibilities imposed by the ISM Code. The flag requirements also apply.

The maximum aid permitted is still a reduction of seafarers' taxes, social contributions and corporate taxes to zero. All member states have to amend their existing aid schemes covered by the guidelines by June 30, 2005. They should confirm in writing by June 30, 2004 that they accept the measures.

Different ways of implementing the guidelines

The new guidelines are too new to have been applied as yet. The comments here will thus discuss some of the different ways the different measures have been applied in the "old" member states. When known, the position in the new member states will also be added. At the end of the report, a short summary of measures country by country will be found.

The utilisation of the provisions of the guidelines vary widely from the Netherlands' total acceptance to Estonia's position that it should pursue the issue of abolition of all state aid to shipping in the EU.

Fiscal treatment of shipping companies

The fiscal systems of the EU countries are very dissimilar. Rates of taxation of corporations range from 12.5 % in Ireland to 40-50% in countries like Germany and Italy. The Estonian corporation tax of 15% is applied only to paid-out dividends. In Greece and Cyprus shipping companies cannot choose an ordinary tax regime. Tonnage tax is mandatory.

There are several ways in which shipping companies can be given tax alleviations at company level:

- tonnage tax
- accelerated depreciation of ships
- tax-free reserves for capital gains

Crew costs

The economically most important measure in most countries is various forms of support for crew costs. It can take the form of tax exemptions or

reductions for seafarers and lowering of social contributions. The possibility to employ foreign crewmembers on “local conditions” is also very important.

The most radical form of state aid to crew costs is the use of a system of wages for seafarers in accordance with the “net model”. This system is used in Belgium, Italy, Portugal, the Netherlands and Sweden. This is looking at it from the shipping company’s point of view. From the point of view of the individual seafarer it can look differently. Taking the Swedish example, the wages are calculated and reported just like for any other employee but the employer never has to pay this debit to his tax account. It is credited directly. Lithuania has reduced taxes for seafarers to 0 %.

In other countries like Denmark, net wages apply for seafarers employed onboard DIS-registered ships but not for the Danish national register. Some social contributions are paid for all.

The UK uses a system where there are no taxes on wages paid if the seafarer stays away from the country for more than 183 days/year.

Other countries refund some of the seafarers’ taxes and social contributions for all or only some categories of seafarers like Germany and Finland, or have lower taxes for seafarers than for others like Greece.

Using low-cost crews from other countries on board is fairly common. These crew members usually have wages and/or working conditions like working-time and leave negotiated with unions in their own countries. They are never resident in the flag state.

Some of the countries supplying crews on these conditions are now members of the EU and accession has become a threat to these seafarers. The existence of different agreements onboard for different EU nationalities is considered discrimination and not allowed. Temporary bilateral solutions have been negotiated pending a general one. The number of seafarers involved is around 20,000 who risk losing their jobs.

Tonnage tax

Tonnage tax systems take different forms. The earliest one, which was introduced in Greece in 1957, is different from the others as it is part of constitutional law. It is a flat rate tax and has a more complicated method

of calculating the tax than the other systems as it is based not only on tonnage (in this case gt) but also takes into account the age of the ship. Cyprus uses a similar system, which starts with a basic charge, gross tonnage increments are then added and the result multiplied by an age factor. There are also reductions or refunds of tonnage tax available for vessels managed and crewed by Cypriot nationals. For crew members, the reduction is calculated on actual length of employment onboard.

Both the Greek and the Cypriot system are mandatory, i.e. there is no option for being included under the ordinary system of corporation taxation.

The most commonly used model is the one adopted by the Netherlands in 1996: “The Dutch model”. It is a method by which a derived income is calculated based on the net tonnage of ships operated. The ordinary corporate tax rate is then applied on the derived income.

There are very many variations used by different countries when details of how to delimit the various activities of a shipping company and how to treat deferred taxes are concerned. Some countries have also added a “training element” into the requirements for being allowed to enter a tonnage tax system.

The “Norwegian model” is still only used by Norway in its entirety. It is a flat rate tax applied on the net tonnage of ships included and taxation of dividends at the ordinary tax rate at company level. It also includes very detailed provisions for how the shipowning companies should be structured in order to avoid difficulties in separating tonnage tax and non-tonnage tax activities within companies.

Finland uses a mixture of the Dutch and the Norwegian models.

The most generous system is applied in the Netherlands, where the basic interest appears to have been to give the maritime industry the best rules possible to encourage their healthy growth. Finland, on the other extreme, appears to have looked at the issues from another angle, that of the state and giving as little as possible.

Accelerated depreciation of ships and tax-free reserves for capital gains

Both these measures were very frequent before the introduction of tonnage tax regimes. After the introduction, depreciation allowances for ships outside the schemes have tended to deteriorate. A good example is Denmark, where depreciation rates for ships have been changed from 30% to 12%. Germany also revised capital allowances after the introduction of measures have been improved after the publication of the 1997 State Aid Guidelines. Belgium, on the other hand, has improved the depreciation rules for companies outside the system to encourage the acquisition of new ships.

Basic Tonnage Tax Models

“The Dutch model”

This is the main model for tonnage tax regimes and is used by most countries with individual modifications.

In this model actual profits are not subject to tax but a specially computed derived profit. This is arrived at by multiplying the net tonnage of a vessel with a standard amount per ton and day. The derived profit for one or more ships is then taxed in ordinary fashion. The corporate tax rate is 35%. Thus profits are generated from a taxation point of view whether the operation generates a surplus or not.

In the following table, rates per 100 NT and day are set out.

0.91 Euro	up to 1,000 NT
0.68 Euro	over 1,000 NT up to 10,000 NT
0.45 Euro	over 10,000 NT up to 25,000 NT
0.23 Euro	over 25,000 NT

More detailed conditions for the application of the tonnage tax system.

1. Persons as well as companies can use the system.
2. The shipping company must have its strategic base and most of its management functions in Holland.

3. The system is designed to tax shipping profit. By such profit is understood profit derived from the use of a ship for the transportation of goods or passengers, in connection with mining of natural resources at sea and towing or other shipping services to the above mentioned activities. Furthermore, profits from activities using a ship and being useful to the shipping company are considered shipping profits. Among these activities are stevedoring and agency if they are handled by the shipping company. Profit from the sale of property used in the shipping business is considered shipping profit. Among such property are not only ships but also buildings from which the shipping business is run and equipment for the loading and unloading of ships.

4. The method can be applied only if the income is derived from the operation of a ship. A shipping company is considered as operating a ship if it:

- has the majority of management functions in Holland for a ship which it owns, in part or entirely or charters in on bare-boat basis. A ship let on bare-boat terms is not considered operated by the owner
- handles the major part of management functions in Holland for a ship owned by another company. Certain limitations apply concerning the proportion between ships owned and only operated
- charters in on time or trip charters. Ships under this point may not amount to more than 75% of total tonnage.

A demand that the ship should fly the Dutch flag does not exist. A Dutch shipping company can thus use the tonnage tax system also for foreign flagged ships.

In the Dutch system there is no possibility to return to ordinary corporate taxation during a 10-year period. On expiration of the period you can leave the system without taxation consequences or choose to stay in the system for another 10-year period. Deferred tax liabilities are thus cancelled.

Deferred tax liabilities are computed when entering the system. This computation is the basis for the tax payments, which have to be made if the company moves away from the Dutch tax jurisdiction or is liquidated.

“The Norwegian model”

Tonnage taxation in Norway was introduced in 1996. The Norwegian system is charged as a selective tax. A flat rate is calculated directly on net tonnage. There is also detailed legislation on the structure of shipowning companies. The legislation is aimed at avoiding the risk of difficulties in delimiting business activities to be included under the system.

Rates

The first 1000 NT are exempt from tax
NOK 50:- per 1000 NT up to 10000 NT
NOK 33:- per 1000 NT 10001-25000 NT
NOM 16:- per 1000 NT >25000 NT.

25% of the fee can be reduced for ships matching certain environmental standards.

The main rule is that the shipowning operations must be conducted by a limited liability company. The company must own the ship directly or indirectly. The ship can be owned through an unlimited number of subsidiaries. It can also be owned via e.g. partnerships and FCC companies, but then only through one subsidiary.

The company must own a ship qualified to participate in the system or shares in companies within the system. Companies other than limited liability companies must own the ship directly.

Companies within the system can have no personnel. All staff must be employed by companies outside the system.

The company can only own ships in operation and financial assets, including shares in other companies within the system.

The company's business is restricted to shipping operations. Companies cannot own a management company but a management company can own a shipowning company within the system.

In the Norwegian system profits are not subject to taxation until they are paid out as dividends outside the system. This includes capital gains on ships and shares in underlying companies within the system.

Financial revenues are taxed at the normal corporation tax rate of 28%. Interest payments on debts incurred to finance tonnage-taxed ships are not deductible. Profits from foreign exchange transactions are subject to tax. Financial deficits cannot be carried forward.

In the Norwegian system there are no bars to entering or leaving the system. In principle, you opt for the system for one year at a time.

When entering the system an estimate is made of excess depreciation since 1997. The calculated income from this operation is taxed.

On leaving the system the company is evaluated. Profit and loss is determined and is taxable over a period of five years.

Comparisons of some major features of the two systems and how they have been implemented in different countries

Dutch model	Norwegian model
<i>Calculation method</i>	
Derived profit based on net tonnage, 4 size groups	Flat rate selective tax, based on net tonnage, 3 size groups
Germany Denmark Ireland Spain France Belgium (with age rebates to encourage new ships), 5 size groups	Finland
<i>Flag of vessel</i>	
Basically flag neutral	Basically flag neutral In Finland only Finnish flag vessels in international traffic as owned or bareboat vessels. T/C only EU flag vessels
<i>Legal Structure</i>	
Companies as well as individuals can be tonnage taxed Denmark differs with only companies as owners but without the Norwegian limitations Belgium allows ship management companies under the tonnage tax regime.	Only companies and then they can only own ships and capital and are allowed no staff
<i>Length of stay within the system</i>	
10 years, renewable	1 year at a time
<i>Deferred tax liabilities</i>	
Evaluated at entry into the system and disappear after 10 years Denmark – no deferred tax liabilities cancelled. They have to be paid if the shipping company's operations diminish substantially in relation to when entering the system	Finland – deferred tax liabilities do not disappear

<i>Capital Gains</i>	
Capital gains on the sale of ships, buildings and equipment are part of the tonnage tax Denmark, France and Spain – capital gains tax paid on ships sold	No capital gains taxes paid as long as the money remains in the company
<i>T/C versus owned or bare-boat chartered ships</i>	
75% of the ships under the tonnage tax can be on T/C Denmark allows 80% T/C	75% of the ships under the tonnage tax can be on T/C Finland allows only 50% T/C and then only EU-flagged
<i>Activities in the system</i>	
Any activity related to and being useful to a shipping company Most other countries have some restrictions here	Shipping operations only.

Annex

Belgium

Corporation tax: basic rate of 39% plus a 3% surcharge making the effective rate 40.17%.

A tonnage tax was introduced in 2002. It is fashioned on the Dutch model with variations to encourage lowering the average age of Belgian flag vessels. If you choose the tonnage tax system you must stay in the system for 10 years. Ship management companies can also benefit from the system.

In order to avoid any disadvantage to shipowners, who do not adopt the tonnage tax regime, tax-free reserves from the sale of vessels can be created for use in reinvestment in ships within 5 years. During the first year a ship is owned by a Belgian taxpayer, there is an investment allowance of 30%.

Income tax and social contributions:

Exemption from withholding tax on professional income applies to seafarers, who are taxable in Belgium. The part of social security contributions paid by the employer has been removed in the shipping sector, as has part of the seafarers' contributions.

Cyprus

Corporation tax: does not apply to shipping companies.

Tonnage tax: Fashioned on the Greek system and mandatory for shipping operations.

Cyprus is considered a Flag of Convenience register.

Denmark

Corporation tax: basic rate of 30%. Annual depreciation allowances can be claimed on ships under the diminishing balance method at rates up to 30 per cent. This has to be done on the shipowner's fleet as a whole. Advance allowances at maximum 15 per cent per year, starting from the year the

ship is ordered. This total advance allowances can be maximum 30 per cent of the contract sum.

Rollover relief: tax liabilities arising out of book profits on the sale of ships are automatically postponed.

Individuals who establish business partnership to buy or build a ship may use their share of capital allowances to offset personal tax liabilities.

Shipping companies owning ships that are DIS registered face the same tax liabilities as other shipping companies in Denmark.

A tonnage tax was introduced during 2002. The Danish system is fashioned on the Dutch one with the following major exceptions:

Capital gains related to the sale of ships are not subject to tonnage taxation but will be taxed at ordinary rates. The capital gain is defined as the difference between the acquisition and selling prices.

Deferred tax liabilities will not disappear. Shipping companies, which have ships depreciated under the ordinary tax system will have to keep separate accounts related to these ships and ships acquired later. As long as the shipping company does not change the level of activity significantly, no deferred taxes will in fact be paid.

Income tax and social contributions:

Danish resident seamen are basically taxed like all other individuals except that they are granted a special standard deduction from taxable income, replacing deduction for actual expenses. Foreign resident seamen pay a flat rate 36.3 % tax on gross remuneration.

Both Danish and foreign seamen employed on DIS vessels pay no tax on the remuneration. Their wages are negotiated net.

Seafarers' income from DIS vessels is exempted from personal income taxation to the Danish government. It is a condition that shipowning companies operating DIS registered ships join the special private office that is managing the tax exemption arrangement.

Shipowners contribute an amount to social security for each seafarer.

Estonia

Corporation tax: 15% levied on distributed profit only. Retained profits are free of tax.

Estonian manning costs are also only about half of those in Finland and Sweden.

There is no state aid to the shipping industry and the Estonian government has declared that it will work actively to abolish all state aids to shipping as it considers it harmful to competition. An Estonian monitoring committee will, however, be set up to ensure that the Estonian shipping sector retains its competitiveness.

Finland

Corporation tax: basic rate of 29%. Capital allowances: 25% reducing balance.

A tonnage tax was introduced in Finland during 2002. The tax is fashioned on the Norwegian model with a flat rate selective tax, but some of the other provisions follow the Dutch model.

Only Finish flag vessels form the basis of the system. For ships on T/C only EU-flagged vessels are tonnage taxed. No more than 50% of the fleet may be on T/C.

You have to stay within the system for 10 years. Deferred tax liabilities do not disappear. There are also rules on overcapitalisation.

The Finnish system of tonnage tax also carries heavy penalties for failure to comply with the rules of the system. If the tax authorities decide that a company no longer fulfils the criteria for being taxed under the tonnage tax system, the company is excluded and pays a penalty amounting to the tax that would otherwise have been paid during the entire time the company has been taxed under the system plus 10%. If the company is deemed to have manipulated the system, the extra charge is 40%.

Income tax and social contributions:

The so-called “Parallel register support” was extended from July 1, 2000 to include all taxes and contributions for crews onboard cargo vessels. The

cost for crews will be limited to net wages. This support will amount to some 40-45% of gross wages. Support for passenger vessels and ferries was introduced in 2002 and is lower and amounts to an equivalent of 97% of tax deductions for employees on board. From 2005 a net system will apply to these ships too.

France

Corporation tax: basic rate of 33.3%.

Capital allowances: Shipowners have a choice between straight line depreciation of 12.5% over 8 years and reducing balance depreciation of 31.25% for a ship life of 6 years (33.33% for a ship life of 1 year taking advantage of the EIG taxation system, [explained below](#)) to 12.5% for a ship life of 20 years.

Tax refunds: Cuts in the "taxe professionnelle" (a tax based on gross salaries and the rental of a company's assets). This measure refunds the part of the tax that is levied on the international element of the shipping company's business.

Tax incentives for new companies (whatever the economic sector): for companies created after October 1, 1998, a full corporate tax exemption is granted on the first 24 months of activity. For the following three 12 month periods, the exemption is reduced to 75%, 50% and 25% respectively.

A new tax incentive system: the Economic Interest Group (EIG) taxation entered into effect in 1998. The new scheme is based on a fiscal partnership (EIG or co-ownership) whose members are entitled to purchase a ship and therefore share capital allowances on a proportional basis. This system is not specific to the shipping sector.

The ship is hired out to a charterer (user) who will share fiscal savings with the investors.

An approval from the Finance Administration is required to take advantage of two main fiscal benefits:

- increase of the reducing balance depreciation up to 41.3% for a ship life of one year

- exemption from transfer capital gains tax when the ship is sold to the user after 2/3 period of use (5 years 4 months)

A tonnage tax system in line with the Dutch model was introduced during the autumn of 2002. The French system differs from the Dutch model by keeping capital gains outside the system. It also has rules to discourage overcapitalisation.

Income tax and social contributions: Social charges paid by employers for seafarers were partially refunded by the Administration for the years 1998, 1999, 2000 under conditions relating to training, employment and evolution of the fleet. Since 2001 all such charges are reimbursed.

Plans for a new French International Register (RIF) have been put on hold because of expressions of discontent from French seafarers.

Germany

Corporation tax rate: basic rates of 45% (30% on distributed profits) from January 1, 1994. A temporary "solidarity surcharge" of 7.5% was introduced on January 1, 1995 and, after making allowance for local trade taxes, the effective rates of corporation tax are currently 58.7% (45.8% on distributed profits). The planned tax cuts are on hold after the mid-2002 floods.

Capital allowances: a choice between straight line depreciation of 8.33% pa or a reducing balance up to 25%. The capital allowances are also under revision.

A tonnage tax system entered into force on January 1, 1999. The tonnage tax scheme follows "the Dutch model" in its main provisions but has a narrower definition of activities included under the scheme. The profit assessment includes profits derived from the operation of owned and bareboat-chartered ships as well as time/voyage/slot-chartered ships. The tonnage of the latter ships cannot exceed 75% of the whole tonnage if not registered in a German seaship's register (if registered the 75% limit does not apply). The provision also covers the profit from sale and from the management of the ship if the manager is a shareholder. The law makes no distinction between new and used ships.

Income tax and social security: Seafarers employed on German flag ships receive a tax-free bonus in their wages in proportion to the hours worked in the evenings, on public holidays and at weekends. These tax-free bonuses apply to all employees engaged in work out of normal hours but the shipping industry has to introduce this bonus scheme so as to enable German seafarers to benefit.

New legislation contains a manning cost subsidy for seafarers, which is calculated to reduce the cost of seafarers by about 5%. Under this measure owners are allowed to keep 40% of seafarers' income tax deducted at source when seamen are employed for more than 183 days. In 1999 The Transport Ministry introduced more flexible manning rules on board German flag vessels.

Ships on the German International Ship Register (**ISR**) may employ foreign seafarers on contracts, which apply in their native countries. Foreign seafarers domiciled abroad pay limited income tax.

In general the access of seafarers to employment on board German ships is free for EU and EEA nationals. Non-European crewmembers of ISR ships would not be entitled to take their domicile in Germany to perform work on board of German flag vessels.

Greece

Corporation tax: no tax is imposed based on the company's profits.

Tonnage tax: annual lump sum fees calculated on the GT, which vary in relation to size and age of the vessel. The system of computing taxes is very complicated and the tonnage tax rates are considered very high internationally. The rates were lowered during 2002.

Income tax and social contributions: During 2002 income taxes for seafarers were also lowered. Officers are now subject to an income tax flat rate of 6% (instead of normal rates of 12% to 63%). Ratings are subject to a flat rate of 3%. Both employers and seafarers are subject to reduced rates of social security contributions, compared to the rates of other economic sectors.

Public service obligations: Greek legislation provides the Ministry of Mercantile Marine with the possibility to conclude agreements with

individual Greek shipowners for the payment of subsidies to employ vessels in certain unprofitable routes in order to ensure regular schedules and links with small islands and remote regions, necessary for the transportation of passengers, goods and mail. However, according to a Ministerial Decision defining these routes, the scope of this possibility is very limited.

Ireland

Corporation tax: basic 12.5% tax rate on company profits.

Capital allowances: 15% reducing balance.

A tonnage tax regime was introduced in 2002. The system is based on the Dutch model, but the rates applied are slightly higher than under other “Dutch-model” schemes.

Income tax and social contributions: A scheme providing for the refund of employers' social security contributions in respect of seafarers employed on Irish registered vessels was introduced through the 1997 Social Welfare Bill. The measure applied to ships owned at least 51% by a person or persons resident in Ireland.

A special euro 6,350 income tax allowance for seafarers at sea for at least 169 days in a tax year has existed since 1998. In October 2002 the government forwarded a notification to reduce the time to 161 days to the Commission.

Since 1996, Ireland has a shipboard training subsidy scheme to help students secure placements on ships as part of their deep-sea cadet training.

Italy

Italian coastal navigation.

Corporation tax plus regional business tax amounts to at least 42.25%.

Capital allowances: depreciation is calculated on the straight line method with rates for passenger ships and tankers of 10%, dry cargo and barges 9%, tugs and ferries 7.5%, hydrofoils 13%, second-hand ships over 8 years of age 15%.

Accelerated depreciation: a doubling of the depreciation rate for the first three years of a ship's life.

Reserves: Capital gains from sales of ships owned for a minimum of 3 years may be placed in a reserve and added to taxable income over 5 years, spreading the tax burden and improving cash flow.

A tonnage tax is said to have been introduced during 2002 but it has not yet been notified to the Commission. (June 2004)

Second Register (IIR)

Corporation tax is calculated on 20% of the total taxable income. This brings the tax down to 7.5%. 80% of the income generated through the use, i.e. all business income generated by the ship, including instrumental or ancillary activities and capital gains on sales of earning assets, of ships entered in the Italian International Register (IIR) is exempt from personal and corporate income tax. The benefit extends also to shareholders through the dividend tax credit system.

The likely quantitative effect calculated from Net Present Value models of this new tax regime is very similar to that of a tonnage-based tax regime.

Income taxes and social contributions

The new law provides for a full exemption of social contributions, which is applicable to the shipping companies and to Italian/Community seafarers on board IIR vessels. Furthermore, companies will no longer be required to pay income tax for the crew and the officers.

In order to qualify for the supportive measures vessels have to maintain their registration in the Italian register for at least 4 years.

Latvia

Corporation tax: 15%.

Tonnage tax is said to have been introduced. It has not yet been notified to the Commission.

Lithuania

Corporation tax: 15 %

There are plans to introduce a tonnage tax.

Income taxes and social contributions: Zero rate of income tax is applied to seafarers. There are plans to reduce the 31 % social contributions.

Luxembourg

All qualifying ships have Luxembourg nationality and are subject to Luxembourg laws and taxes, which include:

- corporation tax up to a maximum of 33.33%
- 0.5% net worth tax on net asset value and a minimum of 2,500 Luxembourg francs for joint stock companies;
- a contribution to the unemployment fund of 4% on corporation tax.

Shipowners also benefit from:

- tax-free reserves;
- exemption from local trade tax;
- choice between straight line depreciation of a minimum of 8% pa or over a minimum period of 12 years or reducing balance depreciation. The latter cannot exceed 24% (or three times the linear rate of depreciation).
- a tax credit on investments corresponding to 12% of the eligible investment. The tax credit can compensate for tax paid or, if the income tax is lower, the credit may be carried forward for up to ten years.

Income tax rate for seafarers: 10% of the gross salary (flat rate), less 10% after a monthly reduction of 35.000 LUF (867.63 Euro).

Social security contributions for seafarers are equal to the social security paid by the other Luxembourg nationals.

Malta

Corporate tax: 35%

Malta is considered a Flag of Convenience Register.

Manning: There are no restrictions imposed on the nationality of the master, officers and crew on Maltese ships. To promote the employment of Maltese seafarers there is a small reduction in fees for each Maltese seafarer employed.

Netherlands

Two options are given for the treatment of taxation and profit. A choice must however be made for a period of 10 years.

Normal tax rate:

Corporation tax : 30% - 34.5% depending on the size of the profit.

The normal fiscal rules apply for determining the profit or income.

The rate for decreasing depreciation (based on book value) is set at 11.8% for newbuildings. In addition to this the possibility **has been** created for accelerated depreciation of 5x 20% with the usual residual value of 10 - 15%.

Tonnage tax: See page 10 “The Dutch Model”.

Income tax and social contributions

For personnel on board ships flying the Dutch flag taxes and social contributions are not paid if the shipping company operating the ship has a genuine and permanent establishment in the Netherlands.

Norway

Tax on Norwegian shipowning companies is not linked to registration, but residence. Under the regular tax system a corporate tax rate of 28% applies to companies resident in Norway.

Tonnage tax: See page 11 “The Norwegian Model”

Income tax and social contributions: Under certain conditions a crew allowance scheme (tax refund) is available for seafarers resident in Norway and employed on Norwegian registered ships. The tax refund is 12% of gross wages. There is also a “net-wage” system for ferries since 2002.

A government white paper on the shipping industry is at present being discussed in the Norwegian parliament (June 2004).

Poland

Corporation tax: 19 %.

There is no overall shipping policy in Poland. On the contrary, Polish shipowners are e.g. obliged to pay 22% VAT on ships from Polish yards and 40-50% customs and excise duties on imports of ships from abroad.

Portugal

MAR (Madeira International Register):

Madeira registered vessels are permitted to engage in cabotage.

Corporation tax: A wide range of tax and financial incentives are available to shipping companies duly incorporated and licensed to operate in the International Business Centre of Madeira. These incentives include:

- no income tax is payable on the profits made by the shipping company which owns ships under the Portuguese flag and operates in international waters
- dividends distributed to shareholders of such companies are also exempt from taxation
- no estate duty is payable on the inheritance of shares in a shipping company
- no capital gains tax is payable on the sale or transfer of a ship or shares in a shipping company

Income tax and social contributions: No income tax or social contributions is payable by seafarers employed on ships on the second register operating in both mainland and international waters. Employers are also exempt from social security contributions.

The crew may avail themselves of the Portuguese voluntary social security scheme or any other type of protection scheme including the P & I Clubs.

Spain

Corporation tax: basic rate of 35%.

Capital allowances: straight-line depreciation method only at 5 - 10% per annum.

By the end of 1998 a new system that allows the accelerated depreciation of ships (with a maximum of 35% per year) was approved. The scheme also applies to ships built or modified outside the Community.

Tax-free reserves: gains (defined as the difference between the sale price and the current book value) from the sale of most tangible company assets can be reinvested within three years and the period could be extended if an investment plan is submitted to the tax authorities and approved.

A tonnage tax based on the Dutch model was introduced at the end of March 2002. The main difference from the basic model is that ships owned prior to entering the tonnage tax system do not qualify for exemption of capital gains tax when sold. The system has not attracted many shipowners as it is said to be very complicated and bureaucratic.

Income tax and social contributions: Social security rates are the same as for any other service or industry and are approximately 33% of gross salary (for employer contribution) and 6.4% of salary (for employee contribution).

Ships registered in the Canary Islands: Corporation tax: from January 1, 1997: a 90% rebate on ship's operating profit, which gives an effective rate of 3.5%.

Income tax and social contributions: Seafarers' income: from January 1, 1997: 50% of taxable income is exempt. Social security contributions: from the same date: 90% rebate.

Sweden

Corporation tax: Swedish shipping companies are taxed at the same rate as any other company. Basic tax rate is 28%.

Depreciation allowance: 30% reduced balance or 20% straight-line depreciation. Full consolidation with other activities within a group.

A tonnage tax has been under discussion for some time. It is still not on the government's agenda.

Income tax and social contributions: Since October 1, 2001, these are handled on a net basis from the employer's point of view. In practical terms, this means that the employer's tax account is credited with an amount equal to that of tax deductions and social security contributions for all seagoing personnel on board vessels in international traffic.

Manning: Following an agreement between the Swedish Shipowners' Association and the Unions, half of the crew of a Swedish registered ship can be non-EU seafarers employed on special conditions.

United Kingdom

Corporation tax: a basic rate of 30%.

Capital allowances: 25% depreciation on a reducing balance basis.

Tax-free reserves: Group rollover relief.

Tonnage Tax System: A tonnage-based system of corporation tax for shipping took effect from the January 1, 2000. The system follows "the Dutch model" very closely, but has a unique requirement for the training of seafarers.

The test for eligibility is that the "strategic and commercial management" of the vessels must be undertaken from the UK. To qualify for participation in the regime, a company must operate one or more vessels and be involved in qualifying shipping activities.

Once companies have opted for the tonnage tax system they are expected to remain in the regime for 10 years. The UK tonnage tax is tied to a formal commitment by shipping companies to boost the number of training places. Companies must train one officer for every 15 they already employ. Companies applying the tonnage tax regime must submit officer-training plans to the Department of Energy and Transport or make a payment instead estimated at around £ 500 per month.

Strict anti tax-avoidance measures have been pledged by the UK government against possible abuse of the newly introduced tonnage tax.

Income tax: exemption for UK seafarers not resident in the UK for 183 days per annum. This tax policy is "flag blind" and therefore applies to UK seafarers regardless of the vessel's registration or ownership.

No forms of State Aid are restricted to UK registration. Some provisions are limited to vessels registered in the EU and British Colonies.